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# EXPOSURE DRAFT

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## PROPOSED STATEMENT ON AUDITING STANDARDS

### ***FORMING AN OPINION AND REPORTING ON FINANCIAL STATEMENTS OF EMPLOYEE BENEFIT PLANS SUBJECT TO ERISA***

*(AICPA, Professional Standards, AU-C sec. 703;*

*Amends*

- *SAS No. 119, as amended [AICPA, Professional Standards, AU-C sec. 725];*
- *Various sections in SAS No. 122, Statements on Auditing Standards: Clarification and Recodification, as amended [AICPA, Professional Standards, AU-C secs. 200, 220, 240, 330, 450, 501, 510, 540, 550, 560, 580, 700, 705, 706, 708, and 800];*
- *SAS No. 132, The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern [AICPA, Professional Standards, AU-C sec. 570])*

**April 20, 2017**

**Comments are requested by August 21, 2017**

Prepared by the AICPA Auditing Standards Board for comment from persons interested in auditing and reporting issues.

Comments should be addressed to Sherry Hazel at [Sherry.Hazel@aicpa-cima.com](mailto:Sherry.Hazel@aicpa-cima.com).



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## **Explanatory Memorandum**

### **Introduction**

This memorandum provides background to the proposed Statement on Auditing Standards (SAS), *Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA*. This proposed SAS is specific to audits of financial statements of employee benefit plans (EBPs) subject to the Employee Retirement Income Security Act of 1974 (ERISA), hereinafter referred to as an ERISA plan, and would be codified as AU-C section 703 in AICPA *Professional Standards*. For audits of ERISA plan financial statements only, 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 would apply in place of paragraph .09 of AU-C section 725, *Supplementary Information in Relation to the Financial Statements as a Whole* (AICPA, *Professional Standards*). In addition, for audits of ERISA plan financial statements only, this proposed SAS would contain incremental requirements to AU-C section 210, *Terms of Engagement* (AICPA, *Professional Standards*), and AU-C section 580, *Written Representations* (AICPA, *Professional Standards*).

### **Background**

The Auditing Standards Board (ASB) continues to work on improving the communicative value and relevance of the auditor's report. In January 2015, a special task force (the task force) of the ASB was formed to consider a proposal to improve the quality of EBP audits by strengthening the EBP auditor's report.

The Chief Accountant of the Department of Labor (DOL) requested the ASB take a fresh look at the auditor reporting model for ERISA plan audits to provide better insight to the public regarding the scope of the responsibilities of management and the auditor, including when management imposes a limitation on the scope of the audit, as permitted by the DOL's Rules and Regulations for Reporting and Disclosure under ERISA (ERISA-permitted audit scope limitation). The Chief Accountant of the DOL and DOL staff participated in the task force and ASB deliberations and provided the task force with insights and recommendations as to areas where the DOL believes the auditor's report can be strengthened. The task force considered this information as this proposed SAS was developed.

In May 2015, the Employee Benefits Security Administration (EBSA) of the DOL issued a report, *Assessing the Quality of Employee Benefit Plan Audits*, of its assessment of audit quality of 400 plan audits performed by 232 CPA firms. EBSA found that 39 percent of the audits had one or more major deficiencies with respect to one or more relevant requirements of generally accepted auditing standards (GAAS). EBSA also found that 17 percent of the auditor's reports reviewed in their study failed to comply with one or more of ERISA's reporting and disclosure requirements.

The AICPA had also previously initiated a holistic effort to enhance audit quality through multiple touch points, including potential changes to auditing standards, new tools, guidance and training, and focused Peer Review efforts. Included in the overall goals of these initiatives is the AICPA's efforts to improve ERISA plan audit performance across each of those areas of focus.

With respect to possible new or revised auditing standards, the ASB considered whether audit quality could be enhanced by a redesigned auditor reporting model for audits of ERISA plan

financial statements, taking into consideration the specialized nature of plan operations. The proposed SAS reflects a proposed new reporting model for audits of ERISA plans that, among other things, changes the form and content of the auditor's report when management imposes a limitation on the scope of the audit, as permitted by ERISA (ERISA-permitted audit scope limitation). In addition, this proposed SAS includes a requirement to report findings from procedures performed on specific plan provisions relating to the financial statements.

Early in the development process, the task force concluded that the reporting model changes in this proposed SAS would also require performance requirements to effect certain of the proposed new reporting requirements in addition to those currently set forth in the existing AU-C sections. Questions relating to those proposed new requirements are included in the Issues for Consideration that follows.

### ***Current Regulatory Environment***

In considering the scope of this proposed SAS, the task force considered the current regulatory oversight responsibilities and related requirements for audits of ERISA plan financial statements, including the following:

- ERISA provides for federal government oversight of plan fiduciaries.
- ERISA contains a requirement for annual audits of EBP financial statements by an independent qualified public accountant in accordance with GAAS.
- Under ERISA, the DOL and Internal Revenue Service (IRS) have the authority to issue regulations governing the administration of EBPs, including reporting and disclosure requirements to be included in an annual filing with the DOL.
- The DOL does not establish the financial reporting framework for preparing ERISA plan financial statements, nor does it set professional standards for auditing those financial statements.
- ERISA and DOL regulations require additional information to be disclosed in the financial statements or presented in the supplemental schedules.
- The IRS, DOL, and Pension Benefit Guaranty Corporation (PBGC) have consolidated their reporting and disclosure requirements into the Form 5500, *Annual Return/Report for Employee Benefit Plans*.
- ERISA requires the auditor to report on whether certain supplemental schedules, as identified in ERISA section 103, are presented fairly, in all material respects, in relation to the financial statements as a whole.

### ***Potential Reporting Models***

The task force noted that the previously mentioned DOL recommendations contained many similarities to generally accepted government auditing standards (GAGAS). GAGAS, also known as the Yellow Book, provides a framework for conducting audits of governmental entities, entities that receive government awards, and other audit organizations performing Yellow Book audits. Under the Yellow Book a financial statement audit consists of an audit performed in accordance with GAAS and also includes reports on internal control over financial reporting and on compliance with provisions of laws, regulations, contracts, and grant agreements that have a

material effect on the financial statements. GAGAS incorporates by reference the American Institute of Certified Public Accountants (AICPA) Statements on Auditing Standards (SAS).

Accordingly, the task force considered adopting certain elements of the Yellow Book model as a potential reporting framework to enhance reporting for audits of ERISA plan financial statements. The task force provided various alternatives to the ASB for consideration, including models that required reporting on internal control over financial reporting and reporting on compliance.

At the October 2016 ASB meeting, the ASB discussed whether the auditor's report should include the details of the communications the auditor makes to those charged with governance about significant deficiencies and material weaknesses identified in an audit as part of its broader project on the auditor reporting model, and concluded that this should remain a communication with management and those charged with governance, as required by AU-C section 265, *Communicating Internal Control Related Matters Identified in an Audit* (AICPA, *Professional Standards*). This conclusion is also consistent with the final standard issued by the International Auditing and Assurance Standards Board (IAASB) and preliminary positions advanced by the Public Company Accounting Oversight Board (PCAOB) in their exposure drafts related to auditor reporting. Therefore, the proposed SAS does not include a requirement to include a separate report on internal control over financial reporting in the auditor's report on ERISA plan financial statements.

### *Report on Findings*

The task force also discussed creating a reporting requirement for ERISA plans similar to the report on compliance in a Yellow Book audit. The ASB has supported exploring the development of new requirements in order to support the reporting of findings from procedures performed on specific plan provisions relating to the financial statements but also acknowledged that adopting such requirements will result in the need for implementation guidance and could lead to possible unintended consequences (see specific questions in the Issues for Consideration). The specific plan provisions relating to the financial statement areas to be tested under the proposed SAS are based on information provided by the DOL related to areas of audit quality concern, along with other factors, that could have a direct effect on the financial statements. The new procedures are intended to leverage procedures performed as part of the financial statement audit. However, because procedures specific to these areas would be required irrespective of the risk of material misstatement it is possible that they would result in additional audit work effort. It should be noted that the proposed SAS does not contain all the requirements necessary to provide an opinion and report on the ERISA plan financial statements because the requirements from other AU-C sections in AICPA *Professional Standards* continue to apply, unless specifically scoped out by the proposed SAS.

### *ERISA-Permitted Audit Scope Limitation*

The ASB was asked to consider developing a specific auditor reporting model in situations when management imposes a limitation on the scope of the audit as permitted by ERISA. The DOL requested the ASB to consider ways to provide more transparency and address certain audit quality concerns when an ERISA-permitted audit scope limitation exists. In response to this request, the task force determined that the auditor's report should better explain the auditor's responsibilities

when such an audit engagement is being conducted. The task force was also asked to consider the audit evidence that is obtained from management who provides the auditor with a certification from a bank or similar institution or insurance carrier which is regulated, supervised, and subject to periodic examination by a state or federal agency, provided that the statements or information regarding assets so held are prepared and certified to by a bank or similar institution, or insurance carrier, in accordance with Title 29 U.S. Code of Federal Regulations (CFR) Part 2520.103-5 and CFR 2520.103-8 (or CFR 2520.103-12).

The proposed SAS would require a new form of report specific to an audit of an ERISA plan when management imposes an ERISA-permitted audit scope limitation. The proposed form of report would result in a significant change in reporting.

Current practice with respect to the form of the auditor's report on the ERISA plan financial statements with the ERISA-permitted audit scope limitation (assuming no other scope limitations or material misstatements) is as follows:

- a. A disclaimer of opinion on the financial statements
- b. An other-matter paragraph with an opinion on whether the form and content of the information included in the financial statements and supplemental schedules, other than that derived from the certified information, are presented in compliance with the DOL's rules and regulations for reporting and disclosure under ERISA

The new form of report in the proposed SAS would require the following:

- a. A new Basis for Limitation on the Scope of the Audit section
- b. Expanded management and auditor responsibilities sections
- c. A special form of opinion on the ERISA plan financial statements that is based on the audit and on the use of the certification of the investment information that the auditor was instructed not to audit. This includes
  - i. the audit procedures performed on the information not covered by the certification,
  - ii. management's obtaining of an appropriate certification that is provided to the auditor, and
  - iii. the procedures performed on the certified information, as required by the proposed SAS
- d. An other-matter paragraph that provides an opinion on whether the supplemental schedules are fairly stated in all material respects in relation to the financial statements as a whole, and an opinion on whether the form and content of the supplemental schedules are presented in conformity with the DOL's rules and regulation for reporting and disclosure under ERISA. The opinion provided in the other-matter paragraph is based on the audit and based on the use of the certification of the investment information that the auditor was instructed not to audit
- e. A by-product report that reports findings on specific plan provisions relating to the financial statements (as discussed in *Report on Findings* section)

Certain aspects of the new form of report would be precluded when a scope limitation (other than the ERISA-permitted audit scope limitation) or an uncorrected material misstatement exists.

## *DOL's Proposed Revisions to the Form 5500*

In July 2016, the DOL's EBSA, the IRS, and the PBGC asked for public comments on proposed revisions to modernize and improve the Form 5500, *Annual Return/Report for Employee Benefit Plans* filed by private-sector EBPs. One of the proposal's objectives is to improve the reliability and transparency of information reported regarding EBP investments and other financial transactions. The proposed form revisions would be effective for plan year 2019 Form 5500 returns/reports. The task force will continue to monitor this project for changes that may conflict with the proposed SAS.

### **Summary**

The proposed SAS includes the form and content of the auditor's report for an unmodified opinion, a new form of opinion when an ERISA-permitted audit scope limitation exists and reporting requirements on findings from procedures performed on specific plan provisions relating to the financial statements (either included in the auditor's report on the ERISA plan financial statements or issued as a separate report).

The proposed SAS would apply to audits of single employer, multiple employer, and multiemployer plans subject to ERISA.

### **Effective Date**

The proposed SAS would be effective for audits of financial statements for periods ending on or after December 15, 2018.

### **Amendments to Existing Standards**

The following is a summary of the more significant amendments to existing standards if the proposed SAS is issued. In particular, the proposed SAS would apply in place of AU-C section 700 for audits of ERISA plan financial statements. As a result, the proposed SAS contains many of the same requirements as AU-C section 700 as well as enhancements to the auditor reporting model for ERISA plans including these:

- Engagement acceptance requirements in addition to AU-C section 210
- New performance requirements that serve as a basis for a new reporting requirement, *Report on Specific Plan Provisions Relating to the Financial Statements*
- New required procedures when the ERISA-permitted audit scope limitation is imposed
- Written management representations in addition to AU-C section 580.
- Considerations relating to the Form 5500 filing, which the auditor's report accompanies
- Expanded description of management's responsibilities
- Expanded communication on the ERISA supplemental schedules
- New form and content requirements of the auditor's report when management instructs the auditor to limit the scope of the audit, as permitted by ERISA, including expanded auditor's responsibilities relating to the certified information
- Required emphasis-of-matter paragraphs



## Issues for Consideration

In drafting the proposed SAS, the ASB identified the following issues for which feedback is specifically requested:

### **Issue 1—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.

### **Issue 2—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 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.

### **Issue 3—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.

### **Issue 4—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.

### **Issue 5—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.

### **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 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.

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?<sup>1</sup>
  - 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?

<sup>1</sup> 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.

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?

### **Issue 8—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 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.

### **Issue 9—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.

### **Guide for Respondents**

Respondents are asked to provide comments on Issues 1–9 as well as on the content of the proposed

SAS. Comments are most helpful when they refer to specific paragraphs, include the reasons for the comments, and, where appropriate, make specific suggestions for any proposed changes. When a respondent agrees with proposals in the exposure draft, it will be helpful for the ASB to be made aware of this view, as well.

Written comments on the exposure draft will become part of the public record of the AICPA and will be available on the AICPA's website after August 21, 2017 until a final standard is issued. Responses should be sent to Sherry Hazel at [Sherry.Hazel@aicpa-cima.com](mailto:Sherry.Hazel@aicpa-cima.com) and received by August 21, 2017.

### **Comment Period**

The comment period for this exposure draft ends on August 21, 2017.

## **Auditing Standards Board**

**(2016–2017)**

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**PROPOSED STATEMENT ON AUDITING STANDARDS  
FORMING AN OPINION AND REPORTING ON FINANCIAL STATEMENTS  
OF EMPLOYEE BENEFIT PLANS SUBJECT TO ERISA**

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<b>Introduction</b>	
<b>Scope of This Proposed Statement on Auditing Standards</b>	<b>Scope of This Proposed SAS (Ref. par. 1–8)</b>
<p>1. This proposed Statement on Auditing Standards (SAS) addresses the auditor’s responsibility to form an opinion and report on the audit of financial statements of employee benefit plans (EBPs) subject to the Employee Retirement Income Security Act of 1974 (ERISA), hereinafter referred to as ERISA plans, including reporting on specific plan provisions relating to the ERISA plan financial statements in accordance with paragraphs 119–124. It also addresses the form and content of the auditor’s report issued as a result of an audit of ERISA plan financial statements. The proposed SAS applies to audits of single employer, multiple employer, and multiemployer plans subject to ERISA. (Ref. par. A1)</p> <p>2. The Department of Labor (DOL), Internal Revenue Service (IRS), and the Pension Benefit Guaranty Corporation (PBGC) jointly developed the <i>Form 5500 Series</i> so EBPs could use the <i>Form 5500 Series</i> forms to satisfy annual reporting requirements under Title I and Title IV of ERISA and under the Internal Revenue Code (IRC). The Form 5500 Series is part of ERISA’s overall reporting and disclosure framework, which is intended to assure that EBPs are operated and managed in accordance with certain prescribed standards and that participants and beneficiaries, as well as regulators, are provided or have access to sufficient information to protect the rights and</p>	<p>A1. The AICPA Audit and Accounting Guide <i>Employee Benefit Plans</i> provides interpretive guidance to apply this proposed SAS, including example audit procedures for performing an audit of ERISA plan financial statements. AU-C section 200, <i>Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance With Generally Accepted Auditing Standards</i> (AICPA, <i>Professional Standards</i>), requires the auditor to consider applicable interpretive publications in planning and performing the audit.<sup>2</sup></p> <p>A2. ERISA provides for federal government oversight of management’s operating and reporting practices for EBPs. In addition to establishing reporting requirements for covered plans, ERISA establishes minimum standards for participation, vesting, and funding for defined benefit and defined contribution plans sponsored by private entities. It also establishes standards of fiduciary conduct and imposes specific restrictions and responsibilities on fiduciaries.</p> <p>A3. The plan administrator is identified in the plan document as having responsibility for managing the day-to-day administration and decisions for the plan. This proposed SAS uses the term <i>management</i> to include the plan administrator in the DOL’s Rules and Regulations for Reporting and Disclosure under ERISA as well as other members of management.</p> <p>A4. Under ERISA, the DOL and IRS have the authority to issue regulations governing the administration of EBPs, including reporting and</p>

<sup>2</sup> Paragraph .27 of AU-C section 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance With Generally Accepted Auditing Standards* (AICPA, *Professional Standards*).

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benefits of participants and beneficiaries under EBPs. (Ref. par. A2–A5)	disclosure requirements to be included in an annual filing with the DOL. The DOL does not establish the financial reporting framework; for example, the DOL does not set generally accepted accounting principles for ERISA plan financial statements. The selection of an acceptable financial reporting framework is the responsibility of management. The PBGC guarantees participants in most private-sector defined benefit pension plans certain minimum pension benefits if the plan terminates without sufficient money to pay all benefits, and it administers terminated plans in certain circumstances. The IRS, DOL, and PBGC have consolidated their reporting and disclosure requirements into the Form 5500 to minimize the filing burden for plan management.
	A5. ERISA contains a requirement for annual audits of EBP financial statements by an independent qualified public accountant. Generally, plans with 100 or more participants (as defined in the Form 5500, <i>Annual Return/Report for Employee Benefit Plan</i> , instructions) are subject to the audit requirement. ERISA and DOL regulations require additional information to be disclosed in the financial statements or presented in the supplemental schedules. ERISA also contains a requirement for the auditor to report on whether certain supplemental schedules, as identified in ERISA section 103, are presented fairly, in all material respects, in relation to the financial statements as a whole.
3. The requirements in this proposed SAS are specific to ERISA plan audit engagements and are intended to be performed as part of the audit of ERISA plan financial statements in accordance with generally accepted auditing standards (GAAS); however, the proposed SAS does not contain all the requirements necessary to form an opinion and report on ERISA plan financial statements.	

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<p>4. When performing an audit of ERISA plan financial statements, AU-C sections 200, <i>General Principles and Responsibilities</i>, through 700, <i>Audit Conclusions and Reporting</i>, in AICPA, <i>Professional Standards</i>, apply except for the following AU-C sections or portions thereof that are not applicable to an ERISA plan audit engagement because the requirements and application material are specifically covered in this proposed SAS:</p> <ul style="list-style-type: none"> <li>a. AU-C section 700, <i>Forming an Opinion and Reporting on Financial Statements</i> (AICPA, <i>Professional Standards</i>)</li> <li>b. Paragraph .09 of AU-C section 725, <i>Supplementary Information in Relation to the Financial Statements as a Whole</i> (AICPA, <i>Professional Standards</i>)</li> </ul> <p>In addition, this proposed SAS contains incremental requirements to AU-C section 210, <i>Terms of Engagement</i> (AICPA, <i>Professional Standards</i>), and AU-C section 580, <i>Written Representations</i> (AICPA, <i>Professional Standards</i>). AU-C sections 800, <i>Special Considerations</i>, through 900, <i>Special Considerations in the United States</i>, in AICPA <i>Professional Standards</i>, may also apply.</p>	
<p>5. This proposed SAS also addresses the auditor's responsibilities for forming an opinion and reporting on ERISA plan financial statements, including the form and content of the report when management imposes a limitation on the scope of the audit in accordance with ERISA Section 103(a)(3)(C) (ERISA-permitted audit scope limitation).</p>	
<p>6. When the ERISA-permitted audit scope limitation is imposed, as discussed in paragraph 5, the audit need not extend to information related to assets held for investment of the plan (hereinafter referred to as "investment</p>	<p>A6. A qualified institution is an organization as defined in accordance with 29 CFR 2520.103-5 and 29 CFR 2520.103-8 as a bank or similar institution or an insurance carrier that is regulated, supervised, and subject to periodic examination by</p>

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<p>information”) prepared and certified by a bank or similar institution or an insurance carrier which is regulated, supervised, and subject to periodic examination by a state or federal agency (referred to as a qualified institution), provided that the statements or information regarding assets so held are prepared and certified to by the bank or insurance carrier in accordance with Title 29 U.S. Code of Federal Regulations (CFR) Part 2520.103-5 and CFR 2520.103-8. Paragraph 20 contains required procedures when the ERISA-permitted audit scope limitation is imposed. (Ref. par. A6–A10)</p>	<p>a state or federal agency that prepares and certifies the investment information. Title 29 CFR Part 2520.103-1 outlines the DOL’s rules and regulations for reporting and disclosure under ERISA. Investment companies and broker dealers are not considered qualified institutions as it relates to providing a certification.</p>
	<p>A7. Further, this limitation on the scope of the audit is available to management only when the qualified institution certifies both the accuracy and completeness of the investment information submitted to the plan administrator. Certifications that address only accuracy or only completeness, but not both, do not comply with the DOL’s regulation and, therefore, are not adequate to allow plan management to limit the scope of the audit. Moreover, this scope limitation does not exempt the plan from the requirement to have an audit.</p>
	<p>A8. This management-imposed limitation on the scope of the audit and corresponding limitation on the auditor’s work does not extend to areas such as participant data, participant account balances and related earnings allocations, contributions, benefit payments, or other information, regardless of whether such information is included in the certified statement or information. Further, the limitation on the auditor’s work does not change the auditor’s responsibility to evaluate whether the form and content of the financial statement disclosures related to the information prepared and certified by a qualified institution are in accordance with the applicable financial reporting framework (see paragraph 20d).</p>
	<p>A9. The plan administrator may also limit the scope of the audit of the plan’s investment in a</p>

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	103-12 entity, as permitted by 29 CFR 2520.103-12, provided the 103-12 investment entity properly filed its report with the DOL. Such limitation on the scope of the audit is similar to that permitted by 29 CFR 2520.103-5 and therefore, the guidance in this proposed SAS is applicable. However, the wording in the auditor's report may need to be revised to fit the circumstances of the engagement.
	A10. Sometimes, the plan's recordkeeper certifies the investment information on behalf of the plan's qualified institution as "agent for." In this situation, such certification generally would be acceptable when there is a contractual arrangement between the qualified institution and the recordkeeper such that the recordkeeper is able to provide the certification on the qualified institution's behalf.
7. Reference to ERISA plan <i>financial statements</i> in this proposed SAS means a complete set of general purpose financial statements <sup>3</sup> for an EBP subject to ERISA, including the related notes. The related notes ordinarily comprise a summary of significant accounting policies and other explanatory information. The requirements of the applicable financial reporting framework determine the form and content of the financial statements and what constitutes a complete set of financial statements.	
8. AU-C section 705, <i>Modifications to the Opinion in the Independent Auditor's Report</i> (AICPA, <i>Professional Standards</i> ), and AU-C section 706, <i>Emphasis-of-Matter Paragraphs and Other-Matter Paragraphs in the Independent Auditor's Report</i> (AICPA, <i>Professional Standards</i> ), address how the form and content of the auditor's report are affected when the auditor expresses a modified opinion (a qualified opinion, an adverse opinion, or a	

<sup>3</sup> See AU-C Glossary, for a definition of *general purpose financial statements*.

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<p>disclaimer of opinion) or includes an emphasis-of-matter paragraph or other-matter paragraph in the auditor's report. As discussed in paragraph 34 of this proposed SAS, when there are other limitations on the scope of the audit, beyond what is permitted by ERISA section 103(a)(3)(C), or when the auditor has identified material misstatements of the ERISA plan financial statements, the auditor should modify the auditor's opinion in accordance with AU-C section 705. (Ref. par. A63)</p>	
<p><b>Effective Date</b></p>	
<p>9. This proposed SAS is effective for audits of ERISA plan financial statements for periods ending on or after December 15, 2018.</p>	
<p><b>Objectives</b></p>	
<p>10. The objectives of the auditor are to</p>	
<ul style="list-style-type: none"> <li>a. Appropriately plan and perform the audit of ERISA plan financial statements in accordance with AU-C sections 200 through 700 in <i>AICPA Professional Standards</i>, as discussed in paragraph 4 of this proposed SAS, including (Ref. par. A5) <ul style="list-style-type: none"> <li>i. The acceptance of an ERISA plan audit engagement, and</li> <li>ii. procedures to enable the auditor to report on specific plan provisions relating to the ERISA plan financial statements and to address when management imposes a limitation on the scope of the audit as permitted by the DOL's Rules and Regulations for Reporting and Disclosure under ERISA.</li> </ul> </li> </ul>	
<ul style="list-style-type: none"> <li>b. Form an opinion on the ERISA plan financial statements based on an</li> </ul>	

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evaluation of the audit evidence obtained, including evidence obtained about comparative financial statements, <sup>4</sup>	
<ul style="list-style-type: none"> <li>c. Express clearly that opinion on the ERISA plan financial statements through a written report that also describes the basis for that opinion</li> <li>d. Evaluate the presentation of the supplementary information in relation to the ERISA plan financial statements as a whole, and report on whether the supplementary information is fairly stated, in all material respects, in relation to the ERISA plan financial statements as a whole, in accordance with AU-C section 725 (as discussed in paragraph 4 of this proposed SAS), and</li> <li>e. Report on specific plan provisions relating to the ERISA plan financial statements.</li> </ul>	
<b>Definitions</b>	
11. For purposes of this proposed SAS, the following term has the meaning attributed as follows:	
<b>Findings.</b> Matters identified relating to the requirements in paragraphs 15–16 of this proposed SAS, when the audit work performed results in items that are not in accordance with the criteria specified (for example, not in accordance with the plan instrument).	
<b>Requirements</b>	
<b>Considerations When Forming an Opinion and Reporting on ERISA Plan Financial Statements</b>	<b>Considerations When Forming an Opinion and Reporting on ERISA Plan Financial Statements</b>

<sup>4</sup> See AU-C *Glossary of Terms*, for definition of *comparative financial statements*.



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Engagement Acceptance	Engagement Acceptance (Ref. par. 12)
<p>12. In addition to the requirements in AU-C section 210, the auditor should obtain the agreement of management that it acknowledges and understands its responsibility for (Ref. par. A11)</p> <ul style="list-style-type: none"> <li>a. maintaining a plan instrument including all plan amendments (Ref. par. A12)</li> <li>b. administering the plan and determining that the plan's transactions that are presented and disclosed in the ERISA plan financial statements are in conformity with the plan's provisions</li> <li>c. maintaining sufficient records with respect to each of the participants in accordance with ERISA section 107 and 209 to determine the benefits due or which may become due to such participants</li> <li>d. When the ERISA-permitted audit scope limitation is imposed, <ul style="list-style-type: none"> <li>a. Determining whether a limitation on the scope of the audit is permissible in the circumstances, in accordance with ERISA</li> <li>b. Evaluating whether the certification is prepared by a qualified institution</li> <li>c. Evaluating whether the certified information is complete and accurate</li> <li>d. Determining whether the certified investment information is appropriately measured, presented, and disclosed in</li> </ul> </li> </ul>	<p>A11. The concept of an independent audit requires that the auditor not assume management's responsibility for the preparation and fair presentation of the financial statements. When the auditor assists in drafting the financial statements, in whole or in part, based on information provided by management during the performance of the audit, such assistance is considered a nonattest service under the "Nonattest Services" subtopic (AICPA, <i>Professional Standards</i>, ET sec 1.295) under the "Independence Rule" (AICPA, <i>Professional Standards</i>, ET sec. 1.200.001) of the AICPA Code of Professional Conduct. Before performing nonattest services, the auditor is required to establish and document in writing the auditor's understanding with the client regarding the objectives of the engagement, services to be performed, client's acceptance of its responsibilities, auditor's responsibilities, and any limitations of the engagement.</p>

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accordance with the applicable financial reporting framework.	
13. The auditor should also obtain the agreement of management or those charged with governance to provide the Form 5500 prior to the report release date. If it is not possible to obtain the Form 5500 prior to the report release date, the auditor should perform the procedures in paragraph 37.	

Certain Requirements for Audits of ERISA Plan Financial Statements	Certain Requirements for Audits of ERISA Plan Financial Statements (Ref. par. 14–19)
<p>14. Paragraphs 15–16 require the auditor to perform audit procedures that are the basis for reporting on specific plan provisions relating to the ERISA plan financial statements as required in paragraphs 119–124. Paragraphs 15–16 do not include all requirements necessary for the auditor to form an opinion and report on the ERISA plan financial statements (see paragraphs 2 and A1). Because the plan instrument is essential to understanding the plan and identifying and performing the requirements in paragraphs 15–16, the auditor should obtain and review the most current plan instrument, including effective amendments (hereinafter referred to as the plan instrument), as part of obtaining an understanding of the entity sufficient to perform risk assessment procedures. (Ref. par. A12–A13)</p>	<p>A12. ERISA section 402 requires EBPs be established and maintained pursuant to a written instrument. Defined benefit pension plans and defined contribution pension plans generally have a plan document. Health and welfare plans may have multiple documents that comprise the plan instrument. Among other requirements, for a plan to be qualified, the plan instrument must be in writing and communicated to employees. The terms of the plan instrument generally deal with matters such as eligibility of participants, entitlement to benefits, funding, plan amendments, operation and administration of plan provisions, identification of the plan’s fiduciary, allocation of responsibilities among those who serve in a capacity as a fiduciary, and delegation of fiduciary duties in connection with the administration of the plan.</p> <p>A13. Management is responsible for determining that the plan’s transactions that are presented and disclosed in the ERISA plan financial statements are in accordance with the plan instrument. While some of the provisions of the plan instrument may not relate directly to accounts that are presented as financial statement account balances, they could affect matters such as disclosures, the tax qualified status of the plan, or the benefits that will be paid to participants when</p>

	they become eligible for a distribution. Accordingly, the requirements in paragraphs 15–16 relate to the audit of the ERISA plan financial statements.
15. Irrespective of the risks of material misstatement, the auditor should perform substantive procedures for the following: (Ref. par. A14–A16)	<p>A14. AU-C section 300, <i>Planning an Audit</i> (AICPA, <i>Professional Standards</i>), requires the auditor to establish an overall audit strategy that sets the scope, timing, and direction of the audit and that guides the development of the audit plan.<sup>5</sup> Planning the nature, timing, and extent of further audit procedures depends on the outcome of the auditor’s risk assessment procedures. AU-C section 330 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.</p> <p>A15. The auditor’s risk assessment may affect the extent of testing of the plan’s transactions and whether they are in accordance with specific plan provisions relating to the ERISA plan financial statements; however, paragraphs 15–16 require the auditor to perform audit procedures irrespective of risks of material misstatement, therefore the auditor’s risk assessment may reduce, but not eliminate, the audit procedures required by paragraphs 15–16.</p> <p>A16. The audit procedures relating to the matters in paragraphs 15–16 may be performed in conjunction with the testing of relevant areas of the ERISA plan financial statements, such as when testing contributions and participant data. 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. However, some relevant testing is expected to be performed for each of the matters in paragraphs 15–16.</p>
a. whether eligibility provisions are administered in accordance with the plan instrument (Ref. par. A17–A18)	A17. The plan instrument often specifies the eligibility provisions (in accordance with ERISA sections 201 and 202) that must be met for the employer(s) and employees to make contributions,

<sup>5</sup> Paragraph .07 of AU-C section 300, *Planning an Audit* (AICPA, *Professional Standards*).

	<p>benefit payments, vesting provisions, the formula to determine upper and lower contribution limits (salary deferral percentages), or the rates for determining the contributions.</p> <p>A18. Eligibility provisions are often tested as part of the auditor's testing of contributions, benefit payments, and participant data. Relevant assertions relating to eligibility may include completeness, accuracy, occurrence, rights and obligations, and assertions relating to presentation and disclosure.</p>
<p>b. whether benefit payments or claim payments are determined in accordance with the plan instrument (Ref. par. A19–A20)</p>	<p>A19. The plan instrument typically specifies benefit or claim payment provisions in accordance with ERISA sections 204–206 under which benefits and claims can be paid.</p> <p>A20. Benefit or claims payment testing often includes whether such payments were made when required or permitted and in accordance with the applicable formula or amount. Relevant assertions relating to benefit or claim payments may include completeness, accuracy, occurrence, rights and obligations, and assertions relating to presentation and disclosure.</p>
<p>c. whether vesting provisions are administered in accordance with the plan instrument (Ref. par. A21–A22)</p>	<p>A21. Minimum vesting requirements are typically summarized in the plan instrument in accordance with ERISA section 203.</p> <p>A22. Vesting provisions and census data are often tested as part of benefit payment testing or participant data testing. Relevant assertions relating to vesting provisions may include completeness, accuracy, occurrence, rights and obligations, and assertions relating to presentation and disclosure.</p>
<p>d. whether employer and employee contributions are calculated in accordance with the plan instrument, including that compensation upon which contributions are based is consistent with the definition of compensation in the plan instrument. (Ref. par. A23)</p>	<p>A23. For defined contribution plans, employer and employee contribution testing often includes testing that compensation as defined by the plan instrument was appropriately used when calculating contributions by coordinating the procedures for testing contributions with those for payroll and participant data. Relevant assertions relating to employer and employee contributions may include completeness, accuracy, occurrence,</p>

	rights and obligations, and assertions relating to presentation and disclosure.
e. whether prohibited transactions identified by management or as part of the audit have been appropriately reported in the supplemental schedules (Ref. par. A24)	A24. Certain plan transactions with parties in interest are prohibited under sections 406 and 407 of ERISA. A party in interest is defined in section 3(14) of ERISA. Evaluating whether identified prohibited transactions have been appropriately reported in the supplemental schedules as required by ERISA is often performed in conjunction with reading the Form 5500 and performing procedures on the supplementary information as discussed in paragraphs 117–118. Relevant assertions relating to identified prohibited transactions may include assertions relating to presentation and disclosure.
f. whether expenses have been allocated between plans in accordance with an allocation formula consistent with applicable DOL class or individual exemptions, when applicable. (Ref. par. A25–A26)	A25. Expense allocation in accordance with an allocation formula as discussed in paragraph 15(f) mainly occurs in multiemployer plans or plans with master trusts or similar arrangements.  A26. Testing whether expenses have been allocated properly between plans often includes evaluating whether the allocation formula is appropriate in the circumstances. Relevant assertions relating to expense allocation may include occurrence, completeness, accuracy, classification, and assertions relating to presentation and disclosure.
g. whether assets are fully allocated to the participant accounts in accordance with IRS Revenue Ruling 80-155 <sup>6</sup> and the plan instrument. (Ref. par. A27–A28)	A27. Assets are fully allocated to participant accounts when the plan is an individual account plan. In accordance with ERISA section 3(34), an individual account plan means a pension plan that provides for an individual account for each participant and for benefits based solely upon the amount contributed to the participant's account, and any income, expenses, gains and losses, and any forfeitures of accounts of other participants that may be allocated to such participant's account. Health and welfare plans may also contain individual account plans as defined in this paragraph.  A28. Testing whether assets are fully allocated to the participant accounts often includes

<sup>6</sup> IRS Revenue Ruling 80-155 interprets Treasury Regulation 1.401-1(b)1(ii).

	reconciling the aggregate of participant accounts to the net assets available for benefits. Relevant assertions relating to allocation of participant accounts may include valuation and allocation (period-end account balances), occurrence, rights and obligations, and assertions relating to presentation and disclosure.
h. whether the forfeited nonvested portion of the participants' accounts (forfeitures) were used in accordance with the plan instrument. (Ref. par. A29–A30)	<p>A29. Forfeitures occur in individual account plans, as defined by ERISA (see paragraph A27). IRS Revenue Ruling 84-156 states that forfeitures may be used to pay for a plan's administrative expenses or reduce employer contributions. Treasury regulation 1.401-7(a) requires a plan to use forfeitures as soon as possible.</p> <p>A30. Forfeiture testing often includes (a) identifying whether forfeitures are recorded and exist, (b) evaluating whether the plan used the forfeitures in accordance with the plan instrument, and (c) reviewing results of procedures performed for contributions and distributions that relate to the testing of forfeitures used or generated. Relevant assertions relating to the use of forfeitures may include completeness, accuracy, occurrence, rights and obligations, and assertions relating to presentation and disclosure.</p>
i. whether account activity, including employee and employer contributions, distributions, loans, transfers and other deductions or additions was recorded in the proper participants' and beneficiaries' accounts (active, inactive or terminated) in accordance with the provisions of the plan instrument. (Ref. par. A31)	A31. Account activity is recorded in participants' and beneficiaries' accounts when there is an individual account plan, as defined by ERISA (see paragraph A27). Relevant assertions relating to the recording of account activity may include valuation and allocation, occurrence, rights and obligations, and assertions relating to presentation and disclosure.
<p>16. The auditor should also perform audit procedures for the following:</p> <p>a. whether the plan has performed and passed, corrected, or intends to correct, failures of relevant IRC compliance tests within the time provided by the regulations. (Ref. par. A32–A36)</p>	<p>A32. Certain plan types are granted special tax status for the contributions and earnings on plan investments to be exempt from taxation. Plans are required to be designed and operated in accordance with IRC requirements in order to maintain their tax-exempt status.</p> <p>A33. For qualified retirement plans, the IRC requirements are the provisions of IRC section 401(a) and related IRC sections. A 403(b) plan is</p>

	<p>subject to some, but not all, of the same IRC requirements as a qualified retirement plan. A tax-exempt welfare benefit plan is subject to the specific requirements of the IRC section that is the basis of their exemption. For example, IRC section 501(c)(9) applies for voluntary employee beneficiary associations (VEBAs), IRC section 501(c)(17) for supplemental unemployment benefits, and IRC section 501(c)(21) for black lung benefits.</p> <p>A34. To determine that a plan is operating within the specific guidelines established by the plan instrument in accordance with the IRC, the plan administrator is responsible for conducting certain nondiscrimination and other compliance tests which are required to be performed at least annually, unless otherwise provided by the IRC.</p> <p>A35. The auditor's testing of whether the plan has performed and passed, corrected, or intends to correct failures of relevant IRC compliance tests is often performed through inquiry and inspection and may not include substantive audit procedures. Relevant assertions relating to a plan's tax exempt or qualified status may include occurrence, rights and obligations, and assertions relating to presentation and disclosure.</p> <p>A36. Exhibit B, <i>Nondiscrimination and Other Operating Tests for Plan Qualification</i> includes a list of IRC requirements with which a plan is required to comply in order to maintain its tax-exempt status. This list contains the IRC compliance tests contemplated by paragraph 16(a) when reporting on selected plan provisions relating to the ERISA plan financial statements. This list is not all inclusive; however, the auditor would not be required to report on selected plan provisions relating to the ERISA plan financial statements with other IRC compliance tests, other than those listed in exhibit B.</p>
<p>b. for individual account plans, whether investment income, expenses, and fees have been recorded in the proper participants' and beneficiaries' accounts in accordance with the</p>	<p>A37. Testing of income, expenses or fees is often performed using analytical procedures, tests of controls, or a combination of both.</p>

provisions of the plan instrument. (Ref. par. A37)	
17. <i>Documentation and findings.</i> The auditor should document the audit procedures performed and the <i>findings</i> accumulated during the audit relating to paragraphs 15–16. (Ref. par. A38)	A38. Because this proposed SAS requires the auditor to report on the findings from the audit procedures performed relating to paragraphs 15–16 of this proposed SAS, paragraph 17 of this proposed SAS requires the auditor to document the findings accumulated during the audit relating to paragraphs 15–16 of this proposed SAS, not just those that are considered significant findings, as defined in AU-C section 230, <i>Audit Documentation</i> (AICPA, <i>Professional Standards</i> ).
18. When the auditor has <i>findings</i> as a result of the procedures performed relating to the requirements in paragraphs 15–16 of this proposed SAS, the auditor should evaluate the possible effect on the ERISA plan financial statements, individually and in the aggregate, and consider the need to modify the nature, timing, or extent of other planned audit procedures. Further, the auditor should consider whether the findings are indicative of deficiencies in internal control in accordance with AU-C section 265, <i>Communicating Internal Control Related Matters Identified in an Audit</i> (AICPA, <i>Professional Standards</i> ). Paragraph 121 of this proposed SAS requires the auditor to include findings in the <i>Report on Specific Plan Provisions Relating to the Financial Statements</i> , other than when those findings are clearly inconsequential. (Ref. par. A39–A40)	A39. Besides the potential financial consequences that findings may have on the ERISA plan financial statements, the findings may result in possible loss of tax exempt status to the plan. For example, the use of an incorrect definition of eligible compensation can affect the employer or employee contribution amounts and could be indicative of a systemic problem which has a material effect in the aggregate on the ERISA plan financial statements.  A40. When the auditor has findings as a result of the procedures performed relating to the requirements in paragraphs 15–16, the findings may be an indication that deficiencies in internal control exist. AU-C section 265 addresses the auditor’s responsibilities to appropriately communicate with those charged with governance and management deficiencies in internal control that the auditor had identified in the audit of the financial statements.
19. If the auditor concludes that the <i>findings</i> have a material effect on the ERISA plan financial statements that requires revision of the ERISA plan financial statements, the auditor should discuss the matter with management. If management refuses to make the revision, the auditor should evaluate the effect on the auditor’s opinion in accordance with AU-C section 705. (Ref. par. A41)	A41. The requirements of AU-C section 250, <i>Consideration of Laws and Regulations in an Audit of Financial Statements</i> (AICPA, <i>Professional Standards</i> ), are designed to assist the auditor in identifying material misstatement of the financial statements due to noncompliance with laws and regulations. Accordingly, depending upon the nature and significance of the findings, the requirements in AU-C section 250 may also need to be considered in relation to the findings.



<b>Procedures When ERISA-Permitted Audit Scope Limitation is Imposed</b>	<b>Procedures When ERISA-Permitted Audit Scope Limitation is Imposed (Ref. par. 20)</b>
<p>20. When management imposes an ERISA-permitted scope limitation on the audit, the auditor should perform audit procedures on the information not covered by the certification, including noninvestment-related information and investment information not covered by the certification, based on the assessed risk of material misstatement. Plans may hold investments, only a portion of which are covered by a certification by a qualified institution. In that case, the auditor should perform auditing procedures on the investment information that has not been properly certified. The auditor should also perform the following procedures on the certified investment information: (Ref. par. A42–A43)</p>	<p>A42. Performing an audit of ERISA plan financial statements when management imposes a limitation on the scope of the audit as permitted by ERISA does not eliminate the need for the auditor to plan and perform the audit in accordance with GAAS. Such limitation on the scope of the audit is unique to EBPs and differs from the scope limitations discussed in AU-C section 705. Unlike other scope limitations, when the scope of the audit is limited as permitted by ERISA, the auditor is required to perform certain audit procedures on the certified investment information even though the scope of the audit is limited.</p> <p>A43. The need to perform audit procedures based on the assessed risk of material misstatement for noninvestment-related information (for example, benefit payments, employer or employee contributions, and accruals) and investment information not covered by the certification is the same for all ERISA plans, regardless of whether management imposes an ERISA-permitted audit scope limitation.</p>
<p>a. obtain from management and read the certification particularly as it relates to investment related information prepared by a qualified institution; (Ref. par. A44–A45)</p>	<p>A44. The qualified institution may certify all activity of the plan. As discussed in paragraph A8, the ERISA-permitted audit scope limitation, and corresponding required procedures in paragraph 20, extends only to investment information certified by the qualified institution. The auditor is required to perform audit procedures to obtain sufficient appropriate audit evidence on the noninvestment related information and the investment information not covered by the certification in order to form an opinion on the ERISA plan financial statements.</p> <p>A45. Although the certification provides audit evidence, it does not provide sufficient appropriate audit evidence on its own. Rather, it is considered part of audit evidence relating to the certified investment information when determining whether the form of opinion required by paragraph 30 can be used.</p>

b. evaluate management's assessment of whether the entity issuing the certification is a qualified institution under DOL rules and regulations;	
c. compare the certified investment information with the related information included in the ERISA plan financial statements and related disclosures; (Ref. par. A46)	A46. Comparing the certified investment information by agreeing and reconciling to the amounts included in the ERISA plan financial statements and related investment disclosures also includes the investment information included in the ERISA supplemental schedules. To the extent that the investment information in the ERISA plan financial statements and related disclosures and supplemental schedules cannot be agreed to or derived from the certified information, appropriate audit procedures would need to be performed on such information.
d. 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. (Ref. par. A47– A48)	A47. When management limits the scope of the audit as permitted by ERISA, the auditor has no responsibility to test the information related to assets held for investment of the plan that has been certified by the qualified institution. However, the auditor may need to understand the types of investments held by the plan to evaluate whether the form and content of the ERISA plan's financial statement disclosures for those investments are in accordance with the applicable financial reporting framework.
	<p>A48. The following are examples of procedures that may help the auditor evaluate whether the financial statement disclosures for the ERISA plan are appropriate in the circumstances:</p> <ul style="list-style-type: none"> <li>a. Obtain an understanding, through inquiry of management and inspection of supporting documentation, of the types of investments held by the ERISA plan and the methodology for measuring those investments</li> <li>b. Inquire of management whether the investments included in the certification are measured, presented and disclosed in accordance with the applicable financial</li> </ul>

	<p>reporting framework as of the appropriate date.</p> <p>c. Inquire of management about how investments at fair value are leveled in the fair value hierarchy table</p> <p>d. Consider the appropriateness of the classification of investments by management in the ERISA plan financial statements.</p>
<p>21. If, as part of the audit procedures performed, the auditor becomes aware that the certified investment information is incomplete, inaccurate, or otherwise unsatisfactory, the auditor should perform further inquiry, which might result in additional audit procedures or modification to the auditor's opinion in accordance with AU-C section 705.</p>	
<b>Written Representations</b>	<b>Written Representations (Ref. par. 22)</b>
<p>22. In addition to the requirements in AU-C section 580, the auditor should request the following written representations from management in an audit of ERISA plan financial statements: (Ref. par. A49)</p>	<p>A49. Chapter 10 of the AICPA Audit and Accounting Guide <i>Employee Benefit Plans</i> provides interpretative guidance on representations that may be appropriate when auditing ERISA plan financial statements. AU-C section 725 requires specific written representations from management.<sup>7</sup></p>
<p>a. That management has provided the auditor with the most current plan instrument, including all plan amendments.</p>	
<p>b. Acknowledgement of its responsibility for administering the plan and determining that the plan's transactions that are presented and disclosed in the financial statements are in conformity with the plan's provisions, including maintaining sufficient records with respect to each of the participants, in accordance with ERISA sections 107 and 209, to determine</p>	<p>A50. Administering the plan is covered by ERISA sections 401-404, which establish responsibilities and imposes restrictions on plan fiduciaries. ERISA section 209 (29 USC 1027 <i>Retention of Records</i>) requires the maintenance of records by employers relating to individual benefit reporting. ERISA section 107 (29 USC 1059 <i>Recordkeeping and Reporting Requirements</i>) provides general record retention requirements for EBPs. ERISA requires that records be maintained</p>

<sup>7</sup> Paragraph .07 of AU-C section 725.

the benefits due or which may become due to such participants. (Ref. par. A50)	in sufficient detail to permit the benefits to be properly calculated and paid when due.
c. When the Report on Specific Plan Provisions Relating to the Financial Statements is not presented with the audited financial statements, as discussed in paragraph 120, that management will make the audited financial statements readily available to the intended users of the Report on Specific Plan Provisions Relating to the Financial Statements no later than the date of issuance of the Report on Specific Plan Provisions Relating to the Financial Statements and the auditor's report thereon.	
d. When management imposes an ERISA-permitted audit scope limitation, acknowledgement that management is responsible for the financial statements, and for	
a. determining whether a limitation on the scope of the audit is permissible in the circumstances, in accordance with ERISA  b. evaluating whether the certification is prepared by a qualified institution,  c. evaluating whether the certified information is complete and accurate, and	
d. determining whether the certified investment information is appropriately measured, presented and disclosed in accordance with the applicable financial reporting framework	

<b>Forming an Opinion on the ERISA Plan Financial Statements</b>	<b>Forming an Opinion on the ERISA Plan Financial Statements</b>
23. The auditor should form an opinion on whether the ERISA plan financial statements	

<p>are presented fairly, in all material respects, in accordance with the applicable financial reporting framework.</p>	
<p>24. In order to form that opinion, the auditor should conclude whether the auditor has obtained reasonable assurance about whether the ERISA plan financial statements as a whole are free from material misstatement, whether due to fraud or error. That conclusion should take into account the following:</p> <ul style="list-style-type: none"> <li>a. The auditor's conclusion, in accordance with AU-C section 330, <i>Performing Audit Procedures in Response to Assessed Risks and Evaluating the Audit Evidence Obtained</i> (AICPA, <i>Professional Standards</i>), about whether sufficient appropriate audit evidence has been obtained<sup>8</sup></li> <li>b. The auditor's conclusion, in accordance with AU-C section 450, <i>Evaluation of Misstatements Identified During the Audit</i> (AICPA, <i>Professional Standards</i>), about whether uncorrected misstatements are material, individually or in aggregate<sup>9</sup></li> <li>c. The evaluations required by paragraphs 25–28 of this proposed SAS</li> </ul>	
<p>25. The auditor should evaluate whether the ERISA plan financial statements are prepared, in all material respects, in accordance with the requirements of the applicable financial reporting framework. This evaluation should include consideration of the qualitative aspects of the entity's accounting practices, including indicators of possible bias in management's judgments. (Ref: par. A51–A53)</p>	<p><b>Qualitative Aspects of the Entity's Accounting Practices (Ref. par. 25)</b></p> <p>A51. Management makes a number of judgments about the amounts and disclosures in the ERISA plan financial statements.</p> <p>A52. AU-C section 260, <i>The Auditor's Communication With Those Charged With Governance</i> (AICPA, <i>Professional Standards</i>), contains a discussion of the qualitative aspects of</p>

<sup>8</sup> Paragraph .28 of AU-C section 330, *Performing Audit Procedures in Response to Assessed Risks and Evaluating the Audit Evidence Obtained* (AICPA, *Professional Standards*).

<sup>9</sup> Paragraph .11 of AU-C section 450, *Evaluation of Misstatements Identified During the Audit* (AICPA, *Professional Standards*).

	<p>accounting practices.<sup>10</sup> In considering the qualitative aspects of the plan's accounting practices, the auditor may become aware of possible bias in management's judgments. The auditor may conclude that the cumulative effect of a lack of neutrality, together with the effect of uncorrected misstatements, causes the financial statements as a whole to be materially misstated. Indicators of a lack of neutrality that may affect the auditor's evaluation of whether the financial statements as a whole are materially misstated include the following:</p> <ul style="list-style-type: none"> <li>• The selective correction of misstatements brought to management's attention during the audit</li> <li>• Possible management bias in the making of accounting estimates</li> </ul> <p>A53. AU-C section 540, <i>Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures</i> (AICPA, <i>Professional Standards</i>), addresses possible management bias in making accounting estimates. Indicators of possible management bias, themselves, do not constitute misstatements for purposes of drawing conclusions on the reasonableness of individual accounting estimates. They may, however, affect the auditor's evaluation of whether the financial statements as a whole are free from material misstatement.</p>
	<p><b><i>Disclosure of the Effect of Material Transactions and Events on the Information Conveyed in the ERISA Plan Financial Statements (Ref. par. 26)</i></b></p>
<p>26. In particular, the auditor should evaluate whether, in view of the requirements of the applicable financial reporting framework</p> <p>a. the ERISA plan financial statements adequately disclose the significant accounting policies selected and applied;</p>	<p>A54. It is common for ERISA plan financial statements prepared in accordance with a general purpose framework to present a plan's net assets available for benefits and changes in net assets available for benefits. For defined benefit pension plans, the financial statements may also present accumulated plan benefits and changes in</p>

<sup>10</sup> The appendix, "Qualitative Aspects of Accounting Practices," of AU-C section 260, *The Auditor's Communication With Those Charged With Governance*.

<ul style="list-style-type: none"> <li>b. the accounting policies selected and applied are consistent with the applicable financial reporting framework and are appropriate;</li> <li>c. the accounting estimates made by management are reasonable;</li> <li>d. the information presented in the ERISA plan financial statements is relevant, reliable, comparable, and understandable;</li> <li>e. the ERISA plan financial statements provide adequate disclosures to enable the intended users to understand the effect of material transactions and events on the information conveyed in the ERISA plan financial statements; and (Ref: par. A54)</li> <li>f. the terminology used in the ERISA plan financial statements, including the title of each financial statement, is appropriate.</li> </ul>	<p>accumulated plan benefits. For defined benefit health and welfare plans, the financial statements may also present plan benefit obligations and changes in plan benefit obligations. In such circumstances, paragraph 26e requires the auditor to evaluate whether the financial statements provide adequate disclosures to enable the intended users to understand the effect of material transactions and events on the plan's net assets available for benefits, changes in net assets available for benefits, and for defined benefit pension plans, accumulated plan benefits and changes in accumulated plan benefits, and for defined benefit health and welfare plans, plan benefit obligations and changes in plan benefit obligations.</p>
	<p><b><i>Evaluation of Whether the ERISA Plan Financial Statements Achieve Fair Presentation (Ref. par. 27)</i></b></p>
<p>27. The auditor's evaluation about whether the ERISA plan financial statements achieve fair presentation should also include consideration of the following:</p> <ul style="list-style-type: none"> <li>a. The overall presentation, structure, and content of the ERISA plan financial statements</li> <li>b. Whether the ERISA plan financial statements, including the related notes, represent the underlying transactions and events in a manner that achieves fair presentation (Ref: par. A55)</li> </ul>	<p>A55. As described in AU-C section 200, a <i>financial reporting framework</i> is a set of criteria used to determine measurement, recognition, presentation, and disclosure of all material items appearing in the financial statements. The auditor's professional judgment concerning the fairness of the presentation of the financial statements is applied within the context of the financial reporting framework. Without that framework, the auditor would have no consistent standard for evaluating the presentation of the net assets available for benefits (and for accumulated plan benefits for defined benefit pension plans), and changes in net assets available for benefits (and for accumulated plan benefits for defined benefit pension plans) in the financial statements.</p>

	<b><i>Description of the Applicable Financial Reporting Framework (Ref. par. 28)</i></b>
28. The auditor should evaluate whether the ERISA plan financial statements adequately refer to or describe the applicable financial reporting framework. (Ref: par. A56–A59)	<p>A56. As explained in AU-C section 200, the preparation and fair presentation of the financial statements by management and, when appropriate, those charged with governance requires the inclusion of an adequate description of the applicable financial reporting framework in the financial statements.<sup>11</sup> That description is important because it advises users of the financial statements of the framework on which the financial statements are based.</p> <p>A57. A description that the financial statements are prepared in accordance with a particular applicable financial reporting framework is appropriate only if the financial statements comply with all the requirements of that framework that are effective during the period covered by the financial statements.</p> <p>A58. A description of the applicable financial reporting framework that contains imprecise qualifying or limiting language (for example, “the financial statements are in substantial compliance with Accounting Standards Generally Accepted in the United States of America”) is not an adequate description of that framework because it may mislead users of the financial statements.</p> <p>A59. Financial statements that are prepared in accordance with one financial reporting framework and that contain a note or supplementary statement reconciling the results to those that would be shown under another framework are not prepared in accordance with that other framework. This is because the financial statements do not include all the information in the manner required by that other framework. The financial statements may, however, be prepared in accordance with one applicable financial reporting framework and, in addition, describe in the notes to the financial statements the extent to which the financial statements comply with another framework. Such information may not be required</p>

<sup>11</sup> Paragraphs .A2–.A3 of AU-C section 200.



	by the applicable financial reporting framework but may be presented as part of the basic financial statements. As discussed in paragraph A134, such information is considered an integral part of the financial statements if it cannot be clearly differentiated and, accordingly, is covered by the auditor's opinion.
<b>Form of Opinion</b>	<b>Form of Opinion (Ref. par. 29–35)</b>
29. The auditor should express an unmodified opinion when the auditor concludes that the ERISA plan financial statements are presented fairly, in all material respects, in accordance with the applicable financial reporting framework.	
30. 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 exist, then the auditor should follow the provisions in paragraphs 88–115 of this proposed SAS and AU-C section 705 does not apply.	
31. Except as discussed in paragraph 30 of this proposed SAS, the auditor should modify the opinion in the auditor's report, in accordance with AU-C section 705, if the auditor <ul style="list-style-type: none"> <li>a. concludes that, based on the audit evidence obtained, the ERISA plan financial statements as a whole are materially misstated or</li> <li>b. is unable to obtain sufficient appropriate audit evidence to conclude that the ERISA plan financial statements as a whole are free from material misstatement.</li> </ul>	
32. If the auditor concludes that the ERISA plan financial statements do not achieve fair presentation, the auditor should discuss the matter with management and, depending on how the matter is resolved, should determine	A60. There may be cases when the ERISA plan financial statements, although prepared in accordance with the requirements of a fair presentation framework, do not achieve fair presentation. When this is the case, it may be

<p>whether it is necessary to modify the opinion in the auditor's report in accordance with AU-C section 705. (Ref: par. A60–A61)</p>	<p>possible for management to include additional disclosures in the financial statements beyond those specifically required by the framework or, in unusual circumstances, to depart from a requirement in the framework in order to achieve fair presentation of the financial statements, which would be extremely rare.</p> <p>A61. The “Accounting Principles Rule” (ET sec. 1.320.001) of the AICPA Code of Professional Conduct states the following:</p> <p style="padding-left: 40px;">A member shall not (1) express an opinion or state affirmatively that the financial statements or other financial data of any entity are presented in conformity with generally accepted accounting principles or (2) state that he or she is not aware of any material modifications that should be made to such statements or data in order for them to be in conformity with generally accepted accounting principles, if such statements or data contain any departure from an accounting principle promulgated by bodies designated by Council to establish such principles that has a material effect on the statements or data taken as a whole. If, however, the statements or data contain such a departure and the member can demonstrate that due to unusual circumstances the financial statements or data would otherwise have been misleading, the member can comply with the rule by describing the departure, its approximate effects, if practicable, and the reasons why compliance with the principle would result in a misleading statement.</p>
<p>33. Paragraphs 88–115 of this proposed SAS describe the requirements for the auditor's report when the ERISA-permitted audit scope limitation is imposed, and there are no other limitations on the scope of the audit and no identified material misstatements of the ERISA plan financial statements exist.</p> <p>34. When there are other limitations on the scope of the audit, beyond what is permitted by ERISA section 103(a)(3)(C), or when the auditor has identified material misstatements of</p>	<p>A62. When AU-C section 705 applies and the auditor is issuing a modified opinion on the ERISA plan financial statements it is not appropriate to—</p> <ul style="list-style-type: none"> <li>• include the words from paragraph 92.b) of this proposed SAS in the introductory paragraph because doing so differentiates the report required by paragraph 30 of this proposed SAS from the modified opinion being issued.</li> <li>• Include a section with the Basis for Limitation on the Scope of the Audit in</li> </ul>

<p>the financial statements of the ERISA plan, the following reporting elements are not appropriate to include in the auditor's report and the auditor should modify the auditor's opinion in accordance with AU-C section 705: (Ref. par. A62–A64)</p> <ul style="list-style-type: none"> <li>• The statement required by paragraph 92.b of this proposed SAS</li> <li>• A separate section for the basis for limitation on the scope of the audit as required by paragraphs 93–94 of this proposed SAS; however, the content in paragraph 94.a of this proposed SAS may be included in the basis for modified opinion paragraph, if appropriate.</li> <li>• The opinion language in paragraphs 105–106 of this proposed SAS</li> </ul>	<p>paragraphs 93–94 of this proposed SAS because including such a section may overshadow the modification to the opinion. It may be appropriate to include the content from paragraph 94.a of this proposed SAS in the basis for modified opinion paragraph.<sup>12</sup></p> <ul style="list-style-type: none"> <li>• Use the opinion as required by paragraphs 105–106 of this proposed SAS because the auditor is precluded from using such opinion when there are other limitations on the scope of the audit or there is a material misstatement of the ERISA plan financial statements.</li> </ul> <p>A63. As discussed in paragraph 34 of this proposed SAS, certain of the reporting elements are not appropriate to be included in 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). For example, when the plan has not maintained sufficient accounting records and supporting documents (at either the plan level or the participant data level, or both) such that the auditor is unable to perform auditing procedures sufficient to determine the extent to which the ERISA plan financial statements may have been affected by the lack of books and records, AU-C section 705 applies and the auditor is required to modify the auditor's opinion accordingly.</p> <p>A64. AU-C section 705 discusses the decision regarding which type of modified opinion is appropriate.<sup>13</sup> When deciding on the appropriate modified opinion, the possible effects of the ERISA-permitted audit scope limitation is also considered along with any other scope limitation or material misstatement of the ERISA plan</p>
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<sup>12</sup> See Illustration 7, “An Auditor’s Report Containing a Disclaimer of Opinion, Due to the Auditor’s Inability to Obtain Sufficient Appropriate Audit Evidence Because the Plan Has Not Maintained Sufficient Accounting Records, on Financial Statements of a Defined Contribution Retirement Plan Subject to ERISA When Management Imposes a Limitation on the Scope of the Audit As Permitted by ERISA,” in the exhibit, *Illustrations of Auditor’s Reports on Financial Statements of Employee Benefit Plans Subject to ERISA*.

<sup>13</sup> Paragraph .02 of AU-C section 705, *Modifications to the Opinion in the Independent Auditor’s Report* (AICPA, *Professional Standards*).

	financial statements and may be included in the basis for the modified opinion paragraph. <sup>14</sup>
35. Paragraph 34 also applies when the auditor is unable to obtain sufficient appropriate audit evidence regarding noninvestment related information or investment information not covered by a certification. (See paragraph 20.) (Ref. par. A65–A66)	<p>A65. If the auditor determines that the auditor’s report required by paragraph 33 of this proposed SAS is not appropriate in the circumstances and the auditor is required to apply the requirements in AU-C section 705, it may not be appropriate for the auditor to report on whether the supplementary information is fairly stated in all material respects, in relation to the financial statements as a whole or opine on the form and content of the supplemental schedules as presented in compliance with the DOL’s Rules and Regulations for Reporting and Disclosure under ERISA, as discussed in paragraphs 117–118 of this proposed SAS.</p> <p>A66. For example, the auditor issues a disclaimer of opinion because the plan did not maintain sufficient accounting records and supporting documentation and the auditor was unable to apply auditing procedures sufficient to determine the extent to which the ERISA plan financial statements may have been affected. The auditor concluded that the effects could be material and pervasive. In such situations, it would not be appropriate for the auditor to provide an opinion on the supplemental schedules because AU-C section 725 precludes the auditor from expressing an opinion on supplementary information when the auditor’s report on the audited financial statements contains an adverse or a disclaimer of opinion.<sup>15</sup></p>

<b>Considerations Relating to the Form 5500 Filing</b>	<b>Considerations Relating to the Form 5500 Filing</b>
<b><i>Reading the Form 5500</i></b>	<b><i>Reading the Form 5500 (Ref. par. 36–37)</i></b>
36. The auditor should read the Form 5500 in order to identify material inconsistencies, if any, with the audited ERISA plan financial statements. (Ref. par. A67–A68)	A67. Information in the Form 5500 may be relevant to an independent audit or the continuing propriety of the auditor’s report. Information contained in the Form 5500 that conflicts with

<sup>14</sup> See illustration 7 of the exhibit.

<sup>15</sup> Paragraph .11 of AU-C section 725.

	<p>information contained in the audited ERISA plan financial statements is considered an inconsistency. A material inconsistency may raise doubt about the audit conclusions drawn from audit evidence previously obtained and, possibly, about the basis for the auditor's opinion on the ERISA plan financial statements.</p> <p>A68. Certain differences exist between the Form 5500 Schedule H <i>Financial Information</i> and GAAP financial statements. For example, the net assets of a 401(h) account related to a defined benefit pension plan are included in the Form 5500 for the defined benefit pension plan; however, the financial statements do not reflect the net assets of the 401(h) account because such amounts are not available to pay pension benefits (rather they are used only to pay retiree health benefits). DOL rules and regulations require the notes to the financial statements to include an explanation of differences, if any, between the information contained in the separate financial statements and the net assets, liabilities, income, expense, and changes in net assets as required to be reported on the Form 5500 Schedule H, <i>Financial Information</i>. Such reconciling items are not considered inconsistencies with the Form 5500.</p>
<p>37. The auditor should make appropriate arrangements with management to obtain the Form 5500 prior to the report release date.<sup>16</sup> If it is not possible to obtain the Form 5500 prior to the report release date, the auditor should read the Form 5500 as soon as practicable. (Ref. par. A69)</p>	<p>A69. Obtaining the Form 5500 prior to the report release date enables the auditor to resolve possible material inconsistencies and apparent material misstatements of facts with management on a timely basis. An agreement with management regarding when the Form 5500 will be available may be helpful. The auditor may delay the release of the auditor's report until management provides the Form 5500 to the auditor. <i>Misstatements of fact</i> are information contained in the Form 5500 that is unrelated to matters appearing in the audited ERISA plan financial statements that is incorrectly stated or presented. <i>Misstatements of fact</i> may be identified by the auditor upon reading the Form 5500 for the purpose of identifying material inconsistencies as discussed in paragraph 46.</p>

<sup>16</sup> See paragraph .06 of AU-C section 230, *Audit Documentation* (AICPA, *Professional Standards*), for the definition of *report release date*.

38. The auditor should communicate with those charged with governance the auditor's responsibility with respect to the Form 5500, procedures performed relating to the Form 5500, and the results of those procedures.	
<i>Material Inconsistencies with the Form 5500</i>	
39. If, on reading the Form 5500, the auditor identifies a material inconsistency, the auditor should determine whether the audited ERISA plan financial statements or the Form 5500 needs to be revised.	
<i>Material Inconsistencies with the Form 5500 Identified Prior to the Date of the Auditor's Report That Require Revision of the Audited ERISA Plan Financial Statements</i>	
40. When the auditor identifies material inconsistencies between the Form 5500 and the ERISA plan financial statements prior to the date of the auditor's report that requires revision of the audited ERISA plan financial statements and management refuses to make the revision, the auditor should modify the auditor's opinion in accordance with AU-C section 705.	
<i>Material Inconsistencies with the Form 5500 Identified After the Date of the Auditor's Report But Prior to the Report Release Date That Require Revision of the Audited ERISA Plan Financial Statements</i>	
41. When the auditor identifies a material inconsistency between the Form 5500 and the ERISA plan financial statements after the date of the auditor's report but prior to the report release date that requires revision of the audited ERISA plan financial statements, the auditor should apply the relevant requirements in AU-C section 560, <i>Subsequent Events and Subsequently Discovered Facts</i> (AICPA, <i>Professional Standards</i> ).	

<i>Material Inconsistencies with the Form 5500 Identified Prior to the Report Release Date That Require Revision of the Form 5500</i>	<i>Material Inconsistencies with the Form 5500 Identified Prior to the Report Release Date That Require Revision of the Form 5500 (Ref. par. 42)</i>
42. When the auditor identifies a material inconsistency prior to the report release date that requires revision of the information in the Form 5500 and management refuses to make the revision, the auditor should communicate this matter to those charged with governance and (Ref. par. A70)	A70. When management refuses to revise the information in the Form 5500, the auditor may base any decision on what further action to take on advice from the auditor's legal counsel.
a. Include in the auditor's report an other-matter paragraph describing the material inconsistency, in accordance with AU-C section 706;	
b. Withhold the auditor's report; or	
c. When withdrawal is possible under applicable law or regulation, withdraw from the engagement.	
<i>Material Inconsistencies Identified Subsequent to the Report Release Date</i>	<i>Material Inconsistencies Identified Subsequent to the Report Release Date (Ref. par.43–45)</i>
43. When revision of the audited ERISA plan financial statements is necessary as a result of a material inconsistency with the information in the Form 5500 and the auditor's report on the ERISA plan financial statements has already been released, the auditor should apply the relevant requirements in AU-C section 560. (Ref. par. A71–A72)	A71. The auditor may encounter situations in which the auditor's report is issued prior to the auditor's reading of the Form 5500. If such a situation occurs, it is important for the auditor to inform the plan administrator that the auditor's report is not to be attached to the ERISA plan financial statements included with the Form 5500 filing without the auditor's reading of the Form 5500. When the engagement letter is prepared, it may include a statement that in the event that the auditor's report is issued prior to the auditor having read the Form 5500, the plan administrator agrees not to attach the auditor's report to the ERISA plan financial statements included with the Form 5500 filing until the auditor has read the completed Form 5500. The auditor may also consider including a statement in the transmittal letter to the client indicating that the auditor's report, as presented, is not to be attached to the ERISA plan financial statements to be included in

	<p>the Form 5500 filing without the auditor's reading of that filing.</p> <p>A72. If the auditor is unable to obtain the final Form 5500 prior to the report release date, the auditor may want to, as a minimum, read a draft of the Form 5500 Schedule H, <i>Financial Information</i>, before the report is released.</p>
<p>44. When revision of the Form 5500 is necessary after the report release date and management agrees to make the revision, the auditor should carry out the procedures necessary under the circumstances. (Ref. par. A73)</p>	<p>A73. When revision of the information in the Form 5500 is necessary after the report release date and management agrees to make the revision, the auditor's procedures may include reviewing the steps taken by management to ensure that individuals in receipt of the previously issued ERISA plan financial statements, the auditor's report thereon, and the Form 5500 are informed of the need for revision.</p>
<p>45. When revision of the Form 5500 is necessary after the report release date but management refuses to make the revision, the auditor should notify those charged with governance of the auditor's concerns regarding the Form 5500 and take any further appropriate action. (Ref. par. A74)</p>	<p>A74. When revision of information in the Form 5500 is necessary after the report release date but management refuses to make the revision, appropriate further actions by the auditor may include obtaining legal advice.</p>
Material Misstatement of Fact	Material Misstatement of Fact (Ref. par. 46–48)
<p>46. If, on reading the Form 5500 for the purpose of identifying material inconsistencies between the Form 5500 and the ERISA plan financial statements, the auditor becomes aware of an apparent material <i>misstatement of fact in the Form 5500</i>, the auditor should discuss the matter with management. (Ref. par. A75)</p>	<p>A75. When discussing an apparent material <i>misstatement of fact in the Form 5500</i> with management, the auditor may not be able to evaluate the validity of some disclosures included within the Form 5500 and management's responses to the auditor's inquiries and may conclude that valid differences of judgment or opinion exist.</p>
<p>47. When, following such discussions as described in paragraph 46, the auditor still considers that there is an apparent material <i>misstatement of fact</i>, the auditor should request management to consult with a qualified third party, such as the entity's legal counsel, and the auditor should consider the advice received by the entity in determining whether such matter is a material <i>misstatement of fact</i>.</p>	



48. When the auditor concludes that there is a material <i>misstatement of fact</i> that management refuses to correct, the auditor should notify those charged with governance of the auditor's concerns regarding the information in the Form 5500 and take any further appropriate action. (Ref. par. A76)	A76. When the auditor concludes that there is a material misstatement of fact that management refuses to correct, appropriate further actions by the auditor may include obtaining legal advice from the auditor's legal counsel, withholding the auditor's report if such report has not been released, or withdrawing from the engagement when withdrawal is possible under applicable law or regulation.
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<b>Auditor's Report on ERISA Plan Financial Statements When there is No ERISA-Permitted Audit Scope Limitation</b>	<b>Auditor's Report on ERISA Plan Financial Statements When there is No ERISA-Permitted Audit Scope Limitation) (Ref. par. 49)</b>
49. The auditor's report should be in writing (Ref. par. A77–A78)	A77. A written report encompasses reports issued in hard copy format and those using an electronic medium.  A78. The exhibit, "Illustrations of Auditor's Reports on ERISA Plan Financial Statements," contains illustrations of auditor's reports on financial statements for ERISA plans.
<i>Title</i>	<i>Title</i> (Ref. par. 50 and 90)
50. The auditor's report should have a title that includes the word <i>independent</i> to clearly indicate that it is the report of an independent auditor. (Ref. par. A79)	A79. A title indicating the report is the report of an independent auditor (for example, "Independent Auditor's Report") affirms that the auditor has met all of the relevant ethical requirements regarding independence and, therefore, distinguishes the independent auditor's report from reports issued by others. AU-C section 200 provides guidance on reporting when the auditor is not independent.
<i>Addressee</i>	<i>Addressee</i> (Ref. par. 51 and 91)
51. The auditor's report should be addressed as required by the circumstances of the engagement. (Ref. par. A80–A81)	A80. The auditor's report is normally addressed to those for whom the report is prepared. The report may be addressed to the entity whose financial statements are being audited or to those charged with governance. Occasionally, an auditor may be retained to audit the financial statements of

	<p>an entity that is not a client; in such a case, the report may be addressed to the client and not to those charged with governance of the entity whose financial statements are being audited.</p> <p>A81. For ERISA plans, the report may be addressed to the plan or trust whose ERISA plan financial statements are being audited, the plan administrator or board of trustees, or participants and beneficiaries.</p>
<i>Introductory Paragraph</i>	<i>Introductory Paragraph</i> (Ref. par. 52 and 92)
<p>52. The introductory paragraph in the auditor's report should (Ref. par. A82–A83)</p> <ol style="list-style-type: none"> <li>Identify the entity whose financial statements have been audited,</li> <li>State that the financial statements have been audited,</li> <li>Identify the title of each statement that the financial statements comprise, and</li> <li>Specify the date or period covered by each financial statement that the financial statements comprise</li> </ol>	<p>A82. The introductory paragraph states, for example, that the auditor has “audited the accompanying financial statements of ABC Plan, which comprise the statements of net assets available for benefits as of December 31, 20X1 and 20X2, and the related statement of changes in net assets available for benefits for the year ended December 31, 20X2, and the related notes to the financial statements.”</p>
	<p>A83. The auditor's opinion covers the complete set of ERISA plan financial statements, as defined by the applicable financial reporting framework. For example, in the case of many general purpose frameworks, the ERISA plan financial statements include statements of net assets available for benefits, a statement of changes in net assets available for benefits, and for defined benefit pension plans may include a statement of accumulated plan benefits and a statement of changes in accumulated plan benefits and for a defined benefit health and welfare plan, a statement of benefit obligations and statement of changes in benefit obligations, including related notes. In some circumstances, additional or different statements, schedules, or information also might be considered to be an integral part of the ERISA plan financial statements.</p>

<i>Management's Responsibility for the Financial Statements of an Employee Benefit Plan Subject to ERISA</i>	<i>Management's Responsibility for the Financial Statements of an Employee Benefit Plan Subject to ERISA (Ref. par. 53–55 and 95–97)</i>
53. The auditor's report should include a section with the heading "Management's Responsibility for the Financial Statements of an Employee Benefit Plan Subject to ERISA."	
54. The auditor's report should describe management's responsibility for the preparation and fair presentation of the financial statements. The description should include an explanation that management is responsible for the preparation and fair presentation of the financial statements in accordance with the applicable financial reporting framework; this responsibility includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error. It should also state that management is responsible for (Ref. par. A84–A85)	<p>A84. AU-C section 200 explains the premise relating to the responsibilities of management and, when appropriate, those charged with governance on which an audit in accordance with GAAS is conducted.<sup>17</sup> Management and, when appropriate, those charged with governance accept responsibility for the preparation of the financial statements in accordance with the applicable financial reporting framework, including their fair presentation. Management also accepts responsibility for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error. The description of management's responsibilities in the auditor's report includes reference to both responsibilities because it helps explain to users the premise on which an audit is conducted.</p> <p>A85. Management has additional responsibilities when arranging for an audit of ERISA plan financial statements due to the regulatory nature of such plans.</p>
<ul style="list-style-type: none"> <li>a. maintaining a current plan instrument, including all plan amendments,</li> <li>b. administering the plan and determining that the plan's transactions that are presented and disclosed in the financial statements are in conformity with the plan's provisions, including maintaining sufficient records with respect to each of the participants, in accordance with sections 107 and 209</li> </ul>	

<sup>17</sup> Paragraphs .05 and .A2 of AU-C section 200.

of the Employee Retirement Income Security Act of 1974, to determine the benefits due or which may become due to such participants	
55. The description about management’s responsibility for the financial statements in the auditor’s report should not be referenced to a separate statement by management about such responsibilities if such a statement is included in a document containing the auditor’s report. (Ref. par. A86)	A86. In some instances, a document containing the auditor’s report may include a separate statement by management regarding its responsibility for the preparation of the financial statements. Any elaboration in the auditor’s report about management’s responsibilities regarding the preparation of the financial statements, or reference to a separate statement by management about such responsibilities if one is included in a document containing the auditor’s report, may lead users to erroneously believe that the auditor is providing assurances about representations made by management about their responsibility for financial reporting, internal control, and other matters that might be discussed in the statement by management in the document.
<i>Auditor’s Responsibility</i>	<i>Auditor’s Responsibility</i> (Ref. par. 56–60 and 98–104)
56. The auditor’s report should include a section with the heading “Auditor’s Responsibility.”	
57. The auditor’s report should state that the responsibility of the auditor is to express an opinion on the financial statements based on the audit. (Ref. par. A87)	A87. The auditor’s report states that the auditor’s responsibility is to express an opinion on the financial statements based on the audit in order to contrast it to management’s responsibility for the preparation of the financial statements.
58. The auditor’s report should state that the audit was conducted in accordance with generally accepted auditing standards and should identify the United States of America as the country of origin of those standards. The auditor’s report should also explain that those standards require that the auditor plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. (Ref. par. A88–A89)	A88. The reference to the standards used conveys to the users of the auditor’s report that the audit has been conducted in accordance with established standards. For example, the auditor’s report may refer to auditing standards generally accepted in the United States of America or U.S. generally accepted auditing standards.

	A89. In accordance with AU-C section 200, the auditor does not represent compliance with GAAS in the auditor's report, unless the auditor has complied with the requirements of AU-C section 200 and all other AU-C sections relevant to the audit. <sup>18</sup>
<p>59. The auditor's report should describe an audit by stating that</p> <ul style="list-style-type: none"> <li>a. an audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements.</li> <li>b. the procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 the entity's internal control, and accordingly, no such opinion is expressed.</li> <li>c. an audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of significant accounting estimates made by management, as well as the overall presentation of the financial statements.</li> </ul> <p>In circumstances when the auditor also has a responsibility to express an opinion on the effectiveness of internal control in conjunction with the audit of the financial statements, the auditor should omit the phrase required in paragraph 59(b) that the auditor's consideration of internal control is not for the purpose of</p>	

<sup>18</sup> Paragraph .22 of AU-C section 200.

expressing an opinion on the effectiveness of internal control, and accordingly, no such opinion is expressed.	
60. The auditor's report should state whether the auditor believes that the audit evidence the auditor has obtained is sufficient and appropriate to provide a basis for the auditor's opinion.	
<i>Auditor's Opinion</i>	<i>Auditor's Opinion</i> (Ref. par. 61–63)
61. The auditor's report should include a section with the heading "Opinion."	
	Description of Information That the ERISA Plan Financial Statements Present
62. When expressing an unmodified opinion on ERISA plan financial statements, the auditor's opinion should state that the financial statements present fairly, in all material respects, the [...] in accordance with [the applicable financial reporting framework.] (Ref. par. A90)	A90. <i>Description of information that the ERISA plan financial statements present.</i> The auditor's opinion states that the financial statements present fairly, in all material respects, the information that the financial statements are designed to present. For example, in the case of ERISA plan financial statements prepared in accordance with U.S. GAAP, these matters are <i>the statements of net assets available for benefits [and of accumulated plan benefits] as of the end of the period and the statement of changes in net assets available for benefits [and of changes in accumulated plan benefits] for the period then ended.</i> For defined benefit pension plan, the accumulated plan benefits and changes in accumulated plan benefits may be presented in the notes to the financial statements. The notes to the financial statements are an integral part of the financial statements so the auditor's opinion covers these amounts regardless of whether they are presented in separate statements or in the notes to the financial statements. Therefore, the auditor is not required to make specific reference to the benefit information in the opinion paragraph of the auditor's report when the benefit information is presented in the notes to the financial statements.

63. The auditor's opinion should identify the applicable financial reporting framework and its origin. (Ref. par. A91)	A91. <i>Description of the applicable financial reporting framework and how it may affect the auditor's opinion.</i> The identification of the applicable financial reporting framework in the auditor's opinion is intended to advise users of the auditor's report of the context in which the auditor's opinion is expressed; it is not intended to limit the evaluation required in paragraph 27. For example, the applicable financial reporting framework may be identified as accounting principles generally accepted in the United States of America or U.S. generally accepted accounting principles.
<i>Other Reporting Responsibilities</i>	<i>Other Reporting Responsibilities (Ref. par. 64–65)</i>
64. If the auditor addresses other reporting responsibilities in the auditor's report on the ERISA plan financial statements that are in addition to the auditor's responsibility under GAAS to report on the financial statements, these other reporting responsibilities should be addressed in a separate section in the auditor's report that should be subtitled "Report on Other Legal and Regulatory Requirements" or otherwise, as appropriate to the content of the section. (Ref. par. A92–A93)	<p>A92. In some circumstances, the auditor may have additional responsibilities to report on other matters that are supplementary to the auditor's responsibility under GAAS to report on the financial statements. The form and content of the "Other Reporting Responsibilities" section of the auditor's report described in paragraph 64 will vary depending on the nature of the auditor's other reporting responsibilities.</p> <p>A93. In some cases, the relevant law or regulation may require or permit the auditor to report on these other responsibilities within the auditor's report on the financial statements. In other cases, the auditor may be required or permitted to report on them in a separate report.</p>
65. If the auditor's report contains a separate section on other reporting responsibilities, the headings, statements, and explanations referred to in paragraphs 52–63 should be under the subtitle "Report on the Financial Statements." The "Report on Other Legal and Regulatory Requirements" should follow the "Report on the Financial Statements." (Ref. par. A94)	A94. These other reporting responsibilities are addressed in a separate section of the auditor's report in order to clearly distinguish them from the auditor's responsibility under GAAS to report on the financial statements. When relevant, this section may contain subheading(s) that describe(s) the content of the other reporting responsibility paragraph(s).
<i>Reporting on Specific Plan Provisions Relating to the Financial Statements</i>	<i>Reporting on Specific Plan Provisions Relating to the Financial Statements (Ref. par. 66–69)</i>

<p>66. The auditor should report the auditor’s findings relating to the specific plan provisions relating to the ERISA plan financial statements for the current period, regardless of whether or not the auditor noted findings, in accordance with paragraph 123e. When there are findings and the auditor’s opinion on the ERISA plan financial statements is not affected by the findings, the auditor is required to include a statement that the auditor’s opinion on the financial statements was not modified with respect to the findings. When the auditor’s opinion on the financial statements is modified, and such modification relates to the findings, the auditor is required to omit such a statement from the report on specific plan provisions. (Ref. par. A95)</p>	<p>A95. As discussed in paragraph 121, the auditor’s <i>Report on Specific Plan Provisions Relating to the Financial Statements</i> is limited to the findings resulting from the audit requirements in paragraphs 15–16 for the current period, even when comparative financial statements are presented (that is, even when the auditor’s opinion refers to each period for which ERISA plan financial statements are presented). The current period is the most recent period upon which the auditor is reporting.</p>
<p>67. Even when there are limitations on the scope of the audit, the auditor is expected to perform testing relating to the matters in paragraphs 15–16. When there are limitations on the scope of the audit, the auditor may be unable to complete the testing relating some of the matters in paragraphs 15–16 because of the scope limitation. In such cases, the auditor should include a statement in the <i>Report on Specific Plan Provisions Relating to the Financial Statements</i> to explain that the auditor was unable to complete all the procedures necessary due to the scope limitation on the ERISA plan financial statements.</p>	
<p>68. If the <i>Report on Specific Plan Provisions Relating to the Financial Statements</i> is included in the auditor’s report on the ERISA plan financial statements, as permitted by paragraph 120, the auditor’s report should include a separate section with the heading “Report on Specific Plan Provisions Relating to the Financial Statements,” as required by paragraph 124.</p>	
<p>69. If the <i>Report on Specific Plan Provisions Relating to the Financial Statements</i> is presented in a separate report, as permitted by paragraph 120, the auditor’s report on the ERISA plan financial statements should include an other-matter paragraph</p>	



as required by paragraph 122. The requirements in paragraph 123 applies.	
<i>Signature of the Auditor</i>	<i>Signature of the Auditor (Ref. par. 70 and 113)</i>
70. The auditor's report should include the manual or printed signature of the auditor's firm. (Ref. par. A96–A97)	<p>A96. In certain situations, the auditor's report may be required by law or regulation to include the personal name and signature of the auditor, in addition to the auditor's firm. In addition to the auditor's signature, in certain circumstances, the auditor may be required to declare in the auditor's report the auditor's professional accountancy designation or the fact that the auditor or firm, as appropriate, has been recognized by the appropriate licensing authority.</p> <p>A97. DOL Rules and Regulations for Reporting and Disclosure under ERISA contain requirements for how the accountant's report is to be signed for filing with the DOL.</p>
<i>Auditor's Address</i>	<i>Auditor's Address (Ref. par. 71 and 114)</i>
71. The auditor's report should name the city and state where the auditor's report is issued. (Ref. par. A98–A99)	<p>A98. In the United States, the location of the issuing office is the city and state. In another country, it may be the city and country.</p> <p>A99. 29 CFR 2520.103-1(b)(5)(i)(C) of the DOL's Rules and Regulations for Reporting and Disclosure under ERISA requires that the auditor's report indicate the city and state where issued.</p>
<i>Date of the Auditor's Report</i>	<i>Date of the Auditor's Report (Ref. par. 72 and 115)</i>
<p>72. The auditor's report should be dated no earlier than the date on which the auditor has obtained sufficient appropriate audit evidence on which to base the auditor's opinion on the ERISA plan financial statements, including evidence that (Ref. par. A100–A102)</p> <ol style="list-style-type: none"> <li>the audit documentation has been reviewed;</li> <li>all the statements that the ERISA plan financial statements comprise, including the related notes, have been prepared; and</li> <li>management has asserted that they</li> </ol>	<p>A100. The date of the auditor's report informs the user of the auditor's report that the auditor has considered the effect of events and transactions of which the auditor became aware and that occurred up to that date. The auditor's responsibility for events and transactions after the date of the auditor's report is addressed in AU-C section 560.</p> <p>A101. AU-C section 220, <i>Quality Control for an Engagement Conducted in Accordance With Generally Accepted Auditing Standards</i> (AICPA, <i>Professional Standards</i>), requires that on or before the date of the auditor's report, the engagement partner, through a review of the audit documentation and discussion with the</p>

have taken responsibility for those ERISA plan financial statements.	<p>engagement team, be satisfied that sufficient appropriate audit evidence has been obtained to support the conclusions reached and for the auditor's report to be issued.<sup>19</sup> When an engagement quality control review is performed, AU-C section 220 requires that the auditor's report not be released prior to the completion of such engagement quality control review.<sup>20</sup></p> <p>A102. Because the auditor's opinion is provided on the ERISA plan financial statements, and the financial statements are the responsibility of management, the auditor is not in a position to conclude that sufficient appropriate audit evidence has been obtained until evidence is obtained that all the statements that the financial statements comprise, including the related notes, have been prepared, and management has accepted responsibility for them.</p>
<b><i>Auditor's Report for Audits Conducted in Accordance with Both GAAS and Another Set of Auditing Standards</i></b>	
<p>73. Paragraph 58 requires that the auditor's report state that the audit was conducted in accordance with GAAS and identify the United States of America as the country of origin of those standards. However, an auditor may indicate that the audit was also conducted in accordance with another set of auditing standards (for example, International Standards on Auditing [ISAs], the standards of the PCAOB, or Government Auditing Standards). The auditor should not refer to having conducted an audit in accordance with another set of auditing standards in addition to GAAS, unless the audit was conducted in accordance with both sets of standards in their entirety.</p>	
<p>74. When the auditor's report refers to both GAAS and another set of auditing standards, the</p>	

<sup>19</sup> Paragraphs .19 and .A17 of AU-C section 220, *Quality Control for an Engagement Conducted in Accordance With Generally Accepted Auditing Standards* (AICPA, *Professional Standards*).

<sup>20</sup> Paragraph .21 of AU-C section 220.

auditor's report should identify the other set of auditing standards, as well as their origin.	
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<b>Comparative Financial Statements</b>	<b>Comparative Financial Statements (Ref. par. 75)</b>
75. Comparative financial statements may be required by the applicable financial reporting framework, or management may elect to provide such information. When comparative financial statements are presented, the auditor's report should refer to each period for which financial statements are presented and on which an audit opinion is expressed. (Ref. par. A103–A105)	<p>A103. The level of information included for the prior periods in comparative financial statements is comparable with that of the financial statements of the current period.</p> <p>A104. Because the auditor's report on comparative financial statements applies to the financial statements for each of the periods presented, the auditor may express a qualified opinion or an adverse opinion, disclaim an opinion, or use the ERISA-permitted audit scope limitation report described in paragraphs 88–115, include an emphasis-of-matter paragraph with respect to one or more financial statements for one or more periods while expressing a different auditor's opinion on one or more financial statements of another period presented.</p>
	A105. ERISA requires a statement of assets and liabilities of the Plan to be displayed in comparative form. This may be achieved by presenting the statement of net assets available for benefits in comparative form.
	<b><i>Updating the Report (Ref. par. 76)</i></b>
76. When expressing an opinion on all periods presented, a continuing auditor should update the report on the financial statements of one or more prior periods presented on a comparative basis with those of the current period. The auditor's report on comparative financial statements should not be dated earlier than the date on which the auditor has obtained sufficient appropriate audit evidence on which to support the opinion for the most recent audit. (Ref. par. A106–A107)	<p>A106. An updated report on prior period financial statements is distinguished from a reissuance of a previous report.<sup>21</sup> When issuing an updated report, the information considered by the continuing auditor is that which the auditor has become aware of during the audit of the current period financial statements. In addition, an updated report is issued in conjunction with the auditor's report on the current period financial statements.</p> <p><b><i>Other Considerations Relating to Comparative Financial Statements</i></b></p>

<sup>21</sup> See AU-C section 560, *Subsequent Events and Subsequently Discovered Facts* (AICPA, Professional Standards).

	<p>A107. If one firm of independent auditors merges with another firm, and the new firm becomes the auditor of a former client of one of the two former firms, the new firm may accept responsibility and express an opinion on the financial statements for the prior period(s), as well as for those of the current period. In such circumstances, paragraphs 75–86 of this proposed SAS apply. The new firm may indicate in the auditor’s report or as part of the signature that a merger took place and may name the firm of independent auditors that was merged with it. If the new firm decides not to express an opinion on the prior period financial statements, the guidance for the reissuance of reports in AU-C section 560 would apply.</p>
<b><i>Audit Procedures</i></b>	
77. The auditor should perform the procedures required by paragraphs 78–80 if comparative financial statements are presented for the prior period(s).	
78. The auditor should determine whether the comparative financial statements have been presented in accordance with the relevant requirements, if any, of the applicable financial reporting framework.	
79. The auditor should evaluate whether	
a. the comparative financial statements agree with the amounts and other disclosures presented in the prior period or, when appropriate, has been restated for the correction of a material misstatement or adjusted for the retrospective application of an accounting principle, and	
b. the accounting policies reflected in the comparative financial statements are consistent with those applied in the current period or if there have been changes in accounting policies, whether those changes have been	

properly accounted for and adequately presented and disclosed. <sup>22</sup>	
80. If the auditor becomes aware of a possible material misstatement in the comparative financial statements while performing the current period audit, the auditor should perform such additional audit procedures as are necessary in the circumstances to obtain sufficient appropriate audit evidence to determine whether a material misstatement exists. If the auditor audited the prior period's financial statements and becomes aware of a material misstatement in those financial statements, the auditor should also follow the relevant requirements of AU-C section 560. If the prior period financial statements are restated, the auditor should determine that the comparative financial statements agree with the restated financial statements.	
	<b><i>Written Representations (Ref. par. 81–82)</i></b>
81. As required by AU-C section 580, the auditor should request written representations for all periods referred to in the auditor's opinion. The auditor also should obtain a specific written representation regarding any restatement made to correct a material misstatement in a prior period that affects the comparative financial statements. (Ref. par. A108)	A108. In the case of comparative financial statements, the written representations are requested for all periods referred to in the auditor's opinion because management needs to reaffirm that the written representations it previously made with respect to the prior period remain appropriate.
82. When reporting on prior period financial statements in connection with the current period's audit, if the auditor's opinion on such prior period financial statements differs from the opinion the auditor previously expressed, the auditor should disclose the following matters in an emphasis-of-matter or other-matter paragraph, in accordance with AU-C section 706:	

<sup>22</sup> See AU-C section 708, *Consistency of Financial Statements* (AICPA, *Professional Standards*).

a. The date of the auditor's previous report	
b. The type of opinion previously expressed	
c. The substantive reasons for the different opinion	
d. That the auditor's opinion on the amended financial statements is different from the auditor's previous opinion (Ref. par. A109)	<p><b><i>Opinion on Prior Period Financial Statements Different From Previous Opinion (Ref. par. 82)</i></b></p> <p>A109. When reporting on the prior period financial statements in connection with the current period's audit, the opinion expressed on the prior period financial statements may be different from the opinion previously expressed if the auditor becomes aware of circumstances or events that materially affect the financial statements of a prior period during the course of the audit of the current period. In some circumstances, the auditor may have additional reporting responsibilities designed to prevent future reliance on the auditor's previously issued report on the prior period financial statements.<sup>23</sup></p>
<b><i>Prior Period Financial Statements Audited by a Predecessor Auditor</i></b>	<b><i>Prior Period Financial Statements Audited by a Predecessor Auditor (Ref. par. 84)</i></b>
83. If the financial statements of the prior period were audited by a predecessor auditor, and the predecessor auditor's report on the prior period's financial statements is not reissued, <sup>24</sup> in addition to expressing an opinion on the current period's financial statements, the auditor should state the following in an other-matter paragraph: <sup>25</sup>	
a. That the financial statements of the prior period were audited by a predecessor auditor	

<sup>23</sup> See AU-C section 560.

<sup>24</sup> Paragraphs .19–.20 of AU-C section 560.

<sup>25</sup> See AU-C section 706, *Emphasis-of-Matter Paragraphs and Other-Matter Paragraphs in the Independent Auditor's Report* (AICPA, Professional Standards).

b. The type of opinion expressed by the predecessor auditor and, if the opinion was modified, the reasons therefore	
c. The nature of an emphasis-of-matter paragraph or other-matter paragraph included in the predecessor auditor's report, if any	
d. The date of that report	
84. If the auditor concludes that a material misstatement exists that affects the prior period financial statements on which the predecessor auditor had previously reported without modification, the auditor should follow the communication requirements in AU-C section 510, <i>Opening Balances—Initial Audit Engagements, Including Reaudit Engagements</i> (AICPA, <i>Professional Standards</i> ). <sup>26</sup> If the prior period financial statements are restated, and the predecessor auditor agrees to issue a new auditor's report on the restated financial statements of the prior period, the auditor should express an opinion only on the current period. (Ref. par. A110)	<p>A110. The predecessor auditor may be unable or unwilling to reissue the auditor's report on the prior period financial statements that have been restated. In this situation, provided that the auditor has audited the adjustments to the prior period financial statements, the auditor may include an other-matter paragraph<sup>27</sup> in the auditor's report indicating that the predecessor auditor reported on the financial statements of the prior period before restatement. In addition, if the auditor is engaged to audit and obtains sufficient appropriate audit evidence to be satisfied about the appropriateness of the restatement, the auditor's report may also include the following paragraph within the other-matter paragraph section:</p> <p>As part of our audit of the 20X2 financial statements, we also audited the adjustments described in Note X that were applied to restate the 20X1 financial statements. In our opinion, such adjustments are appropriate and have been properly applied. We were not engaged to audit, review, or apply any procedures to the 20X1 financial statements of the Plan other than with respect to the adjustments and, accordingly, we do not express an opinion or any other form of assurance on the 20X1 financial statements as a whole.</p>
<b><i>Prior Period Financial Statements Not Audited</i></b>	<b><i>Prior Period Financial Statements Not Audited (Ref. par. 85–86)</i></b>

<sup>26</sup> Paragraphs .12–.13 of AU-C section 510, *Opening Balances—Initial Audit Engagements, Including Reaudit Engagements* (AICPA, *Professional Standards*).

<sup>27</sup> See AU-C section 706.

<p>85. When current period financial statements are audited and presented in comparative form with compiled or reviewed financial statements for the prior period, and the report on the prior period is not reissued, the auditor should include an other-matter paragraph<sup>28</sup> in the current period auditor's report that includes the following: (Ref. par. A111)</p>	<p>A111. When the auditor is auditing a plan that previously was not subject to audit, AU-C section 510 applies.</p>
<p>a. The service performed in the prior period</p>	
<p>b. The date of the report on that service</p>	
<p>c. A description of any material modifications noted in that report</p>	
<p>d. A statement that the service was less in scope than an audit and does not provide the basis for the expression of an opinion on the financial statements (Ref. par.A112–A113)</p>	<p>A112. If the prior period financial statements were reviewed, the following is an example of an other-matter paragraph:</p> <p style="padding-left: 40px;">Other Matter</p> <p style="padding-left: 40px;">The 20X1 financial statements were reviewed by us (other accountants) and our (their) report thereon, dated March 1, 20X2, stated we (they) were not aware of any material modifications that should be made to those statements for them to be in conformity with accounting principles generally accepted in the United States of America. However, a review is substantially less in scope than an audit and does not provide a basis for the expression of an opinion on the financial statements.</p> <p>A113. If the prior period financial statements were compiled, the following is an example of an other-matter paragraph:</p> <p style="padding-left: 40px;">Other Matter</p> <p style="padding-left: 40px;">The 20X1 financial statements were compiled by us (other accountants) and our (their) report thereon, dated March 1, 20X2, stated we (they) did not audit or review those financial</p>

<sup>28</sup> See AU-C section 706.



	statements and, accordingly, express no opinion or other form of assurance on them
86. If the prior period financial statements were not audited, reviewed, or compiled, the financial statements should be clearly marked to indicate their status, and the auditor's report should include an other-matter paragraph to indicate that the auditor has not audited, reviewed, or compiled the prior period financial statements and that the auditor assumes no responsibility for them. (Ref. par. A114)	<p>A114. If the prior period financial statements were not audited, reviewed, or compiled, the following is an example of an other-matter paragraph:</p> <p style="padding-left: 40px;">Other Matter</p> <p style="padding-left: 40px;">The accompanying statement of net assets available for benefits of X Plan as of December 31, 20X1, and the related statement of changes in net assets available for benefits for the year then ended were not audited, reviewed, or compiled by us and, accordingly, we do not express an opinion or any other form of assurance on them.</p>
<b>Information Presented in the Financial Statements</b>	<b>Information Presented in the Financial Statements (Ref. par. 87)</b>
87. Information that is not required by the applicable financial reporting framework but is nevertheless presented as part of the basic financial statements should be covered by the auditor's opinion if it cannot be clearly differentiated. (Ref. par. A115–A117)	<p>A115. In some circumstances, the entity may be required by law, regulation, or standards, or may voluntarily choose, to include in the basic financial statements information that is not required by the applicable financial reporting framework. The auditor's opinion covers information that cannot be clearly differentiated from the financial statements because of its nature and how it is presented.</p> <p>A116. ERISA requires certain items to be disclosed in the notes to the financial statements that may not also be required to be disclosed by the applicable financial reporting framework. Appendix A of the AICPA Audit and Accounting Guide <i>Employee Benefit Plans</i> contains a list of the disclosure items require by ERISA.</p> <p>A117. If the information included in the basic financial statements is not required by the applicable financial reporting framework and is not necessary for fair presentation but is clearly differentiated, then such information may be identified as <i>unaudited</i> or as <i>not covered by the auditor's report</i>.</p>

Auditor's Report on ERISA Plan Financial Statements When Management Limits the Scope of the Audit as Permitted by ERISA	Auditor's Report on ERISA Plan Financial Statements When Management Limits the Scope of the Audit as Permitted by ERISA (Ref. par. 88–92)
<p>88. The auditor's report should be in writing.</p> <p>89. The auditor should apply the provisions in paragraphs 73–86, when applicable. (Ref. par. A118–A119)</p>	<p>A118. As noted in paragraph 33 of this proposed SAS, the form of report discussed in paragraphs 88–115 of this proposed SAS is only appropriate when the ERISA-permitted audit scope limitation is imposed, and there are no other limitations on the scope of the audit and no identified material misstatements of the ERISA plan financial statements exist. When there are other limitations on the scope of the audit, other than what is permitted by ERISA section 103(a)(3)(C), or when the auditor had identified material misstatements of the ERISA plan financial statements, AU-C section 705 applies.</p> <p>A119. ERISA requires certain comparative financial statements to be presented and, therefore, paragraphs 75–86 apply, even when the ERISA-permitted audit scope limitation is imposed.</p>
<i>Title</i>	
<p>90. The auditor's report should have a title that includes the word independent to clearly indicate that it is the report of an independent auditor. (Ref. par. A79)</p>	
<i>Addressee</i>	
<p>91. The auditor's report should be addressed as required by the circumstances of the engagement. (Ref. par. A80–A81)</p>	
<i>Introductory Paragraph</i>	
<p>92. The introductory paragraph in the auditor's report should (Ref. par. A82–A83)</p>	
<p>a. Identify the entity whose financial statements have been audited</p>	
<p>b. State that the auditor performed an audit subject to the limitation on the scope of</p>	

the audit imposed by management, as permitted by the Employee Retirement Income Security Act of 1974.	
c. Identify the title of each statement that the financial statements comprise, and	
d. Specify the date or period covered by each statement that the financial statements comprise	
<i>Basis for Limitation on the Scope of the Audit</i>	<i>Basis for Limitation on the Scope of the Audit (Ref. par. 93–94)</i>
93. The auditor’s report should include a section with the heading “Basis for Limitation on the Scope of the Audit.”	
<p>94. The auditor’s report should include</p> <p>a. A statement that as permitted by 29 CFR 2520.103-8 of the Department of Labor’s Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974, management imposed a limitation on the scope of the audit. Under the authority of section 103(a)(3)(C) of the Employee Retirement Income Security Act of 1974, the audit need not extend to information related to assets held for investment of the plan prepared and certified by a bank or similar institution or insurance carrier which is regulated and supervised and subject to periodic examination by a State or Federal agency, provided that the statements or information regarding assets so held are prepared and certified to by the bank or insurance carrier in accordance with 29 CFR 2520.103-5 and 29 CFR 2520.103-8. (Ref. par. A120)</p> <p>b. A statement that the auditor has been informed by management that a qualified institution holds the</p>	<p>A120. The explanation about the DOL rules and regulations for reporting and disclosure under ERISA may need to be changed to the circumstances of the plan audit engagement when management imposes the limitation on the scope of the audit as permitted by 29 CFR 2520.103-12.</p>

<p>investments and executes investment transactions.</p> <p>c. A statement that management has obtained a certification[s] from the qualified institution as of [date] and for the period under audit [year end date] stating that the information described in [insert note reference] the financial statements is complete and accurate.</p>	
<p><i>Management's Responsibility for Financial Statements and the Limitation on the Scope of the Audit</i></p>	
<p>95. The auditor's report should include a section with the heading "Management's Responsibility for the Financial Statements and the Limitation on the Scope of the Audit".</p>	
<p>96. The auditor's report should describe management's responsibility for the preparation and fair presentation of the financial statements. The description should include an explanation that management is responsible for the preparation and fair presentation of the financial statements in accordance with the applicable financial reporting framework; this responsibility includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error. It should also state that: (Ref. par. A84–A85)</p>	
<p>a. management is also responsible for determining whether a limitation on the scope of the audit is permissible in the circumstances, in accordance with the Employee Retirement Income Security Act of 1974, including evaluating whether</p> <p>i. the certification is prepared by a qualified institution, and</p>	

<p>ii. the certified investment information is complete and accurate.</p>	
<p>b. the limitation on the scope of the audit does not affect management's responsibility for the financial statements.</p> <p>c. management is responsible for determining whether the certified investment information is appropriately measured, presented and disclosed in accordance with the applicable financial reporting framework.</p>	
<p>d. management is also responsible for maintaining a current plan instrument, including all plan amendments, administering the plan and determining that the plan's transactions that are presented and disclosed in the financial statements are in conformity with the plan's provisions, including maintaining sufficient records with respect to each of the participants, in accordance with sections 107 and 209 of the Employee Retirement Income Security Act of 1974, to determine the benefits due or which may become due to such participants.</p>	
<p>97. The description about management's responsibility for the financial statements in the auditor's report should not be referenced to a separate statement by management about such responsibilities if such a statement is included in a document containing the auditor's report. (Ref. par. A86)</p>	
<p><i>Auditor's Responsibility (Including Responsibility for the Certified Investment Information)</i></p>	

<p>98. The auditor's report should include a section with the heading "Auditor's Responsibility (Including Responsibility for the Certified Investment Information)."</p>	
<p>99. The auditor's report should state that the responsibility of the auditor is to express an opinion on the financial statements based on the audit. (Ref par. A87)</p>	
<p>100. The auditor's report should state that the audit was conducted in accordance with generally accepted auditing standards and should identify the United States of America as the country of origin of those standards. The auditor's report should also explain that those standards require that the auditor plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. (Ref. par. A88–A89)</p>	
<p>101. The auditor's report should describe an audit by stating that</p> <ul style="list-style-type: none"> <li><i>i.</i> an audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements.</li> <li><i>ii.</i> the procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 the entity's internal control, and accordingly, no such opinion is expressed.</li> </ul>	

<p><i>iii.</i> an audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of significant accounting estimates made by management, as well as the overall presentation of the financial statements.</p> <p>In circumstances when the auditor also has a responsibility to express an opinion on the effectiveness of internal control in conjunction with the audit of the financial statements, the auditor should omit the phrase required in paragraph 101(b) that the auditor's consideration of internal control is not for the purpose of expressing an opinion on the effectiveness of internal control, and accordingly, no such opinion is expressed.</p>	
<p>102. The auditor's report should state that, with respect to the certified investment information that management instructed the auditor not to audit, the auditor did not assess the risks of material misstatement nor did the auditor consider internal control over the certified investment information, and that the procedures were limited to:</p> <ul style="list-style-type: none"> <li>a. obtaining and reading the certification</li> <li>b. evaluating management's assessment of whether the entity issuing the certification is a qualified institution under the Employee Retirement Income Security Act of 1974</li> <li>c. comparing the certified investment information with the related information presented and disclosed in the financial statements</li> <li>d. evaluating whether the form and content of the certified investment information presented and disclosed in the financial statements are in accordance with the applicable financial reporting framework</li> </ul>	
<p>103. The auditor's report should state that other than with respect to the certified</p>	

investment information, the audit procedures were not limited for other amounts and disclosures in the financial statements.	
104. The auditor's report should state whether the auditor believes that the audit evidence the auditor has obtained is sufficient and appropriate to provide a basis for the auditor's opinion with the ERISA-permitted audit scope limitation on the financial statements	
<i>Auditor's Opinion with the ERISA-permitted audit scope limitation on the Financial Statements</i>	
105. The auditor's report should include a section with the heading "Auditor's Opinion with the ERISA-permitted Audit Scope Limitation on the Financial Statements"	
106. When the ERISA-permitted audit scope limitation is the only limitation on the scope of the audit and the auditor has not identified any material misstatements, the auditor's report should include a statement that in the auditor's opinion, based on the audit and based on the use of the certification of the investment information, that the auditor was instructed not to audit, the financial statements present fairly, in all material respects, the [...] in accordance with [the applicable financial reporting framework.]  107. The auditor's opinion should identify the applicable financial reporting framework and its origin. (Ref. par. A91)	
<i>Other Reporting Responsibilities</i>	<i>Other Reporting Responsibilities</i> (Ref. par. 108–109)
108. If the auditor addresses other reporting responsibilities in the auditor's report on the ERISA plan financial statements that are in addition to the auditor's responsibility under GAAS to report on the financial statements, these other reporting responsibilities should be addressed in a separate section in the auditor's	A121. In some circumstances, the auditor may have additional responsibilities to report on other matters that are supplementary to the auditor's responsibility under GAAS to report on the financial statements. The form and content of the "Other Reporting Responsibilities" section of the auditor's report described in paragraph 109 will



<p>report that should be subtitled “Report on Other Legal and Regulatory Requirements” or otherwise, as appropriate to the content of the section. (Ref. par. A121–A122)</p>	<p>vary depending on the nature of the auditor’s other reporting responsibilities.</p> <p>A122. In some cases, the relevant law or regulation may require or permit the auditor to report on these other responsibilities within the auditor’s report on the financial statements. In other cases, the auditor may be required or permitted to report on them in a separate report.</p>
<p>109. If the auditor’s report contains a separate section on other reporting responsibilities, the headings, statements, and explanations referred to in paragraphs 92–107 should be under the subtitle “Report on the Financial Statements.” The “Report on Other Legal and Regulatory Requirements” should follow the “Report on the Financial Statements.” (Ref. par. A123)</p>	<p>A123. These other reporting responsibilities are addressed in a separate section of the auditor’s report in order to clearly distinguish them from the auditor’s responsibility under GAAS to report on the financial statements. When relevant, this section may contain subheading(s) that describe(s) the content of the other reporting responsibility paragraph(s).</p>
<p><i>Reporting on Specific Plan Provisions Relating to the Financial Statements</i></p>	<p><i>Reporting on Specific Plan Provisions Relating to the Financial Statements</i> (Ref. par. 110–112)</p>
<p>110. The auditor should report on its findings relating to the specific plan provisions relating to the financial statements for the current period, regardless of whether or not the auditor noted findings in accordance with paragraph 121. When there are findings and the auditor’s opinion on the ERISA plan financial statements is not affected by the findings, the auditor is required to include a statement that the auditor’s opinion on the financial statements was not modified with respect to the findings. When the auditor’s opinion on the ERISA plan financial statements is modified, and such modification relates to the findings, the auditor is required to omit such a statement from the report on specific plan provisions. (Ref. par. A124)</p> <p>111. If the <i>Report on Specific Plan Provisions Relating to the Financial Statements</i> is included in the auditor’s report, as permitted by paragraph 120, the auditor’s report should include a separate section with the heading “Report on Specific Plan Provisions Relating to</p>	<p>A124. As discussed in paragraph 121, the auditor’s <i>Report on Specific Plan Provisions Relating to the Financial Statements</i> is limited to the findings resulting from the audit requirements in paragraphs 15–16 for the current period, even when comparative financial statements are presented (that is, even when the auditor’s opinion refers to each period for which financial statements are presented). The current period is the most recent period upon which the auditor is reporting.</p>

the Financial Statements”. The requirements in paragraphs 119–121 and 124 apply.	
112. If the <i>Report on Specific Plan Provisions Relating to the Financial Statements</i> is presented in a separate report, as permitted by paragraph 120, the auditor’s report should include an other-matter paragraph as required by paragraph 122. The requirements in paragraphs 119–123 apply.	
<i>Signature of the Auditor</i>	
113. The auditor’s report should include the manual or printed signature of the auditor’s firm. (Ref. par. A96–A97)	
<i>Auditor’s Address</i>	
114. The auditor’s report should name the city and state where the auditor’s report is issued. (Ref. par. A98–A99)	
<i>Date of the Auditor’s Report</i>	
<p>115. The auditor’s report should be dated no earlier than the date on which the auditor has obtained an appropriate certification and has obtained sufficient appropriate audit evidence on which to base the auditor’s opinion on the ERISA plan financial statements, including evidence that</p> <ul style="list-style-type: none"> <li>a. the audit documentation has been reviewed;</li> <li>b. all the statements that the ERISA plan financial statements comprise, including the related notes, have been prepared; and</li> <li>c. management has asserted that they have taken responsibility for those ERISA plan financial statements. (Ref. par. A100–A102)</li> </ul>	

<b>Emphasis-of-Matter Paragraphs</b>	<b>Emphasis-of-Matter Paragraphs (Ref par. 116)</b>
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116. The auditor's report on ERISA plan financial statements should include an <i>emphasis-of-matter paragraph</i> , <sup>29</sup> under an appropriate heading, when the following situations exist:	
a. There are significant plan amendments that affect net assets that are disclosed in the notes to the ERISA plan financial statements in accordance with the applicable financial reporting framework.	
b. Minimum funding waivers were granted by the IRS, or if a request for waiver is pending before the IRS, that are disclosed in the notes to the ERISA plan financial statements in accordance with the applicable financial reporting framework. (Ref. par. A125)	<p>A125. The following is an illustration of an emphasis-of-matter paragraph when a defined benefit pension plan received a funding waiver.</p> <p>Emphasis of Matter Regarding Funding Waiver</p> <p>As discussed in Note X to the financial statements, the plan received a funding waiver from the IRS. Our opinion is not modified with respect to this matter.</p>
c. There were significant changes in the nature of the plan, for example, a plan merger or spin-off that are disclosed in the notes to the ERISA plan financial statements in accordance with the applicable financial reporting framework. (Ref. par. A126)	<p>A126. The following is an illustration of an emphasis-of-matter paragraph when a defined contribution retirement plan is merged into another plan.</p> <p>Emphasis of Matter Regarding Plan Merger</p> <p>As discussed in Note X to the financial statements, ABC Company merged XYZ Plan into the ABC 401(k) plan effective December 31, 20X2. Our opinion has not been modified with respect to this matter.</p>

<b>Reporting on ERISA Supplemental Schedules</b>	<b>Reporting on ERISA Supplemental Schedules (Ref. par. 117–118)</b>
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<sup>29</sup> Paragraphs .06–.07 of AU-C section 706.

<p>117. ERISA requires that certain supplemental schedules accompany the ERISA plan financial statements if applicable. When auditing ERISA plan financial statements, the auditor should report on whether such supplemental schedules are fairly stated, in all material respects, in relation to the financial statements as a whole, in accordance with AU-C section 725. (Ref. par. A127–A128)</p>	<p>A127. According to 29 CFR 2520.103-10 the administrator of a plan filing an annual report pursuant to ERISA section 2520.103-1(a)(2) should, as provided in the instructions to the Form 5500 “Annual Return/Report of Employee Benefit Plan” include as part of the annual report certain separate financial schedules.</p> <p>A128. Such schedules are required to be attached to the Form 5500 filing.<sup>30</sup> These schedules are covered by the auditor’s report on whether such supplemental schedules are fairly stated, in all material respects, in relation to the financial statements as a whole, in accordance with AU-C section 725. The Form 5500 is updated annually and therefore the Form 5500 contains the most current information about the required schedules.</p>
<p>118. AU-C section 725 addresses the performance requirements as well as the form and content of the report on supplementary information in relation to the financial statements as a whole. When an entity presents the supplementary information with the ERISA plan financial statements, AU-C section 725 requires the auditor to report on the supplementary information in either (a) an other-matter paragraph in accordance with AU-C section 706, or (b) in a separate report on the supplementary information. When performing an audit of ERISA plan financial statements, the reporting elements discussed in paragraph .09 of AU-C section 725 should be replaced with the following:</p>	
<p>a. A statement that the audit was conducted for the purpose of forming an opinion on the financial statements as a whole</p>	
<p>b. A statement that the supplementary information is presented for purposes of additional analysis and is not a required part of the financial statements but is</p>	

<sup>30</sup> Appendix A of the AICPA Audit and Accounting Guide *Employee Benefit Plans* provides a listing of the required ERISA schedules.

<p>supplementary information required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974</p>	
<p>c. A statement that the supplementary information is the responsibility of management and was derived from, and relates directly to, the underlying accounting and other records used to prepare the financial statements</p>	
<p>d. A statement that the supplementary information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, performing procedures to test the completeness and accuracy of the information presented in the supplemental schedules, and other additional procedures, in accordance with auditing standards generally accepted in the United States of America.</p>	
<p>e. When reporting on an audit of ERISA plan financial statements when the ERISA-permitted audit scope limitation is imposed, the paragraph in 118<i>d</i>. should be revised to reflect the use of certification of investment information as part of the audit. Further, the report should include a statement that the auditor's procedures with respect to the certified investment information included in the supplemental schedules were limited to those procedures described in the <i>Auditor's Responsibility (Including Responsibility for the Certified Investment Information)</i> section. (Ref. par. A129)</p>	<p>A129. Paragraph 118<i>d</i> may be revised as follows:          "The information has been subjected to the auditing procedures applied in the audits of the financial statements and the use of the certification of the assets held for investment of the plan, which we were not required to audit."</p>

<p>f. A statement that in forming the opinion on the supplemental schedules, the auditor evaluated whether the supplementary information, including its form and content, is presented in conformity with the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974.</p>	
	<p><i>Errors, Omissions, or Inconsistency of Supplementary Information Required by the DOL</i></p>
<p>g. If the auditor issues an unmodified opinion on the ERISA plan financial statements or has issued an opinion with the ERISA-permitted audit scope limitation, as permitted in paragraph 106, and the auditor has concluded that the supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole, a statement that, in the auditor's opinion, the supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole, and the form and content are presented in conformity with the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. (Ref. par. A130–A133)</p>	<p>A130. When the auditor concludes, on the basis of the procedures performed, that the supplementary information is materially misstated in relation to the financial statements as a whole, AU-C section 725 requires the auditor to discuss the matter(s) with management and propose appropriate revision of the supplementary information. If management does not revise the supplementary information, the auditor is required to modify the auditor's opinion on the supplemental schedules and describe the misstatement in the auditor's report. If a separate report is being issued on the supplementary information, the auditor is required to withhold the auditor's report on the supplementary information.<sup>31</sup></p> <p>A131. During the audit, the auditor may become aware of a departure from DOL requirements relating to the supplementary information that is not also a departure from the applicable financial reporting framework. In such circumstances, the auditor may consider including an additional communication in the auditor's report (emphasis-of-matter or other-matter paragraph), in accordance with AU-C section 706.</p> <p>A132. If a material party in interest<sup>32</sup> transaction that is not disclosed in the supplemental schedule is also considered a related party transaction and if that transaction is not properly disclosed in the notes to the ERISA plan financial statements, the</p>

<sup>31</sup> Paragraph .13 of AU-C section 725.

<sup>32</sup> Party in interest is defined in section 3(14) of ERISA.

	<p>auditor is required to modify the auditor's opinion in accordance with AU-C section 705.</p> <p>A133. When the auditor concludes that the supplemental schedules do not contain all required information or contain information that is inaccurate or inconsistent with the ERISA plan financial statements, and the omission or inconsistency is not considered a material misstatement, the auditor may decide to include an additional paragraph in the report on the supplemental schedules to disclose the omission or inconsistency of the information.<sup>33</sup></p>
h. If the auditor issues a qualified opinion on the ERISA plan financial statements and the qualification has an effect on the supplementary information, a statement that, that in the auditor's opinion, except for the effects on the supplementary information of (refer to the paragraph in the auditor's report explaining the qualification), such information is fairly stated, in all material respects, in relation to the financial statements as a whole.	
i. When reporting on an audit of ERISA plan financial statements when the ERISA-permitted audit scope limitation is imposed, and the auditor has concluded that the supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole, a statement that, in the auditor's opinion, and based on the auditor's use of the certification of the investment information which the auditor was not required to audit, the supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole and is in conformity with the DOL's Rules and Regulations for Reporting and Disclosure under the	

<sup>33</sup> Chapter 11 of the AICPA Audit and Accounting Guide *Employee Benefit Plans* provides guidance for how to report when there is an error, omission, or inconsistency in the supplementary information.

Employee Retirement Income Security Act of 1974.	
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<b>Reporting on Specific Plan Provisions Relating to the Financial Statements</b>	<b>Reporting on Specific Plan Provisions Relating to the Financial Statements (Ref. par. 119–121)</b>
119. The <i>Report on Specific Plan Provisions Relating to the Financial Statements</i> should be in writing.	
120. The <i>Report on Specific Plan Provisions Relating to the Financial Statements</i> should be provided either in a separate section in the auditor’s report on the ERISA plan financial statements (see paragraph 124) or in a separate report (see paragraph 123). (Ref. par. A134)	A134. The <i>Report on Specific Plan Provisions Relating to the Financial Statements</i> is an integral part of an audit of ERISA plan financial statements in accordance with GAAS. ERISA section 103 requires the financial statements and auditor’s opinion to be attached to the Form 5500 filing. Accordingly, when the <i>Report on Specific Plan Provisions Relating to the Financial Statements</i> is provided in a separate report, such report is to be included with the auditor’s report that is attached to the Form 5500 filing.
121. The <i>Report on Specific Plan Provisions Relating to the Financial Statements</i> is based on the audit requirements in paragraphs 15–16 and includes the auditor’s findings as required to be accumulated and documented in paragraph 17, other than when the findings are clearly inconsequential. The auditor should not include any personal identifiable information (PII) when including the findings in the <i>Report on Specific Plan Provisions Relating to the Financial Statements</i> . (Ref. par. A135–A140)	<p>A135. AU-C section 260<sup>34</sup> requires the auditor to communicate with those charged with governance significant findings or issues from the audit. Such communication includes findings or issues arising from the audit that are, in the auditor’s professional judgment, significant and relevant to those charged with governance regarding their responsibility to oversee the financial reporting process. The findings required by paragraph 121 are to be included in the <i>Report on Specific Plan Provisions Relating to the Financial Statements</i> regardless of whether they are considered significant findings for purposes of AU-C section 260.</p> <p>A136. The auditor may reach agreement in advance with those charged with governance on the nature of findings that would be considered clearly inconsequential and, thus, need not be communicated.</p> <p>A137. When conducting an EBP audit, auditors receive and maintain large amounts of personal</p>

<sup>34</sup> Paragraph .12 of AU-C section 260.



	<p>information (for example, name, address, date of birth, Social Security number, financial account number, and health information) the confidentiality of which is protected by both federal and state laws and regulations. Auditors are subject to professional standards that require them to maintain confidentiality of information obtained in the course of performing the audit.</p> <p>A138. Personal identifiable information (PII) is defined as any representation of information that permits the identity of an individual to whom the information applies to be reasonably inferred by either direct or indirect means. Further, PII is defined as information: (i) that directly identifies an individual (for example, name, address, social security number or other identifying number or code, telephone number, email address, and so on) or (ii) by which an agency intends to identify specific individuals in conjunction with other data elements, that is, indirect identification. (These data elements may include a combination of gender, race, birth date, geographic indicator, and other descriptors). Additionally, information permitting the physical or online contacting of a specific individual is the same as personally identifiable information.</p>
	<p>A139. Management may wish to prepare a written response to the auditor's report regarding the findings that were reported. If the auditor receives a written response from management, the auditor may include management's written response in <i>the Report on Specific Plan Provisions Relating to the Financial Statements</i>. In such situations, the auditor may add a paragraph to the report disclaiming an opinion on such information.</p> <p>A140. Management's written response may include a description of corrective actions taken by the plan, its plans to correct the finding, or a statement indicating that management believes the cost of correcting the finding would exceed the benefits to be derived from doing so.</p>

<i>Separate Report on Specific Plan Provisions Relating to the Financial Statements</i>	<i>Separate Report on Specific Plan Provisions Relating to the Financial Statements (Ref. par. 122–124)</i>
122. When reporting on specific plan provisions in a separate report the auditor should include an other-matter paragraph in the auditor’s report on the ERISA plan financial statements that includes:	
a. A statement that in accordance with auditing standards generally accepted in the United States of America, the auditor has also issued a report dated [ <i>date of auditor’s report on specific plan provisions relating to the financial statements</i> ] on the auditor’s testing of specific plan provisions relating to the financial statements of [identify the plan] in connection with obtaining reasonable assurance in an audit of the plan’s financial statements.	
b. A statement that the purpose of that report is to describe the results of the auditor’s procedures relating to specific plan provisions and not to provide an opinion on compliance with such plan provisions.	
c. A statement that the Report on Specific Plan Provisions Relating to the Financial Statements is an integral part of an employee benefit plan audit performed in accordance with generally accepted auditing standards.	
123. When the auditor reports on specific plan provisions in a separate report, the report should include (Ref. par. A141)	A141. The exhibit, includes an illustrative Report on Specific Plan Provisions Relating to the Financial Statements in an audit of an EBP subject to ERISA. <sup>35</sup>

<sup>35</sup> Illustration 4, “Illustrative Separate Report on Specific Plan Provisions Relating to the Financial Statements,” of the exhibit.

a. A title that includes the word <i>independent</i> to clearly indicate that it is the report of an independent auditor.	
b. An appropriate addressee.	
c. A paragraph that includes information about the audited financial statements, including (Ref. par. A142) <ul style="list-style-type: none"> <li>i. that the financial statements were audited in accordance with generally accepted auditing standards and an identification of the United States of America as the country of origin of those standards (for example, auditing standards generally accepted in the United States of America or U.S. generally accepted auditing standards);</li> <li>ii. an identification of the financial statements subject to audit;</li> <li>iii. the type of auditor's opinion expressed on the audited financial statements;</li> <li>iv. the date of the auditor's report on those financial statements; and</li> <li>v. a statement that the audit was conducted for the purpose of forming an opinion on the financial statements as a whole</li> </ul>	A142. When management has limited the scope of the audit as permitted by ERISA, the information contained in this paragraph of the <i>Report on Specific Plan Provisions Relating to the Financial Statements</i> would be revised as appropriate to the circumstances. The exhibit provides illustrative wording in such situations. <sup>36</sup>
d. A section with the heading "Report on Specific Plan Provisions Relating to the Financial Statements." This section of the report should state:	
<ul style="list-style-type: none"> <li>i. as part of obtaining reasonable assurance about whether [<i>identify the plan</i>]'s financial statements are free from material misstatement, the auditor is required to perform certain procedures to test whether the plan</li> </ul>	

<sup>36</sup> Footnote 1 in illustration 4 of the exhibit.

<p>and plan transactions are in accordance with specific plan provisions.</p> <p>ii. That the auditor performed procedures relating to <i>[include the areas to which the procedures relate, such as procedures relating to participant eligibility, benefit payments, claim payments, participant vesting provisions, employer and employee contributions, disclosure of prohibited transactions, IRC compliance tests, participant asset allocations, use of forfeitures, recording of account activity, and allocation of expenses]</i> for the year ended <i>[date]</i> as required by generally accepted auditing standards for audits of employee benefit plans subject to the Employee Retirement Income Security Act of 1974, as set forth in AU-C section 703 <i>Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA</i>. However, these procedures were not performed for the purpose of providing an opinion on compliance with those provisions, and accordingly the auditor does not express such an opinion (Ref. par. A143)</p>	<p>A143. The matters with respect to which the auditor has performed procedures, as required by paragraphs 15–16, provide the basis for the areas to be identified in the <i>Report on Specific Plan Provisions Relating to the Financial Statements</i> as required by paragraph 123(d)(ii). For example, a defined contribution retirement plan that does not provide for any employer contributions would exclude employer contributions from the list of areas tested because that matter would not be relevant for that plan. Once a matter is relevant to the plan, paragraphs 15–16 require the auditor to perform procedures relating to that matter, irrespective of the risks of material misstatement, and therefore any area tested would also be listed in the <i>Report on Specific Plan Provisions Relating to the Financial Statements</i>.</p>
<p>e. When there are no findings, a statement that during the audit the auditor did not have any findings relating to whether the plan and plan transactions are in accordance with specific plan provisions. However, the audit was not designed to identify all instances when the plan and plan transactions are not in accordance with those specific plan provisions.</p>	

<p>f. When there are findings, a statement that, during the audit the auditor noted the following findings relating to whether the plan and plan transactions are in accordance with specific plan provisions. However, the audit was not designed to identify all instances when the plan and plan transactions are not in accordance with those specific plan provisions. The auditor's opinion on the financial statements is not modified with respect to these findings. In circumstances when the findings relate to a modification to the opinion on the financial statements, the auditor should omit the previous sentence that says the auditor's opinion on the financial statements is not modified with respect to these findings. (Ref. par. A144)</p> <p><i>[List findings]</i></p>	<p>A144. The communication of findings relating to whether the plan and plan transactions are in accordance with specific plan provisions may describe the plan provision relating to the finding and may provide more details, or an explanation, about the finding and its effect on the financial statements, if any. When explaining the potential effect of the finding the auditor need not quantify those effects.</p>
<p>g. A paragraph under the heading "Purpose of the Report" that includes an appropriate alert, in a separate paragraph, that (Ref. par. A145)</p> <ul style="list-style-type: none"> <li>i. Describes the purpose of the Report on Specific Plan Provisions Relating to the Financial Statements;</li> <li>ii. states that this report is an integral part of an employee benefit plan audit performed in accordance with generally accepted auditing standards; and accordingly this communication is not suitable for any other purpose.</li> </ul>	<p>A145. Because the <i>Report on Specific Plan Provisions Relating to the Financial Statements</i> is an integral part of the audit engagement of ERISA Plan financial statements for the purpose of assessing the results of the engagement, this form of alert language is used.</p>
<p>h. The manual or printed signature of the auditor's firm, the city and state where the auditor's report is issued, and dated the same date as the auditor's report on the financial statements.</p>	

<p><i>Report on Specific Plan Provisions Relating to the Financial Statements Included in the Auditor's Report</i></p>	
<p>124. When the <i>Report on Specific Plan Provisions Relating to the Financial Statements</i> is included in the auditor's report on the financial statements, the auditor's report should include the elements in paragraph 123 (d)–(g) in a separate section of the auditor's report that should be subtitled "Report on Specific Plan Provisions Relating to the Financial Statements".</p>	

**Appendix A—Amendments to Statement on Auditing Standards (SAS) No. 119, *Supplementary Information in Relation to the Financial Statements as a Whole*, as Amended (AICPA, *Professional Standards*, AU-C sec. 725), and SAS No. 132, *The Auditor’s Consideration of an Entity’s Ability to Continue as a Going Concern* (AICPA, *Professional Standards*, AU-C sec. 570)**

(***Boldface italics*** denotes new language. Deleted text is in ~~strikethrough~~)

**Amendment to AU-C Section 570, *The Auditor’s Consideration of an Entity’s Ability to Continue as a Going Concern***

[No amendment to paragraphs .01–.A36.]

**.A37** In accordance with section 700, *Forming an Opinion and Reporting on Financial Statements*, **or section 703, Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA**, the auditor is required to date the auditor’s report no earlier than the date on which the auditor has obtained sufficient appropriate audit evidence on which to base the auditor’s opinion on the financial statements.<sup>31</sup> Accordingly, the support letter or the written confirmation defines a specific date so as to cover the assessment period required by the applicable financial reporting framework. For example, for financial statements prepared in accordance with the FASB standards, the date would be a year and a day beyond the date that the financial statements are issued (or available to be issued, when applicable). Specifying a date in the support letter that is later than the expected date that the financial statements will be issued (or will be available to be issued, when applicable) may obviate the need to obtain updated information from the supporting parties. The period covered by the support letter may be shorter if there is another source of support that management intends to utilize in order to continue as a going concern through the assessment period. Such other support would be subjected to the same auditing procedures discussed in AU-C 570.

<sup>31</sup> Paragraph .41 of section 700, *Forming an Opinion and Reporting on Financial Statements*, **or paragraph 72 of section 703, Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA**.

[No amendment to paragraphs A39–.A58.]

## Comparative Presentations

**.A59** Substantial doubt about the entity's ability to continue as a going concern for a reasonable period of time that arose in the current period does not imply that a basis for such doubt existed in the prior period and, therefore, does not affect the auditor's report on the financial statements of the prior period that are presented on a comparative basis. AU-C section 700, *Forming an Opinion and Reporting on Financial Statements*, **and section 703, Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA**, provides guidance on reporting when financial statements of one or more prior periods are presented on a comparative basis with financial statements of the current period.

[No further amendment to AU-C section 570.]

1. This amendment is effective for audits of ERISA plan financial statements for periods ending on or after December 15, 2018.

## **Amendment to AU-C Section 725, *Supplementary Information in Relation to the Financial Statements as a Whole***

### **Introduction**

### **Scope of This Section**

.01 This section addresses the auditor's responsibility when engaged to report on whether supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole. The information covered by this section is presented outside the basic financial statements and is not considered necessary for the financial statements to be fairly presented in accordance with the applicable financial reporting framework. This section also may be applied, with the report wording adapted as necessary, when an auditor has been engaged to report on whether required supplementary information<sup>1</sup> is fairly stated, in all material respects, in relation to the financial statements as a whole. ***When the auditor is performing an audit of an employee benefit plan subject to the Employee Retirement Income Security Act of 1974 (ERISA), AU-C section 703, Forming an Opinion and Reporting on of Employee Benefit Plans Subject to ERISA, applies. Accordingly, the requirements in paragraph .09 of this section are replaced by the requirements in AU-C section 703, for such audits only.*** (Ref: par. .A1–.A6)

<sup>1</sup>[Footnote omitted for purposes of this SAS.]

[No further amendment to AU-C section 725.]

2. This amendment is effective for audits of ERISA plan financial statements for periods ending on or after December 15, 2018.



.A147

## **Appendix B—Amendments to Various Sections in SAS No. 122, *Statements on Auditing Standards: Clarification and Recodification*, as Amended**

(***Boldface italics*** denotes new language. Deleted text is in ~~strikethrough~~)

### **AU-C Section 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance With Generally Accepted Auditing Standards***

[No proposed amendment to paragraphs .01–.A48. Paragraph .A49 is provided for contextual information only.]

#### ***Inherent Limitations of an Audit***

**.A49** The auditor is not expected to, and cannot, reduce audit risk to zero and cannot, therefore, obtain absolute assurance that the financial statements are free from material misstatement due to fraud or error. This is because inherent limitations of an audit exist, which result in most of the audit evidence on which the auditor draws conclusions and bases the auditor’s opinion being persuasive rather than conclusive. The principal inherent limitations of an audit arise from

- the nature of financial reporting;
- the nature of audit procedures; and
- the need for the audit to be conducted within a reasonable period of time and so as to achieve a balance between benefit and cost.

#### ***The Nature of Financial Reporting***

**.A50** The preparation and fair presentation of financial statements involves judgment by management in applying the requirements of the entity’s applicable financial reporting framework to the facts and circumstances of the entity. In addition, many financial statement items involve subjective decisions or assessments or a degree of uncertainty, and a range exists of acceptable interpretations or judgments that may be made. Consequently, some financial statement items are subject to an inherent level of variability that cannot be eliminated by the application of additional auditing procedures. For example, this is often the case with respect to certain accounting estimates that are dependent on predictions of future events. Nevertheless, GAAS require the auditor to give specific consideration to whether accounting estimates are reasonable in the context of the applicable financial reporting framework and to related disclosures, and to the qualitative aspects of the entity’s accounting practices, including indicators of possible bias in management’s judgments.<sup>15</sup>

<sup>15</sup> See section 540, *Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures*, and section 700, *Forming an Opinion and Reporting on Financial Statements*, **or section 703, Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA.**

[No further amendment to section AU-C section 200.]

1. This amendment is effective for audits of ERISA plan financial statements for periods ending on or after December 15, 2018.

### **AU-C Section 220, *Quality Control for an Engagement Conducted in Accordance With Generally Accepted Auditing Standards***

[No amendment to paragraphs .01–.A22. Paragraphs .A23–.A24 are provided for contextual information only.]

#### **Engagement Quality Control Review**

*Completion of the Engagement Quality Control Review Before Releasing the Auditor’s Report (Ref: par. .21c)*

**.A23** Conducting the engagement quality control review in a timely manner at appropriate stages during the engagement allows significant findings or issues to be promptly resolved to the engagement quality control reviewer’s satisfaction.

**.A24** *Completion of the engagement quality control review* means the completion by the engagement quality control reviewer of the requirements in paragraph .22 and, when applicable, compliance with paragraph .23. Documentation of the engagement quality control review may be completed after the report release date as part of the assembly of the final audit file. Section 230 establishes requirements and provides guidance in this regard.<sup>11</sup>

<sup>11</sup> [Footnote omitted for purposes of this proposed SAS.]

**.A25** When the engagement quality control review is completed after the auditor’s report is dated and identifies instances where additional procedures or additional evidence is necessary, the date of the report is changed to the date when the additional procedures have been satisfactorily completed or the additional evidence has been obtained, in accordance with section 700, *Forming an Opinion and Reporting on Financial Statements*, **or section 703, Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA.**

[No further amendments to AU-C section 220.]

2. This amendment is effective for audits of ERISA plan financial statements for periods ending on or after December 15, 2018.

#### **AU-C Section 240, *Consideration of Fraud in a Financial Statement Audit***

[No proposed amendments to paragraphs .01–.A58. Paragraphs .A59–.A60 and .A62 are provided for contextual information only.]

##### **Consideration of Identified Misstatements (Ref: par. .35–.37)**

**.A59** Because fraud involves incentive or pressure to commit fraud, a perceived opportunity to do so, or some rationalization of the act, an instance of fraud is unlikely to be an isolated occurrence. Accordingly, misstatements, such as numerous misstatements at a specific location even though the cumulative effect is not material, may be indicative of a risk of material misstatement due to fraud.

**.A60** The implications of identified fraud depend on the circumstances. For example, an otherwise insignificant fraud may be significant if it involves senior management. In such circumstances, the reliability of evidence previously obtained may be called into question because there may be doubts about the completeness and truthfulness of representations made and the genuineness of accounting records and documentation. There may also be a possibility of collusion involving employees, management, or third parties.

**.A61** Section 450, *Evaluation of Misstatements Identified During the Audit*, ~~and~~ section 700, *Forming an Opinion and Reporting on Financial Statements*, **and section 703, Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA**, address the evaluation and disposition of misstatements and the effect on the auditor's opinion in the auditor's report.

**.A62** Section 580, *Written Representations*, addresses obtaining appropriate representations from management in the audit. In addition to acknowledging its responsibility for the financial statements, it is important that, irrespective of the size of the entity, management acknowledges its responsibility for internal control designed, implemented, and maintained to prevent and detect fraud.

[No further proposed amendments to AU-C section 240.]

3. This amendment is effective for audits of ERISA plan financial statements for periods ending on or after December 15, 2018.

#### **AU-C Section 330, *Performing Audit Procedures in Response to Assessed Risks and Evaluating the Audit Evidence Obtained***

Introduction

## Scope of This Section

**.01** This section addresses the auditor's responsibility to design and implement responses to the risks of material misstatement identified and assessed by the auditor in accordance with section 315, *Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement*, and to evaluate the audit evidence obtained in an audit of financial statements. Section 700, *Forming an Opinion and Reporting on Financial Statements*, **and section 703, Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA**, addresses the auditor's responsibility to form an opinion on the financial statements based on the evaluation of the audit evidence obtained.

[No further amendment to AU-C section 330.]

4. This amendment is effective for audits of ERISA plan financial statements for periods ending on or after December 15, 2018.

## **AU-C Section 450, *Evaluation of Misstatements Identified During the Audit***

### Introduction

## Scope of This Section

**.01** This section addresses the auditor's responsibility to evaluate the effect of identified misstatements on the audit and the effect of uncorrected misstatements, if any, on the financial statements. Section 700, *Forming an Opinion and Reporting on Financial Statements*, **and section 703, Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA**, addresses the auditor's responsibility in forming an opinion on the financial statements based on the evaluation of the audit evidence obtained. The auditor's conclusion, required by section 700 **or section 703**, takes into account the auditor's evaluation of uncorrected misstatements, if any, on the financial statements, in accordance with this section. Section 320, *Materiality in Planning and Performing an Audit*, addresses the auditor's responsibility to appropriately apply the concept of materiality in planning and performing an audit of financial statements.

[No amendment to paragraphs .02–.06. Paragraphs .07–.09 are provided for contextual information only.]

### Communication and Correction of Misstatements

**.07** The auditor should communicate on a timely basis with the appropriate level of management all misstatements accumulated during the audit. The auditor should request management to correct those misstatements. (Ref: par. .A6–.A8)

**.08** If, at the auditor's request, management has examined a class of transactions, account balance, or disclosure and corrected misstatements that were detected, the auditor

should perform additional audit procedures to determine whether misstatements remain. (Ref: par. .A9–.A11)

**.09** If management refuses to correct some or all of the misstatements communicated by the auditor, the auditor should obtain an understanding of management’s reasons for not making the corrections and should take that understanding into account when evaluating whether the financial statements as a whole are free from material misstatement.<sup>2</sup> (Ref: par. .A12–.A15)

<sup>2</sup> Paragraph .14 of section 700, *Forming an Opinion and Reporting on Financial Statements*, or **paragraph .24 of section 703, Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA**.

[No amendment to paragraphs .10–.A5.]

Communication and Correction of Misstatements (Ref: par. .07–.09)

[No amendment to paragraphs .A6–.A11]

**.A12** Section 700 **and section 703** requires the auditor to evaluate whether the financial statements are presented fairly, in all material respects, in accordance with the requirements of the applicable financial reporting framework.<sup>9</sup> This evaluation includes consideration of the qualitative aspects of the entity’s accounting practices, including indicators of possible bias in management’s judgments, which may be affected by the auditor’s understanding of management’s reasons for not making the corrections (see section 700).<sup>10</sup>

<sup>9</sup> Paragraph .13 of section 700, **and paragraph .23 of section 703, as applicable**.

<sup>10</sup> Paragraph .15 of section 700, **and paragraph .25 of section 703, as applicable**.

[No further amendment to AU-C section 450.]

5. This amendment is effective for audits of ERISA plan financial statements for periods ending on or after December 15, 2018.

## **AU-C Section 501, Audit Evidence—Specific Considerations for Selected Items**

[No amendment to paragraphs .01–.A45.]

### **Communication With the Entity’s Legal Counsel (Ref: par. .18–.24)**

[No amendment to paragraphs .A46–.A52.]

**.A53** In accordance with section 700, *Forming an Opinion and Reporting on Financial Statements*, or **section 703, Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA**, the auditor is required to date the auditor’s report no earlier than the date on which the auditor has obtained sufficient appropriate audit evidence on which to base the auditor’s opinion on the financial statements.<sup>13</sup> Accordingly, it is preferable that the entity’s legal counsel’s response be as close to the date of the auditor’s report as is practicable in the circumstances. Specifying the effective date of the entity’s legal

counsel's response to reasonably approximate the expected date of the auditor's report may obviate the need to obtain updated information from the entity's legal counsel.

<sup>13</sup> Paragraph .41 of section 700, *Forming an Opinion and Reporting on Financial Statements*, or **paragraph .72 of section 703, Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA.**

[No amendments to paragraphs .A54–.A64.]

*Evaluation of the Outcome of Litigation, Claims, or Assessment (Ref: par. .22d(ii))*

**.A65** Although paragraph 5 of the ABA statement states that the legal counsel “may in appropriate circumstances communicate to the auditor his view that an unfavorable outcome is ‘probable’ or ‘remote,’” the legal counsel is not required to use those terms in communicating the evaluation to the auditor. The auditor may find other wording sufficiently clear, as long as the terms can be used to classify the outcome of the uncertainty under one of the three probability classifications established in FASB ASC 450. Some examples of evaluations concerning litigation that may be considered to provide sufficient clarity that the likelihood of an unfavorable outcome is remote, even though they do not use that term, are the following:

- “We are of the opinion that this action will not result in any liability to the company.”
- “It is our opinion that the possible liability to the company in this proceeding is nominal in amount.”
- “We believe the company will be able to defend this action successfully.”
- “We believe that the plaintiff’s case against the company is without merit.”
- “Based on the facts known to us, after a full investigation, it is our opinion that no liability will be established against the company in these suits.”

Absent any contradictory information obtained by the auditor either in other parts of the legal counsel's letter or otherwise, the auditor need not obtain further clarification of evaluations such as the foregoing. Because of inherent uncertainties described in paragraph .A57 and the ABA statement, an evaluation furnished by the legal counsel may indicate significant uncertainties or stipulations about whether the client will prevail. The following are examples of the legal counsel's evaluations that are unclear about the likelihood of an unfavorable outcome:

- “This action involves unique characteristics wherein authoritative legal precedents do not seem to exist. We believe that the plaintiff will have serious problems establishing the company's liability under the act; nevertheless, if the plaintiff is successful, the award may be substantial.”

- “It is our opinion that the company will be able to assert meritorious defenses to this action.” (The term *meritorious defenses* indicates that the entity’s defenses will not be summarily dismissed by the court; it does not necessarily indicate the legal counsel’s opinion that the entity will prevail.)
- “We believe the action can be settled for less than the damages claimed.”
- “We are unable to express an opinion as to the merits of the litigation at this time. The company believes there is absolutely no merit to the litigation.” (If the entity’s legal counsel, with the benefit of all relevant information, is unable to conclude that the likelihood of an unfavorable outcome is remote, it is unlikely that management would be able to form a judgment to that effect.)
- “In our opinion, the company has a substantial chance of prevailing in this action.” (A *substantial chance*, a *reasonable opportunity*, and similar terms indicate more uncertainty than an opinion that the company will prevail.)

If the auditor is uncertain about the meaning of the legal counsel’s evaluation, clarification either in a follow-up letter or conference with the legal counsel and entity, appropriately documented, may be appropriate. If the legal counsel is still unable to give an unequivocal evaluation of the likelihood of an unfavorable outcome in writing or orally, the auditor is required by section 700, **or section 703**, to determine the effect, if any, of the legal counsel’s response on the auditor’s report.

[No further proposed amendments to AU-C section 501.]

6. This amendment is effective for audits of ERISA plan financial statements for periods ending on or after December 15, 2018.

## **AU-C Section 510, *Opening Balances—Initial Audit Engagements, Including Reaudit Engagements***

### **Scope of This Section**

**.01** This section addresses the auditor’s responsibilities relating to opening balances in an initial audit engagement, including a reaudit engagement. In addition to financial statement amounts, opening balances include matters requiring disclosure that existed at the beginning of the period, such as contingencies and commitments. When comparative financial statements are presented, the relevant requirements and guidance for comparative financial statements in section 700, *Forming an Opinion and Reporting on Financial Statements*, **or section 703, Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA**, also apply. Section 300, *Planning an Audit*, includes additional requirements and guidance regarding activities prior to starting an initial audit. Section 708, *Consistency of Financial Statements*, also applies with respect to the auditor’s evaluation of the consistency of accounting principles between the periods presented and covered by the auditor’s opinion. Section 210, *Terms of Engagement*, includes requirements

and guidance with respect to communications with a predecessor auditor before accepting an initial audit engagement, including a reaudit engagement.

[No amendment to paragraphs .02–.A14.]

***Discovery of Possible Material Misstatements in Financial Statements Reported on by a Predecessor Auditor***

**.A15** Section 560 provides reporting guidance to the predecessor auditor who is requested to reissue a previously issued report on financial statements of a prior period when those financial statements are to be presented on a comparative basis with audited financial statements of a subsequent period.<sup>2</sup> Section 700 **and section 703, as applicable**, provides reporting guidance to the auditor reporting on comparative financial statements when the predecessor auditor is unable or unwilling to reissue the auditor’s report on prior period financial statements that have been restated.<sup>3</sup> (Ref: par. .12)

<sup>2</sup> [Footnote omitted for purposes of this SAS.]

<sup>3</sup> Paragraph .A57 of section 700, *Forming an Opinion and Reporting on Financial Statements*, **and paragraph .A110 of section 703, Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA**.

[No further amendment to AU-C section 510.]

7. This amendment is effective for audits of ERISA plan financial statements for periods ending on or after December 15, 2018.

***AU-C Section 540, Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures***

[No amendment to paragraphs .01–.A132.]

Indicators of Possible Management Bias (Ref: par. .21)

**.A133** During the audit, the auditor may become aware of judgments and decisions made by management that give rise to indicators of possible management bias (see paragraph .A9). Such indicators may affect the auditor’s conclusion about whether the auditor’s risk assessment and related responses remain appropriate, and the auditor may need to consider the implications for the rest of the audit. Further, they may affect the auditor’s evaluation of whether the financial statements as a whole are free from material misstatement, as discussed in section 700, *Forming an Opinion and Reporting on Financial Statements*, **and section 703, Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA, as applicable**.



[No further amendment to AU-C section 540.]

8. This amendment is effective for audits of ERISA plan financial statements for periods ending on or after December 15, 2018.

## **AU-C Section 550, *Related Parties***

Introduction

Scope of This Section

[No amendment to paragraph .01.]

**.02** Section 700, *Forming an Opinion and Reporting on Financial Statements*, **and section 703, Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA, as applicable**, requires the auditor to evaluate whether the financial statements achieve fair presentation.<sup>1</sup> Section 800, *Special Considerations—Audits of Financial Statements Prepared in Accordance With Special Purpose Frameworks*, requires that, in audits of special purpose financial statements that contain related party transactions, the auditor evaluate whether the financial statements include informative disclosures similar to those required by generally accepted accounting principles (GAAP). Section 800 also requires the auditor to evaluate whether additional disclosures beyond those specifically required by the framework and related to matters that are not specifically identified on the face of the financial statements or other disclosures may be necessary for the financial statements to achieve fair presentation. Thus, this section applies to all audits of financial statements. (Ref: par. .A1–.A3)

<sup>1</sup> Paragraph .17 of section 700, *Forming an Opinion and Reporting on Financial Statements*, **and paragraph .27 of section 703, Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA, as applicable**.

<sup>2</sup> [Footnote omitted for purposes of this proposed SAS.]

<sup>3</sup> [Footnote omitted for purposes of this proposed SAS.]

[No proposed amendments to paragraphs .03–.25.]

Evaluation of the Accounting for, and Disclosure of, Identified Related Party Relationships and Transactions

**.26** In forming an opinion on the financial statements, in accordance with section 700, **or section 703**, the auditor should evaluate the following: (Ref: par. .A50)

- a.* Whether the identified related party relationships and transactions have been appropriately accounted for and disclosed (Ref: par. .A51)

b. Whether the effects of the related party relationships and transactions prevent the financial statements from achieving fair presentation (Ref: par. .A3)

<sup>16</sup> Paragraphs .13–.18 of section 700, *or paragraphs .23–.28 of section 703, as applicable.*

[No further amendment to AU-C section 550.]

9. This amendment is effective for audits of ERISA plan financial statements for periods ending on or after December 15, 2018.

### **AU-C Section 560, *Subsequent Events and Subsequently Discovered Facts***

[No amendment to paragraph .01.]

Subsequent Events and Subsequently Discovered Facts

[No amendment to paragraph .02.]

**.03** Section 700, *Forming an Opinion and Reporting on Financial Statements*, *and section 703, Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA*, explains that the date of the auditor’s report informs the user of the auditor’s report that the auditor has considered the effect of events and transactions of which the auditor becomes aware and that occurred up to that date.<sup>1</sup> Accordingly, this section addresses the auditor’s responsibilities relating to subsequent events occurring between the date of the financial statements and the date of the auditor’s report that require adjustment of, or disclosure in, the financial statements. It also addresses the auditor’s responsibilities relating to subsequently discovered facts that become known to the auditor after the date of the auditor’s report.

<sup>1</sup> Paragraph .A38 of section 700, *Forming an Opinion and Reporting on Financial Statements*, *and paragraph .A100 of section 703, Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA*, *as applicable.*

[No amendment to paragraphs .04–.06.]

Definitions

**.07** For purposes of generally accepted auditing standards, the following terms have the meanings attributed as follows:

**Date of the auditor’s report.** The date that the auditor dates the report on the financial statements, in accordance with section 700 *or section 703*.<sup>2</sup> (Ref: par. .A14)

**Date of the financial statements.** The date of the end of the latest period covered by the financial statements.

**Subsequent events.** Events occurring between the date of the financial statements and the date of the auditor's report.

**Subsequently discovered facts.** Facts that become known to the auditor after the date of the auditor's report that, had they been known to the auditor at that date, may have caused the auditor to revise the auditor's report.

<sup>2</sup> Paragraph .41 of section 700, *or paragraph .72 of section 703*.

[No amendment to paragraphs .08–.A8.]

### **Written Representations**

[No amendment to paragraph .A9.]

**.A10** The applicable financial reporting framework may require management to evaluate subsequent events through the date the financial statements are issued or available to be issued and to disclose the date through which subsequent events were evaluated in the financial statements. In most cases, this will result in the date that management discloses as the date through which management has evaluated subsequent events being the same date as the auditor's report. This is because section 700 *or section 703*, requires the auditor's report to be dated no earlier than the date on which the auditor has obtained sufficient appropriate audit evidence on which to base the auditor's opinion on the financial statements, including evidence that the audit documentation has been reviewed; that all the statements that comprise the financial statements, including related notes, have been prepared; and that management has asserted that they have taken responsibility for those financial statements.<sup>8</sup> Also, the auditor is concerned with subsequent events that require adjustment of, or disclosure in, the financial statements through the date of the auditor's report or as near as practicable thereto. Therefore, management's representations concerning events occurring subsequent to the date of the financial statements and for which the applicable financial reporting framework requires adjustment or disclosure are required to be made as of the date of the auditor's report on the financial statements.<sup>9</sup> To align the date disclosed by management in the financial statements, the representation letter date, and the auditor's report date, the auditor may discuss the dating requirements with management and may also include, in the terms of the audit engagement,<sup>10</sup> that management will not date the subsequent event disclosure earlier than the date of the representation letter (also the date of the auditor's report).

<sup>8</sup> Paragraph .41 of section 700, *or paragraph .72 of section 703*.

<sup>9</sup> [Footnote omitted for purposes of this proposed SAS.]

<sup>10</sup> [Footnote omitted for purposes of this proposed SAS.]

Subsequently Discovered Facts That Become Known to the Auditor Before the Report Release Date (Ref: par. .12–.14)

**Dating the Auditor's Report on the Revised Financial Statements (Ref: par. .13)**

[No amendment to paragraphs .A11–.A13.]

**.A14** As discussed in paragraph .A10, section 700 *or section 703, as applicable*, requires the auditor’s report to be dated no earlier than the date on which the auditor has obtained sufficient appropriate audit evidence on which to base the auditor’s opinion on the financial statements.<sup>11</sup> When management revises the financial statements and the auditor reports on the revised financial statements, the new date (or the dual date) included in the auditor’s report cannot be earlier than the date on which the auditor carried out the audit procedures necessary in the circumstances on the revision, including that the documentation has been reviewed and management has prepared and asserted that they have taken responsibility for the revised financial statements.

<sup>11</sup> Paragraph .41 of section 700, *or paragraph .72 of section 703*.

[No amendment to paragraphs .A15–.A28.]

### **Predecessor Auditor’s Report Reissued**

[No amendment to paragraph .A29.]

**.A30** Section 700 *and section 703, as applicable*, addresses the auditor’s responsibilities when the auditor is engaged to audit and report on a revision to prior period financial statements audited by the predecessor auditor.<sup>13</sup> It also addresses the auditor’s responsibilities when the predecessor auditor’s report will not be presented.<sup>14</sup>

<sup>13</sup> Paragraph .A57 of section 700, *and paragraph .A110 of section 703, as applicable*.

<sup>14</sup> Paragraph .55 of section 700, *and paragraph .83 of section 703, as applicable*.

[No further amendment to AU-C section 560.]

10. This amendment is effective for audits of ERISA plan financial statements for periods ending on or after December 15, 2018.

### **AU-C Section 580, *Written Representations***

[No amendment to paragraphs .01–.A37.]

#### **.A38**

#### **Exhibit D — List of AU-C Sections Containing Requirements for Written Representations**

This exhibit identifies paragraphs in other AU-C sections that require specific written representations that may not be required for every audit. The list is not a substitute for considering the requirements and related application and other explanatory material in AU-C sections:

- Paragraph .19 of section 560, *Subsequent Events and Subsequently Discovered Facts*
- Paragraph .53 of section 700, *Forming an Opinion and Reporting on Financial Statements, or paragraph .81 of section 703, Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA, as applicable*
- Paragraph .07g of section 725, *Supplementary Information in Relation to the Financial Statements as a Whole*
- Paragraph .23 of section 935, *Compliance Audits*

In addition, certain AICPA Audit and Accounting Guides suggest written representations concerning matters that are unique to a particular industry.

[No further amendment to AU-C section 580.]

11. This amendment is effective for audits of ERISA plan financial statements for periods ending on or after December 15, 2018.

## **AU-C Section 700, *Forming an Opinion and Reporting on Financial Statements***

[Paragraphs .01–.02 are provided for contextual information only.]

### **Scope of This Section**

**.01** This section addresses the auditor’s responsibility to form an opinion on the financial statements. It also addresses the form and content of the auditor’s report issued as a result of an audit of financial statements.

**.02** This section is written in the context of a complete set of general purpose financial statements.

**.03** *This section is not applicable when the auditor is forming an opinion and reporting on financial statements of employee benefit plans subject to the Employee Retirement Income Security Act of 1974 (ERISA). In such circumstances, section 703, Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA, applies.*

[Subsequent paragraphs renumbered. No further amendment to AU-C section 700.]

12. This amendment is effective for audits of ERISA plan financial statements for periods ending on or after December 15, 2018.

## **AU-C Section 705, *Modifications to the Opinion in the Independent Auditor's Report***

**.01** This section addresses the auditor's responsibility to issue an appropriate report in circumstances when, in forming an opinion in accordance with section 700, *Forming an Opinion and Reporting on Financial Statements*, **or section 703, Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA**, the auditor concludes that a modification to the auditor's opinion on the financial statements is necessary.

[No amendment to paragraphs .02–.16.]

**.17** When the auditor modifies the opinion on the financial statements, the auditor should, in addition to the specific elements required by section 700 **or section 703**, include a paragraph in the auditor's report that provides a description of the matter giving rise to the modification. The auditor should place this paragraph immediately before the opinion paragraph in the auditor's report and use a heading that includes "Basis for Qualified Opinion," "Basis for Adverse Opinion," or "Basis for Disclaimer of Opinion," as appropriate. (Ref: par. .A20)

[No amendment to paragraphs .18–.A1.]

**.A2** Section 700 **and section 703, as applicable**, require the auditor, in order to form an opinion on the financial statements, to conclude whether reasonable assurance has been obtained about whether the financial statements as a whole are free from material misstatement.<sup>4</sup> This conclusion takes into account the auditor's evaluation of uncorrected misstatements, if any, on the financial statements, in accordance with section 450, *Evaluation of Misstatements Identified During the Audit*.

<sup>4</sup>Paragraph .14 of section 700, *Forming an Opinion and Reporting on Financial Statements or paragraph .24 of section 703, Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA*.

[No further amendment to AU-C section 705.]

13. This amendment is effective for audits of ERISA plan financial statements for periods ending on or after December 15, 2018.

## **AU-C Section 706, *Emphasis-of-Matter Paragraphs and Other-Matter Paragraphs in the Independent Auditor's Report***

[No amendment to paragraphs .01–.A7.]

**.A8** An other-matter paragraph does not address circumstances when the auditor has other reporting responsibilities that are in addition to the auditor's responsibility under GAAS to report on the financial statements (see the "Other Reporting Responsibilities" section in section 700, *Forming an Opinion and Reporting on Financial Statements*, **or section 703, Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans**

**Subject to ERISA**) or when the auditor has been asked to perform and report on additional specified procedures or to express an opinion on specific matters.

[No amendment to paragraphs .A9–.A13.]

#### **.A14**

##### **Exhibit B — List of AU-C Sections Containing Requirements for Emphasis-of-Matter Paragraphs (Ref: par. .02)**

This exhibit identifies paragraphs in other AU-C sections that require the auditor to include an emphasis-of-matter paragraph in the auditor’s report in certain circumstances. The list is not a substitute for considering the requirements and related application and other explanatory material in AU-C sections.

- Paragraph .16c of section 560, *Subsequent Events and Subsequently Discovered Facts*
- Paragraphs .15–.16 of section 570, *The Auditor’s Consideration of an Entity’s Ability to Continue as a Going Concern*
- **Paragraph .116 of section 703, Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA**
- Paragraphs .08–.09 and .11–.13 of section 708, *Consistency of Financial Statements*
- Paragraphs .19 and .21 of section 800, *Special Considerations—Audits of Financial Statements Prepared in Accordance With Special Purpose Frameworks*

#### **.A15**

##### **Exhibit C — List of AU-C Sections Containing Requirements for Other-Matter Paragraphs (Ref: par. .02)**

This exhibit identifies paragraphs in other AU-C sections that require the auditor to include an other-matter paragraph in the auditor’s report in certain circumstances. The list is not a substitute for considering the requirements and related application and other explanatory material in AU-C sections.

- Paragraph .16c of section 560, *Subsequent Events and Subsequently Discovered Facts*

- Paragraphs .54–.55 and .57–.58 of section 700, *Forming an Opinion and Reporting on Financial Statements*
- **Paragraphs .82–.83, and .85–.86 of section 703, Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA**
- Paragraph .12 of section 720, *Other Information in Documents Containing Audited Financial Statements*
- Paragraph .09 of section 725, *Supplementary Information in Relation to the Financial Statements as a Whole* or **paragraph .118 of section 703, Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA**
- Paragraph .07 of section 730, *Required Supplementary Information*
- Paragraph .20 of section 800, *Special Considerations—Audits of Financial Statements Prepared in Accordance With Special Purpose Frameworks*
- Paragraph .13 of section 806, *Reporting on Compliance With Aspects of Contractual Agreements or Regulatory Requirements in Connection With Audited Financial Statements*
- Paragraph .07 of section 905, *Alert That Restricts the Use of the Auditor’s Written Communication*

[No further amendment to AU-C section 706.]

14. This amendment is effective for audits of ERISA plan financial statements for periods ending on or after December 15, 2018.

#### **AU-C Section 708, Consistency of Financial Statements**

[No amendment to paragraphs .01–.A6.]

#### **Reporting on Changes in Accounting Principles (Ref: par. .08–.11)**

[No amendment to paragraphs .A7–.A8.]

**.A9** If a change in accounting principle does not have a material effect on the financial statements in the current year but the change is expected to have a material effect in later years, the auditor is not required to recognize the change in the auditor’s report in the current year. The applicable financial reporting framework may include a requirement for the entity to disclose such situations in the notes to the financial statements. Section 700, *Forming an Opinion and Reporting on Financial Statements*, **section 703, Forming an Opinion and**



**Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA, as applicable**, and section 705 require the auditor to evaluate the appropriateness and adequacy of disclosures in connection with forming an opinion and reporting on the financial statements.<sup>3</sup>

<sup>3</sup> Paragraph .16 of section 700, *Forming an Opinion and Reporting on Financial Statements*, **paragraph .26 of section 703, Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA**, and paragraphs .07 and .A7 of section 705.

[No further amendment to AU-C section 708.]

15. This amendment is effective for audits of ERISA plan financial statements for periods ending on or after December 15, 2018.

#### **AU-C Section 800, *Special Considerations—Audits of Financial Statements Prepared in Accordance With Special Purpose Frameworks***

[No amendment to paragraphs .01–.13.]

##### **Forming an Opinion and Reporting Considerations**

**.14** When forming an opinion and reporting on special purpose financial statements, the auditor should apply the requirements in section 700, *Forming an Opinion and Reporting on Financial Statements*, **or section 703, Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA**. When, in forming an opinion, the auditor concludes that a modification to the auditor’s opinion on the financial statements is necessary, the auditor should apply the requirements in section 705, *Modifications to the Opinion in the Independent Auditor’s Report*. (Ref: par. .A16)

##### ***Description of the Applicable Financial Reporting Framework (Ref: par. .A17–.A18)***

**.15** Section 700 **or section 703, as applicable**, requires the auditor to evaluate whether the financial statements adequately refer to or describe the applicable financial reporting framework.<sup>6</sup> In an audit of special purpose financial statements, the auditor should evaluate whether the financial statements are suitably titled, include a summary of significant accounting policies, and adequately describe how the special purpose framework differs from GAAP. The effects of these differences need not be quantified.

<sup>6</sup>Paragraph .18 of section 700, *Forming an Opinion and Reporting on Financial Statements*, **or paragraph .28 of section 703, Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA**.

[Paragraph .16 provided for contextual information only.]

**.16** In the case of special purpose financial statements prepared in accordance with a contractual basis of accounting, the auditor should also evaluate whether the financial statements adequately describe any significant interpretations of the contract on which the financial statements are based.

***Fair Presentation (Ref: par. .A19–.A23)***

**.17** Section 700 *or* **section 703**, requires the auditor to evaluate whether the financial statements achieve fair presentation.<sup>7</sup> In an audit of special purpose financial statements when the special purpose financial statements contain items that are the same as, or similar to, those in financial statements prepared in accordance with GAAP, the auditor should evaluate whether the financial statements include informative disclosures similar to those required by GAAP. The auditor should also evaluate whether additional disclosures, beyond those specifically required by the framework, related to matters that are not specifically identified on the face of the financial statements or other disclosures are necessary for the financial statements to achieve fair presentation.

<sup>7</sup>Paragraph .17 of section 700, *or paragraph .27 of section 703, Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA.*

***Auditor's Report***

**.18** Section 700 *or* **section 703**, addresses the form and content of the auditor's report. In the case of an auditor's report on special purpose financial statements, the

- a.* explanation of management's responsibility for the financial statements should also make reference to its responsibility for determining that the applicable financial reporting framework is acceptable in the circumstances, when management has a choice of financial reporting frameworks in the preparation of such financial statements.
- b.* auditor's report should also describe the purpose for which the financial statements are prepared or refer to a note in the special purpose financial statements that contains that information, when the financial statements are prepared in accordance with
  - i.* a regulatory or contractual basis of accounting or
  - ii.* an other basis of accounting, and the auditor is required to restrict use of the auditor's report pursuant to paragraph .06a–b of section 905, *Alert That Restricts the Use of the Auditor's Written Communication.* (Ref: par. .A24)

[No amendment to paragraphs .19–.A10.]

***Achieving Fair Presentation (Ref: par. .11d)***

**.A11** In accordance with section 700, ***or section 703***, the auditor's evaluation of whether the financial statements achieve fair presentation in accordance with the applicable financial reporting framework requires consideration of<sup>14</sup>

- a. the overall presentation, structure and content of the financial statements and
- b. whether the financial statements, including the related notes, represent the underlying transactions and events in a manner that achieves fair presentation.

Also see paragraphs .A19–.A23 of this section.

<sup>14</sup>Paragraph .17 of section 700, ***or paragraph .27 of section 703, Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA.***

[No further amendment to AU-C section 800.]

16. This amendment is effective for audits of ERISA plan financial statements for periods ending on or after December 15, 2018.

## **Exhibit—Illustrations of Auditor’s Reports on Financial Statements of Employee Benefit Plans Subject to ERISA**

Illustration 1—An Auditor’s Report on Financial Statements for a Defined Contribution Retirement Plan Subject to ERISA

Illustration 2—An Auditor’s Report on Financial Statements for a Defined Benefit Pension Plan Subject to ERISA

Illustration 3—An Auditor’s Report on Financial Statements for a Defined Contribution Retirement Plan Subject to ERISA When Management Imposes a Limitation on the Scope of the Audit as Permitted by ERISA

Illustration 4—A Separate Report on Specific Plan Provisions Relating to the Financial Statements

Illustration 5—An Auditor’s Report Containing a Qualified Opinion Due to Inadequate Disclosure for a Defined Contribution Retirement Plan Subject to ERISA

Illustration 6— An Auditor’s Report Containing a Disclaimer of Opinion on Financial Statements for a Defined Contribution Retirement Plan Subject to ERISA

Illustration 7—An Auditor’s Report Containing a Disclaimer of Opinion, Due to the Auditor’s Inability to Obtain Sufficient Appropriate Audit Evidence Because the Plan Has Not Maintained Sufficient Accounting Records, on Financial Statements of a Defined Contribution Retirement Plan Subject to ERISA When Management Imposes a Limitation on the Scope of the Audit as Permitted by ERISA

## **Illustration 1—An Auditor’s Report on Financial Statements for a Defined Contribution Retirement Plan Subject to ERISA**

Circumstances include the following:

- Audit of a complete set of general purpose financial statements for a 401(k) plan subject to ERISA (comparative statement of net assets available for benefits and a single year statement of changes in net assets available for benefits)
- The financial statements are prepared in accordance with U.S. GAAP
- The Plan merged with another plan. The merger was disclosed in the notes to the financial statements and the auditor included an emphasis-of-matter paragraph in the auditor’s report.
- The *Report on Specific Plan Provisions Relating to Financial Statements* is included with the auditor’s report and includes findings. The auditor performed procedures relating to participant eligibility, benefit payments, participant vesting provisions, employer and employee contributions, disclosure of prohibited transactions, IRC compliance tests, participant asset allocations, use of forfeitures, and recording of account activity.

### **Independent Auditor’s Report**

[Appropriate Addressee]

We have audited the accompanying financial statements of ABC 401(k) Plan, which comprise the statements of net assets available for benefits as of December 31, 20X2 and 20X1, and the related statement of changes in net assets available for benefits for the year ended December 31, 20X2, and the related notes to the financial statements.

#### ***Management’s Responsibility for the Financial Statements of an Employee Benefit Plan Subject to ERISA***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Management is also responsible for maintaining a current plan instrument including all plan amendments, administering the plan and determining that the plan’s transactions that are presented and disclosed in the financial statements are in conformity with the plan’s provisions, including maintaining sufficient records with respect to each of the participants, in accordance with sections 107 and 209 of the Employee Retirement Income Security Act of 1974, to determine the benefits due or which may become due to such participants.

#### ***Auditor’s Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States

of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### ***Opinion***

In our opinion, the financial statements referred to above, present fairly, in all material respects, the net assets available for benefits of ABC 401(k) Plan as of December 31, 20X2 and 20X1, and the changes in its net assets available for benefits for the year ended December 31, 20X2, in accordance with accounting principles generally accepted in the United States of America.

### ***Emphasis of Matter Relating to Plan Merger***

As discussed in Note X to the financial statements, XYZ Plan was merged into ABC 401(k) Plan effective December 31, 20X2. Our opinion has not been modified with respect to this matter.

### ***Other Matter Relating to the Supplemental Schedules Required by ERISA***

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The supplemental schedules of [*identify title of schedules and period covered*] are presented for purposes of additional analysis and are not a required part of the financial statements but are supplementary information required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, performing procedures to test the completeness and accuracy of the information presented in the supplemental schedules, and other additional procedures in accordance with auditing standards generally accepted in the United States of America.

In forming our opinion on the supplemental schedules, we evaluated whether the supplementary information, including its form and content, is presented in conformity with the Department of

Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974.

In our opinion, the information in the accompanying schedules is fairly stated in all material respects in relation to the financial statements as a whole, and the form and content are presented in conformity with the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974.

### **Report on Specific Plan Provisions Relating to the Financial Statements**

As part of obtaining reasonable assurance about whether ABC 401(k) Plan's financial statements are free from material misstatement, we are required to perform certain procedures to test whether the plan and plan transactions are in accordance with specific plan provisions. We performed procedures relating to participant eligibility, benefit payments, participant vesting provisions, employer and employee contributions, disclosure of prohibited transactions, Internal Revenue Code compliance tests, participant asset allocations, use of forfeitures, and recording of account activity for the year ended December 31, 20X2 as required by generally accepted auditing standards for audits of employee benefit plans subject to the Employee Retirement Income Security Act of 1974 as set forth in AU-C section 703, *Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA*. However, these procedures were not performed for the purpose of providing an opinion on compliance with those provisions and, accordingly, we do not express such an opinion.

During our audit, we noted the following findings relating to whether the plan and plan transactions are in accordance with specific plan provisions. However, the audit was not designed to identify all instances when the plan and plan transactions are not in accordance with those specific plan provisions. Our opinion on the financial statements is not modified with respect to these findings.

- We noted instances when vesting was not calculated in accordance with the plan instrument which resulted in the plan not paying the appropriate benefits.

### *Purpose of this Report*

The purpose of this report on specific plan provisions relating to the financial statements is solely to describe the results of our procedures relating to specific plan provisions, and not to provide an opinion on the plan's compliance with ABC 401(k) Plan's provisions. This report on specific plan provisions relating to the financial statements is an integral part of an employee benefit plan audit performed in accordance with generally accepted auditing standards. Accordingly, this communication is not suitable for any other purpose.

*[Auditor's signature]*

*[City and state report is issued]*

*[Date of the auditor's report]*

## **Illustration 2—An Auditor’s Report on Financial Statements for a Defined Benefit Pension Plan Subject to ERISA**

Circumstances include the following:

- Audit of a complete set of general purpose financial statements for a defined benefit pension plan subject to ERISA (comparative statement of net assets available for benefits and accumulated plan benefits [end-of-year benefit information date] and a single year statement of changes in net assets available for benefits and changes in accumulated plan benefits)
- The financial statements are prepared in accordance with U.S. GAAP
- The information regarding the actuarial present value of accumulated plan benefits and changes therein is presented in separate statements within the financial statements
- There are no matters disclosed in the notes to the financial statements that require an emphasis-of-matter paragraph to be included in the auditor’s report.
- The *Report on Specific Plan Provisions Relating to Financial Statements* is included with the auditor’s report. The auditor performed procedures relating to participant eligibility, benefit payments, participant vesting provisions, employer contributions, disclosure of prohibited transactions, IRC compliance tests, and use of forfeitures. The auditor had no findings.

### **Independent Auditor’s Report**

[Appropriate Addressee]

We have audited the accompanying financial statements of XYZ Pension Plan, which comprise the statements of net assets available for benefits and of accumulated plan benefits as of December 31, 20X2 and 20X1, and the related statements of changes in net assets available for benefits and of changes in accumulated plan benefits for the year ended December 31, 20X2, and the related notes to the financial statements.

#### ***Management’s Responsibility for the Financial Statements of an Employee Benefit Plan Subject to ERISA***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Management is also responsible for maintaining a current plan instrument including all plan amendments, administering the plan and determining that the plan’s transactions that are presented and disclosed in the financial statements are in conformity with the plan’s provisions, including maintaining sufficient records with respect to each of the participants, in accordance with sections 107 and 209 of the Employee Retirement Income Security Act of 1974, to determine the benefits due or which may become due to such participants.

#### ***Auditor’s Responsibility***



Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### ***Opinion***

In our opinion, the financial statements referred to above, present fairly, in all material respects, the net assets available for benefits and accumulated plan benefits of XYZ Pension Plan as of December 31, 20X2 and 20X1, and the changes in its nets assets available for benefits and changes in accumulated plan benefits for the year ended December 31, 20X2, in accordance with accounting principles generally accepted in the United States of America.

### ***Other Matter Relating to the Supplemental Schedules Required by ERISA***

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The supplemental schedules of [*identify title of schedules and period covered*] are presented for purposes of additional analysis and are not a required part of the financial statements but are supplementary information required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, performing procedures to test the completeness and accuracy of the information presented in the supplemental schedules, and other additional procedures in accordance with auditing standards generally accepted in the United States of America.

In forming our opinion on the supplemental schedules, we evaluated whether the supplementary information, including its form and content, is presented in conformity with the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974.

In our opinion, the information in the accompanying schedules is fairly stated in all material respects in relation to the financial statements as a whole, and the form and content are presented in conformity with the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974.

### **Report on Specific Plan Provisions Relating to the Financial Statements**

As part of obtaining reasonable assurance about whether XYZ Pension Plan's financial statements are free from material misstatement, we are required to perform certain procedures to test whether the plan and plan transactions are in accordance with specific plan provisions. We performed procedures relating to participant eligibility, benefit payments, participant vesting provisions, employer contributions, disclosure of prohibited transactions, Internal Revenue Code compliance tests, and use of forfeitures for the year ended December 31, 20X2 as required by generally accepted auditing standards for audits of employee benefit plans subject to the Employee Retirement Income Security Act of 1974 as set forth in AU-C section 703, *Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA*. However, these procedures were not performed for the purpose of providing an opinion on compliance with those provisions and, accordingly, we do not express such an opinion.

During our audit, we did not have any findings relating to whether the plan and plan transactions are in accordance with specific plan provisions. However, the audit was not designed to identify all instances when the plan and plan transactions are not in accordance with those specific plan provisions.

#### *Purpose of this Report*

The purpose of this report on specific plan provisions relating to the financial statements is solely to describe the results of our procedures relating to the specific plan provisions, and not to provide an opinion on the plan's compliance with XYZ Pension Plan's provisions. This report on specific plan provisions relating to the financial statements is an integral part of an employee benefit plan audit performed in accordance with generally accepted auditing standards. Accordingly, this communication is not suitable for any other purpose.

*[Auditor's signature]*

*[City and state report is issued]*

*[Date of the auditor's report]*

### **Illustration 3—An Auditor’s Report on Financial Statements for a Defined Contribution Retirement Plan Subject to ERISA When Management Imposes a Limitation on the Scope of the Audit as Permitted by ERISA**

Circumstances include the following:

- Management imposed a limitation on the scope of the audit, as permitted by 29 CFR 2520.103-8 of the DOL’s Rules and Regulations for Reporting and Disclosure under ERISA,<sup>37</sup> with respect to the certified investment information for a complete set of general purpose financial statements of a 401(k) plan. No other scope limitations were imposed and the financial statements are not materially misstated.
- The financial statements are prepared in accordance with U.S. GAAP
- There are no matters disclosed in the notes to the financial statements that require an emphasis-of-matter paragraph to be included in the auditor’s report.
- The *Report on Specific Plan Provisions Relating to Financial Statements* is included with the auditor’s report and includes findings. The auditor performed procedures relating to participant eligibility, benefit payments, participant vesting provisions, employer and employee contributions, disclosure of prohibited transactions, IRC compliance tests, participant asset allocations, use of forfeitures, and recording of account activity.

#### **Independent Auditor’s Report**

*[Appropriate Addressee]*

We have performed an audit of the accompanying financial statements of ABC 401(k) Plan, subject to the limitation on the scope of the audit imposed by management, as permitted by Employee Retirement Income Security Act of 1974. The financial statements comprise the statements of net assets available for benefits as of December 31, 20X2 and 20X1, and the related statement of changes in net assets available for benefits for the year ended December 31, 20X2, and the related notes to the financial statements.

#### ***Basis for Limitation on the Scope of the Audit***

As permitted by 29 CFR 2520.103-8 of the Department of Labor’s Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974, management imposed a limitation on the scope of the audit. Under the authority of section 103(a)(3)(C) of the Employee Retirement Income Security Act of 1974, the audit need not extend to information related to assets held for investment of the plan (investment information) prepared and certified by a bank or similar institution or insurance carrier which is regulated and supervised and subject to periodic examination by a State or Federal agency, provided that the statements or

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<sup>37</sup> Although not as common, the plan administrator may limit the scope of the audit of 103-12 investment entities as permitted by the Employee Retirement Income Security Act of 1974. If the scope limitation imposed by management is under 29 CFR 2520.103-12 then the wording in this illustrative report may need to change to reflect the circumstances of the engagement.

information regarding assets so held are prepared and certified to by the bank or insurance carrier in accordance with 29 CFR 2520.103-5 and 29 CFR 2520.103-8.

We have been informed by management that a qualified institution holds the investments and executes investment transactions. Management has obtained certifications from the qualified institution as of December 31, 20X2 and 20X1, and for the year ended December 31, 20X2, stating that the investment information, described in Note X to the financial statements, is complete and accurate.

***Management's Responsibility for the Financial Statements and the Limitation on the Scope of the Audit***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Management is also responsible for determining whether a limitation on the scope of the audit is permissible in the circumstances, in accordance with the Employee Retirement Income Security Act of 1974, including evaluating whether

- the certification is prepared by a qualified institution, and
- the certified investment information is complete and accurate.

The limitation on the scope of the audit does not affect management's responsibility for the financial statements. Management is responsible for determining whether the certified investment information is appropriately measured, presented and disclosed in accordance with accounting principles generally accepted in the United States of America.

Management is also responsible for maintaining a current plan instrument including all plan amendments, administering the plan and determining that the plan's transactions that are presented and disclosed in the financial statements are in conformity with the plan's provisions, including maintaining sufficient records with respect to each of the participants, in accordance with sections 107 and 209 of the Employee Retirement Income Security Act of 1974, to determine the benefits due or which may become due to such participants.

***Auditor's Responsibility (Including Responsibility for the Certified Investment Information)***

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether

due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

With respect to the certified investment information that management instructed us not to audit, we did not assess the risks of material misstatement nor did we consider internal control over the certified investment information. Our procedures were limited to the following:

- (a) obtaining and reading the certification
- (b) evaluating management's assessment of whether the entity issuing the certification is a qualified institution under the Employee Retirement Income Security Act of 1974
- (c) comparing the certified investment information with the related information presented and disclosed in the financial statements
- (d) evaluating whether the form and content of the certified investment information presented and disclosed in the financial statements are in accordance with accounting principles generally accepted in the United States of America

Other than with respect to the certified investment information, our audit procedures were not limited for other amounts and disclosures in the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion with the ERISA-permitted audit scope limitation on the financial statements.

***Auditor's Opinion With the ERISA-Permitted Audit Scope Limitation on the Financial Statements***

In our opinion, based on our audit and based on our use of the certification of the investment information that we were instructed not to audit, the financial statements referred to above present fairly, in all material respects, the net assets available for benefits of ABC 401(k) plan as of December 31, 20X2 and 20X1, and the changes in net assets available for benefits for the year ended December 31, 20X2, in accordance with accounting principles generally accepted in the United States of America.

***Other Matter Relating to the Supplemental Schedules Required by ERISA***

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The supplemental schedules of [identify title of schedules and period covered] are presented for purposes of additional analysis and are not a required part of the financial statements but are supplementary information required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. Such

information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and the use of the certification of the investment information, that we were instructed not to audit, and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, performing procedures to test the completeness and accuracy of the information presented in the supplemental schedules, and other additional procedures in accordance with auditing standards generally accepted in the United States of America.

Our procedures with respect to the certified investment information included in the supplemental schedules were limited to those procedures described in the *Auditor's Responsibility (Including Responsibility for the Certified Investment Information)* section.

In forming our opinion on the supplemental schedules, we evaluated whether the supplementary information, including its form and content, is presented in conformity with the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974.

In our opinion, based on our audit and based on our use of the certification of the investment information that we were instructed not to audit, the information in the accompanying schedules is fairly stated in all material respects in relation to the financial statements as a whole, and the form and content are presented in conformity with the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974.

### **Report on Specific Plan Provisions Relating to the Financial Statements**

As part of obtaining reasonable assurance about whether ABC 401(k) Plan's financial statements are free from material misstatement, we are required to perform certain procedures to test whether the plan and plan transactions are in accordance with specific plan provisions. We performed procedures relating to participant eligibility, benefit payments, participant vesting provisions, employer and employee contributions, disclosure of prohibited transactions, Internal Revenue Code compliance tests, participant asset allocations, use of forfeitures, and recording of account activity for the year ended December 31, 20X2 as required by generally accepted auditing standards for audits of employee benefit plans subject to the Employee Retirement Income Security Act of 1974 as set forth in AU-C section 703, *Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA*. However, these procedures were not performed for the purpose of providing an opinion on compliance with those provisions and, accordingly, we do not express such an opinion.

During our audit, we noted the following findings relating to whether the plan and plan transactions are in accordance with specific plan provisions. However, the audit was not designed to identify all instances when the plan and plan transactions are not in accordance with those specific plan provisions. Our opinion with the ERISA-permitted audit scope limitation on the financial statements is not modified with respect to this finding.

- We noted instances when vesting was not calculated in accordance with the plan document, which resulted in the plan not paying appropriate benefits.

*Purpose of this Report*

The purpose of this report on specific plan provisions relating to the financial statements is solely to describe the results of our procedures relating to the specific plan provisions, and not to provide an opinion on the plan's compliance with ABC 401(k) Plan's provisions. This report on specific plan provisions relating to the financial statements is an integral part of an employee benefit plan audit performed in accordance with generally accepted auditing standards. Accordingly, this communication is not suitable for any other purpose.

*[Auditor's signature]*

*[City and state report is issued]*

*[Date of the auditor's report]*

## Illustration 4—A Separate Report on Specific Plan Provisions Relating to the Financial Statements

Circumstances include the following:

- Audit of a 401(k) plan. (When management limits the scope of the audit as permitted by ERISA, the first paragraph of the report would be revised accordingly.)
- The auditor's report on the financial statements includes an other-matter paragraph (in accordance with paragraph 122) regarding the *Report on Specific Plan Provisions Relating to the Financial Statements* that was issued separately. The following is an example of such a paragraph.

### Other Matter Regarding Separate Report on Specific Plan Provisions Relating to the Financial Statements

In accordance with auditing standards generally accepted in the United States of America, we have also issued a report dated [*date of report*] on our testing of specific plan provisions relating to the financial statements of ABC 401(k) Plan in connection with obtaining reasonable assurance in an audit of ABC 401(k) Plan's financial statements. The purpose of that report is to describe the results of our procedures relating to the specific plan provisions and not to provide an opinion on compliance with such plan provisions. That report is an integral part of an employee benefit plan audit performed in accordance with generally accepted auditing standards.

## Independent Auditor's Report

[*Appropriate Addressee*]

We have audited, the financial statements of ABC 401(k) plan in accordance with auditing standards generally accepted in the United States of America, which comprise the statements of net assets available for benefits as of December 31, 20X2 and 20X1, and the related statement of changes in net assets available for benefits for the year ended December 31, 20X2, and the related notes to the financial statements, and have issued our unmodified opinion thereon dated October 15, 20X3. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole.<sup>38</sup>

### *Report on Specific Plan Provisions Relating to the Financial Statements*

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<sup>38</sup> When the ERISA-permitted audit scope limitation is imposed, this paragraph may be replaced with the following: "We have performed an audit of the financial statements of ABC 401(k) Plan, in accordance with auditing standards generally accepted in the United States of America, subject to the limitation on the scope of the audit imposed by management, as permitted by the Employee Retirement Income Security Act of 1974. The financial statements comprise the statements of net assets available for benefits as of December 31, 20X2 and 20X1, and the related statement of changes in net assets available for benefits for the year ended December 31, 20X2, and the related notes to the financial statements. We have issued our opinion with the ERISA-permitted audit scope limitation on the financial statements thereon dated October 15, 20X3. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole."



As part of obtaining reasonable assurance about whether ABC 401(k) Plan's financial statements are free from material misstatement, we are required to perform certain procedures to test whether the plan and plan transactions are in accordance with specific plan provisions. We performed procedures relating *[include areas to which the procedures relate, such as participant eligibility, benefit payments, claim payments, participant vesting provisions, employer and employee contributions, disclosure of prohibited transactions, Internal Revenue Code compliance tests, participant asset allocations, use of forfeitures, and recording of account activity]*, for the year ended December 31, 20X2 as required by generally accepted auditing standards for audits of employee benefit plans subject to the Employee Retirement Income Security Act of 1974 as set forth in AU-C section 703, *Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA*. However, these procedures were not performed for the purpose of providing an opinion on compliance with those provisions and, accordingly, we do not express such an opinion.

*[No findings]*

During our audit, we did not have any findings relating to whether the plan and plan transactions are in accordance with specific plan provisions. However, the audit was not designed to identify all instances when the plan and plan transactions are not in accordance with those specific plan provisions.

or

*[Findings have been noted]*

During our audit, we noted the following findings relating to whether the plan and plan transactions are in accordance with specific plan provisions. However, the audit was not designed to identify all instances when the plan and plan transactions are not in accordance with those specific plan provisions. Our opinion on the financial statements is not modified with respect to these findings.

*[Describe findings]*

#### *Purpose of this Report*

The purpose of this report on specific plan provisions relating to the financial statements is solely to describe the results of our procedures relating to specific plan provisions, and not to provide an opinion on the plan's compliance with ABC 401(k) Plan's provisions. This report on specific plan provisions relating to the financial statements is an integral part of an employee benefit plan audit performed in accordance with generally accepted auditing standards. Accordingly, this communication is not suitable for any other purpose.

*[Auditor's signature]*

*[City and state report is issued]*

*[Date of the auditor's report]*

## **Illustration 5—An Auditor’s Report Containing a Qualified Opinion Due to Inadequate Disclosure for a Defined Contribution Retirement Plan Subject to ERISA**

Circumstances include the following:

- Audit of a complete set of general purpose financial statements for a 401(k) plan subject to ERISA (comparative statement of net assets available for benefits and a single year statement of changes in net assets available for benefits)
- The financial statements are prepared in accordance with GAAP
- The financial statements have omitted information from the notes to the financial statements.
- The omitted information does not affect the supplemental schedules and therefore the auditor has concluded that the opinion provided on the supplemental schedules does not need to be modified
- The Plan merged with another plan. The merger was disclosed in the notes to the financial statements and the auditor included an emphasis-of-matter paragraph in the auditor’s report.
- The *Report on Specific Plan Provisions Relating to Financial Statements* is included with the auditor’s report. The auditor performed procedures relating to participant eligibility, benefit payments, participant vesting provisions, employer and employee contributions, disclosure of prohibited transactions, IRC compliance tests, participant asset allocations, use of forfeitures, and recording of account activity. There are no findings.

### **Independent Auditor’s Report**

[Appropriate Addressee]

We have audited the accompanying financial statements of ABC 401(k) Plan, which comprise the statements of net assets available for benefits as of December 31, 20X2 and 20X1, and the related statement of changes in net assets available for benefits for the year ended December 31, 20X2, and the related notes to the financial statements.

#### ***Management’s Responsibility for the Financial Statements of an Employee Benefit Plan Subject to ERISA***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Management is also responsible for maintaining a current plan instrument including all plan amendments, administering the plan and determining that the plan’s transactions that are presented and disclosed in the financial statements are in conformity with the plan’s provisions, including maintaining sufficient records with respect to each of the participants, in accordance with sections

107 and 209 of the Employee Retirement Income Security Act of 1974, to determine the benefits due or which may become due to such participants.

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

### ***Basis for Qualified Opinion***

ABC 401(k) Plan's financial statements do not disclose [*describe the nature of the omitted information that is not practical to present in the auditor's report*]. In our opinion, disclosure of this information is required by accounting principles generally accepted in the United States of America.

### ***Qualified Opinion***

In our opinion, except for the omission of the information described in the Basis for Qualified Opinion paragraph, the financial statements referred to above, present fairly, in all material respects, the net assets available for benefits of ABC 401(k) Plan as of December 31, 20X2 and 20X1, and the changes in its net assets available for benefits for the year ended December 31, 20X2, in accordance with accounting principles generally accepted in the United States of America.

### ***Emphasis of Matter Relating to Plan Merger***

As discussed in Note X to the financial statements, XYZ Plan was merged into ABC 401(k) Plan effective December 31, 20X2. Our opinion has not been modified with respect to this matter.

### ***Other Matter Relating to the Supplemental Schedule Required by ERISA***

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The supplemental schedules of [*identify title of schedules and period covered*] are presented for purposes of additional analysis and are not a required part of the financial statements but are supplementary information required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, performing procedures to test the completeness and accuracy of the information presented in the supplemental schedules, and other additional procedures in accordance with auditing standards generally accepted in the United States of America.

In forming our opinion on the supplemental schedules, we evaluated whether the supplementary information, including its form and content, is presented in conformity with the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974.

In our opinion, the information in the accompanying schedules is fairly stated in all material respects in relation to the financial statements as a whole, and the form and content are presented in conformity with the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974.

### **Report on Specific Plan Provisions Relating to the Financial Statements**

As part of obtaining reasonable assurance about whether ABC 401(k) Plan's financial statements are free from material misstatement, we are required to perform certain procedures to test whether the plan and plan transactions are in accordance with specific plan provisions. We performed procedures relating to participant eligibility, benefit payments, participant vesting provisions, employer and employee contributions, disclosure of prohibited transactions, Internal Revenue Code compliance tests, participant asset allocations, use of forfeitures, and recording of account activity for the year ended December 31, 20X2 as required by generally accepted auditing standards for audits of employee benefit plans subject to the Employee Retirement Income Security Act of 1974 as set forth in AU-C section 703, *Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA*. However, these procedures were not performed for the purpose of providing an opinion on compliance with those provisions and, accordingly, we do not express such an opinion.

During our audit, we did not have any findings relating to whether the plan and plan transactions are in accordance with specific plan provisions. However, the audit was not designed to identify all instances when the plan and plan transactions are not in accordance with those specific plan provisions.

### ***Purpose of this Report***

The purpose of this report on specific plan provisions relating to the financial statements is solely to describe the results of our procedures relating to specific plan provisions, and not to provide an opinion on the plan's compliance with ABC 401(k) Plan's provisions. This report on specific plan provisions relating to the financial statements is an integral part of an employee benefit plan audit performed in accordance with generally accepted auditing standards. Accordingly, this communication is not suitable for any other purpose.

*[Auditor's signature]*

*[City and state report is issued]*

*[Date of the auditor's report]*

## **Illustration 6—An Auditor’s Report Containing a Disclaimer of Opinion on Financial Statements for a Defined Contribution Retirement Plan Subject to ERISA**

Circumstances include the following:

- Audit of a complete set of general purpose financial statements for a 401(k) plan subject to ERISA (comparative statement of net assets available for benefits and a single year statement of changes in net assets available for benefits)
- The financial statements are prepared in accordance with GAAP
- The auditor was unable to obtain sufficient appropriate audit evidence about the plans investments because the plan has not maintained sufficient accounting records and supporting documents. The possible effects of this inability to obtain sufficient appropriate audit evidence are deemed to be both material and pervasive to the financial statements. Accordingly, the auditor’s opinion contains a disclaimer of opinion.
- The Plan merged with another plan. The merger was disclosed in the notes to the financial statements and the auditor included an emphasis-of-matter paragraph in the auditor’s report.
- The auditor is precluded from expressing an opinion on the supplemental schedules when the auditor issues a disclaimer of opinion on the financial statements in accordance with AU-C section 725, *Supplementary Information in Relation to the Financial Statements as a Whole*. The auditor’s communication on the supplemental schedules has been revised accordingly.
- The *Report on Specific Plan Provisions Relating to Financial Statements* is included with the auditor’s report. The auditor performed procedures relating to participant eligibility, benefit payments, participant vesting provisions, disclosure of prohibited transactions, IRC compliance tests, participant asset allocations, use of forfeitures, and recording of account activity. However, due to the lack of accounting records the auditor was not able to perform all required testing, in particular, the auditor was unable to test benefit payments.

### **Independent Auditor’s Report**

[Appropriate Addressee]

We were engaged to audit the accompanying financial statements of ABC 401(k) Plan, which comprise the statements of net assets available for benefits as of December 31, 20X2 and 20X1, and the related statement of changes in net assets available for benefits for the year ended December 31, 20X2, and the related notes to the financial statements.

#### ***Management’s Responsibility for the Financial Statements of an Employee Benefit Plan Subject to ERISA***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Management is also responsible for maintaining a current plan instrument including all plan amendments, administering the plan and determining that the plan's transactions that are presented and disclosed in the financial statements are in conformity with the plan's provisions, including maintaining sufficient records with respect to each of the participants, in accordance with sections 107 and 209 of the Employee Retirement Income Security Act of 1974, to determine the benefits due or which may become due to such participants.

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on these financial statements based on conducting the audits in accordance with auditing standards generally accepted in the United States of America. Because of the matters described in the Basis for Disclaimer of Opinion paragraph, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

### ***Basis for Disclaimer of Opinion***

ABC 401(k) plan has not maintained sufficient accounting records and supporting documents. Accordingly, we were unable to apply auditing procedures sufficient to determine the extent to which the accompanying financial statements may have been affected by these conditions.

### ***Disclaimer of Opinion***

Because of the significance of the matter described in the Basis for Disclaimer of Opinion paragraph, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on these financial statements.

### ***Emphasis of Matter Relating to Plan Merger***

As discussed in Note X to the financial statements, XYZ Plan was merged into ABC 401(k) Plan effective December 31, 20X2. Our disclaimer of opinion has not been modified with respect to this matter.

### ***Other Matter Relating to the Supplemental Schedules Required by ERISA***

We were engaged for the purpose of forming an opinion on the basic financial statements as a whole. The supplemental schedules of [*identify title of schedules and period covered*] are presented for purposes of additional analysis and are not a required part of the financial statements but are supplementary information required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. Because of the significance of the matters described in the Basis for Disclaimer of Opinion paragraph, we do not express an opinion on the supplemental schedules.

### ***Report on Specific Plan Provisions Relating to the Financial Statements***

As part of obtaining reasonable assurance about whether ABC 401(k) Plan's financial statements are free from material misstatement, we are required to perform certain procedures to test whether the plan and plan transactions are in accordance with specific plan provisions. We performed procedures relating to participant eligibility, benefit payments, participant vesting provisions,

disclosure of prohibited transactions, Internal Revenue Code compliance tests, participant asset allocations, use of forfeitures, and recording of account activity for the year ended December 31, 20X2 as required by generally accepted auditing standards for audits of employee benefit plans subject to the Employee Retirement Income Security Act of 1974 as set forth in AU-C section 703, *Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA*. However, these procedures were not performed for the purpose of providing an opinion on compliance with those provisions and, accordingly, we do not express such an opinion.

During our audit, we noted the following findings relating to whether the plan and plan transactions are in accordance with specific plan provisions. However, we were unable to complete all testing necessary due to the lack of adequate accounting records as discussed in the Basis for Disclaimer of Opinion Paragraph in the report on the financial statements. Further, the audit was not designed to identify all instances when the plan and plan transactions are not in accordance with those specific plan provisions.

- We noted instances when vesting was not calculated in accordance with the plan instrument, which resulted in the plan not paying appropriate benefits.
- We were unable to perform procedures relating to whether benefit payments were calculated in accordance with the plan instrument because of the matters described in the Basis for Disclaimer of Opinion paragraph in the auditor's report on the financial statements.

#### *Purpose of this Report*

The purpose of this report on specific plan provisions relating to the financial statements is solely to describe the results of our procedures relating to specific plan provisions, and not to provide an opinion on the plan's compliance with ABC 401(k) Plan's provisions. This report on specific plan provisions relating to the financial statements is an integral part of an employee benefit plan audit performed in accordance with generally accepted auditing standards. Accordingly, this communication is not suitable for any other purpose.

*[Auditor's signature]*

*[City and state report is issued]*

*[Date of the auditor's report]*



## **Illustration 7—An Auditor’s Report Containing a Disclaimer of Opinion, Due to the Auditor’s Inability to Obtain Sufficient Appropriate Audit Evidence Because the Plan Has Not Maintained Sufficient Accounting Records, on Financial Statements of a Defined Contribution Retirement Plan Subject to ERISA When Management Imposes a Limitation on the Scope of the Audit as Permitted by ERISA**

Circumstances include the following:

- The auditor was engaged to perform an audit of a complete set of general purpose financial statements for a 401(k) plan subject to ERISA (comparative statement of net assets available for benefits and a single year statement of changes in net assets available for benefits), subject to the limitation on the scope of the audit, as permitted by 29 CFR 2520.103-8 of the DOL’s Rules and Regulations for Reporting and Disclosure under ERISA.<sup>39</sup>
- The financial statements are prepared in accordance with GAAP
- The auditor was unable to obtain sufficient appropriate audit evidence because the plan has not maintained sufficient accounting records and supporting documents. The possible effects of this inability to obtain sufficient appropriate audit evidence are deemed to be both material and pervasive to the financial statements. In addition, the auditor also considers the effect of the ERISA-permitted audit scope limitation on the auditor’s opinion because the opinion provided in paragraph 105 of this proposed SAS is not appropriate. Accordingly, the auditor’s opinion contains a disclaimer of opinion.
- There are no matters disclosed in the notes to the financial statements that require an emphasis-of-matter paragraph to be included in the auditor’s report.
- The auditor is precluded from expressing an opinion on the supplemental schedules when the auditor issues a disclaimer of opinion on the financial statements in accordance with AU-C section 725 *Supplementary Information in Relation to the Financial Statements as a Whole*. The auditor’s communication on the supplemental schedules has been revised accordingly.
- The *Report on Specific Plan Provisions Relating to Financial Statements* is included with the auditor’s report and includes findings. The auditor performed procedures relating to participant eligibility, benefit payments, participant vesting provisions, disclosure of prohibited transactions, IRC compliance tests, participant asset allocations, use of forfeitures, and recording of account activity. However, due to the lack of accounting records the auditor was not able to perform all required testing, in particular, the auditor was unable to test benefit payments.

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<sup>39</sup> Although not as common, the plan administrator may limit the scope of the audit of 103-12 investment entities as permitted by the Employee Retirement Income Security Act of 1974. If the scope limitation imposed by management is under 29 CFR 2520.103-12 then the wording in this illustrative report may need to change to reflect the circumstances of the engagement.

## **Independent Auditor's Report**

*[Appropriate Addressee]*

We were engaged to audit the accompanying financial statements of ABC 401(k) Plan, which comprise the statements of net assets available for benefits as of December 31, 20X2 and 20X1, and the related statement of changes in net assets available for benefits for the year ended December 31, 20X2, and the related notes to the financial statements.

### ***Management's Responsibility for the Financial Statements and the Limitation on the Scope of the Audit***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Management is also responsible for determining whether a limitation on the scope of the audit is permissible in the circumstances, in accordance with the Employee Retirement Income Security Act of 1974, including evaluating whether

- the certification is prepared by a qualified institution, and
- the certified investment information is complete and accurate.

The limitation on the scope of the audit does not affect management's responsibility for the financial statements. Management is responsible for determining whether the certified investment information is appropriately measured, presented and disclosed in accordance with accounting principles generally accepted in the United States of America.

Management is also responsible for maintaining a current plan instrument including all plan amendments, administering the plan and determining that the plan's transactions that are presented and disclosed in the financial statements are in conformity with the plan's provisions, including maintaining sufficient records with respect to each of the participants, in accordance with sections 107 and 209 of the Employee Retirement Income Security Act of 1974, to determine the benefits due or which may become due to such participants.

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on these financial statements based on conducting the audits in accordance with auditing standards generally accepted in the United States of America. Because of the matters described in the Basis for Disclaimer of Opinion paragraphs, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

### ***Basis for Disclaimer of Opinion***

ABC 401(k) plan has not maintained sufficient accounting records and supporting documents. Accordingly, we were unable to apply auditing procedures sufficient to determine the extent to which the accompanying financial statements may have been affected by these conditions.

As permitted by 29 CFR 2520.103-8 of the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974, management imposed a limitation on the scope of the audit. Under the authority of section 103(a)(3)(C) of the Employee Retirement Income Security Act of 1974, the audit need not extend to information related to assets held for investment of the plan prepared and certified by a bank or similar institution or insurance carrier which is regulated and supervised and subject to periodic examination by a State or Federal agency, provided that the statements or information regarding assets so held are prepared and certified to by the bank or insurance carrier in accordance with 29 CFR 2520.103-5 and 29 CFR 2520.103-8. We have been informed by management that a qualified institution holds the investments and executes investment transactions. Management has obtained certifications from the qualified institution as of December 31, 20X2 and 20X1, and for the year ended December 31, 20X2, stating that the investment information, described in Note X to the financial statements, is complete and accurate.<sup>40</sup>

### ***Disclaimer of Opinion on the Financial Statements***

Because of the significance of the matters described in the Basis for Disclaimer of Opinion paragraphs, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on these financial statements.

### ***Other Matter Relating to the Supplemental Schedules Required by ERISA***

We were engaged for the purpose of forming an opinion on the basic financial statements as a whole. The supplemental schedules of [*identify title of schedules and period covered*] are presented for the purpose of additional analysis and are not a required part of the financial statements but are supplementary information required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. Because of the significance of the matters described in the Basis for Disclaimer of Opinion paragraphs, we do not express an opinion on the supplemental schedules.

### **Report on Specific Plan Provisions Relating to the Financial Statements**

As part of obtaining reasonable assurance about whether ABC 401(k) Plan's financial statements are free from material misstatement, we are required to perform certain procedures to test whether the plan and plan transactions are in accordance with specific plan provisions. We performed procedures relating to participant eligibility, benefit payments, participant vesting provisions, disclosure of prohibited transactions, Internal Revenue Code compliance tests, participant asset allocations, use of forfeitures, and recording of account activity for the year ended December 31, 20X2 as required by generally accepted auditing standards for audits of employee benefit plans subject to the Employee Retirement Income Security Act of 1974 as set forth in AU-C section 703,

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<sup>40</sup> Paragraph 35 precludes the auditor from including a section for the Basis for Limitation on the Scope of the Audit; however, the auditor concluded that it was appropriate to include such content as part of the Basis for the Disclaimer of Opinion Paragraph in accordance with AU-C section 705.

*Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA.* However, these procedures were not performed for the purpose of providing an opinion on compliance with those provisions and, accordingly, we do not express such an opinion.

During our audit, we noted the following findings relating to whether the plan and plan transactions are in accordance with specific plan provisions. However, we were unable to complete all testing necessary due to the lack of adequate accounting records as discussed in the Basis for Disclaimer of Opinion Paragraph in the report on the financial statements. Further, the audit was not designed to identify all instances when the plan and plan transactions are not in accordance with those specific plan provisions.

- We noted instances when vesting was not calculated in accordance with the plan instrument, which resulted in the plan not paying appropriate benefits.
- We were unable to perform procedures relating to whether benefit payments were calculated in accordance with the plan instrument because of the matters described in the Basis for Disclaimer of Opinion paragraph in the auditor's report on the financial statements.

*Purpose of this Report*

The purpose of this report on specific plan provisions relating to the financial statements is solely to describe the results of our procedures relating to specific plan provisions, and not to provide an opinion on the plan's compliance with ABC 401(k) Plan's provisions. This report on specific plan provisions relating to the financial statements is an integral part of an employee benefit plan audit performed in accordance with generally accepted auditing standards. Accordingly, this communication is not suitable for any other purpose.

*[Auditor's signature]*

*[City and state report is issued]*

*[Date of the auditor's report]*

**Exhibit B—Nondiscrimination and Other Operating Tests for Plan Qualification**

This list contains the compliance tests contemplated by paragraph 16 when reporting on compliance in this SAS.	
Type of Test	Applicable IRC reference
1.Minimum coverage test	IRC section 410(b) (retirement plans only)
2.Nondiscrimination test	IRC section 401(a)(4) or 505 (retirement plans, and if funded through VEBA, welfare plans) (Collectively bargained (CB) plans are deemed to automatically satisfy this test.)
3.Average deferral and contribution percentage limits	IRC section 401(k) and (m) (defined contribution plan only; however, 403(b) plans with employer contributions are only subject to the contribution percentage test)
4.Top heavy test	IRC section 416 (qualified retirement plans only; not 403(b) plans; plans with no key employees, and CB plans are deemed to automatically satisfy this test)
5.Benefit and contribution limits	IRC section 415(b) (retirement plans only)
6.Employee deferral contribution limitations	IRC section 402(g)- defined contribution plans only)
7.Minimum funding obligations	IRC sections 412 or 430 (defined benefit plans and money purchase pension plans)
8.Diversification rules for ESOPs	IRC section 401(a)(28)
9.Unrelated business income tax	IRC sections 419A and 511 (retirement and health and welfare plans—if plans are invested in other than typical passive investments, such as hedge funds, partnerships, or real estate)