



## Agenda Item 4

### Reporting on ERISA Financial Statements — Cover Letter and Issues Paper

#### Objective

To continue discussing the development of an auditor's report specific for employee benefit plans.

#### EBP Task Force

The Employee Benefit Plan Reporting Task Force (the EBP task force) members are:

- Darrel Schubert (Chair)
- Josie Hammond
- Jerry Murray
- Scot Philips (TIC representative)
- Alice Wunderlich
- Michael Auerbach (DOL)

#### Agenda Items Presented

Item 4 – Cover Letter and Issues Paper

Item 4A – Proposed SAS *Special Considerations—Audits of ERISA Financial Statements*

Item 4B – Letter from Chief Accountant

### Issues Paper

#### Background

In January 2015 a special task force of the Auditing Standards Board (EBP task force) was formed to consider a proposal to improve the quality of employee benefit plan (EBP) audits by strengthening the EBP auditor's report. The Employee Benefits Security Administration (EBSA) of the Department of Labor (DOL) asked us to rethink the EBP auditor's report to help auditors better understand their responsibilities and to provide users with more information about what auditors do, especially for the limited-scope audit, as permitted by the DOL's rules and regulations for reporting and disclosure under the Employee Retirement Income Security Act of 1974 (ERISA). The DOL provided specific suggestions on ways to improve auditor reporting for plans.

## Summary of the ASB’s discussions at the July 2015 and October 2015 ASB Meetings

### *July 2015 ASB Meeting*

The ASB supported the development of a new auditing standard to address the form and content of the auditor’s report for employee benefit plans. The ASB asked the EBP task force to also consider whether there is a need to revise the performance standards related to compliance aspects of employee benefit plan audits to help with audit quality. At the July meeting Mr. Schubert noted that the EBP task force planned to discuss compliance reporting and bring the EBP task force’s views to the ASB at a future meeting. The [highlights](#) from the July 2015 ASB meeting summarize the ASB’s discussions about the form and content of the standard auditor’s report.

### *October 2015 ASB Meeting*

At the October 2015 ASB meeting, the EBP task force discussed developing a new requirement for employee benefit plans to report on internal control over financial reporting and compliance with certain provisions of the plan document and DOL rules and regulations for reporting and disclosure under ERISA. The ASB raised concerns with reporting on internal control over financial reporting in the auditor’s reports for employee benefit plans. The ASB noted that the performance requirements for internal control over financial reporting has broader applicability to more than employee benefit plans and therefore concerns were raised with developing a reporting requirement about internal control just for employee benefit plans.

The ASB directed the EBP task force to continue moving forward with a model for reporting on compliance in employee benefit plan audits. The ASB supported a model that creates performance requirements to enable the auditor to report on compliance and supported requiring the inclusion of the instances of noncompliance in the report on compliance. The ASB ask the EBP task force to consider AU-C section 250 *Consideration of Laws and Regulations in an Audit of Financial Statements* when developing this aspect of the standard.

### *Overview of Proposed SAS*

The proposed SAS contains the following sections for reporting on ERISA financial statements:

<i>Section</i>	<i>Paragraph References</i>
Scope	.01–.04
Effective Date	.05
Objectives	.06
Definitions	.07-.08
Considerations When Accepting the EBP Engagement	.09
Written Representations in an EBP Engagement	.10
Forming an Opinion and Reporting Considerations (for both full scope and limited-scope audits)	.11–.14
Procedures When Performing a Limited-Scope Audit	.15–.17
Auditor’s Report <ul style="list-style-type: none"> <li>• ERISA Full Scope Auditor’s Report</li> </ul>	.18

Reporting on ERISA Financial Statements  
ASB Meeting, May 24–26, 2016

• Standard ERISA Limited-Scope Auditor’s Report	.19–.20
Emphasis-of-Matter Paragraphs	.21
Other-Matter Paragraphs	.22–.23
Reporting on ERISA Supplemental Schedules	.24–.25
Considerations Relating to the Form 5500 Filing	.26–.38
Reporting on Compliance with Certain Provisions of ERISA Rules and Regulations	.39–.41
• Procedures to Report on Compliance	.42
• Reporting on Compliance in a Separate Report or in the Auditor’s Report	.43–.44
○ Separate Report on Compliance	.45
○ Report on Compliance Included in the Auditor’s Report	.46

## Issues for ASB discussion

### Reporting on Internal Control Over Financial Reporting

#### Issue 1 — DOL Letter Relating to Reporting on Internal Control

The DOL requested a new section be added to the auditor’s report that would provide the DOL with information the auditor gathered from AU-C section 265 *Communicating Internal Control Related Matters Identified in an Audit* including items identified as a material weakness and those identified as a significant deficiency.

As discussed above (see *October 2015 ASB Meeting* discussion), the ASB raised concerns with reporting on internal control over financial reporting in a standard for auditor’s reports for employee benefit plans because the performance requirements for internal control over financial reporting has broader applicability to more than employee benefit plans and therefore the ASB expressed concerns with developing a reporting requirement about internal control over financial reporting just for employee benefit plans. Accordingly, the ASB directed the EBP task force not to address reporting on internal control over financial reporting as part of the EBP auditor reporting project.

#### *Subsequent Letter from DOL – Reporting on Internal Control*

Subsequent to the October 2015 ASB meeting, the chair of the ASB received a letter from the Chief Accountant of the DOL expressing concerns about the ASB’s decision to hold off reporting on internal control (see agenda item 4B).

#### *EBP Task Force Discussions*

The EBP task force continues to believe that the GAAS requirement to communicate significant deficiencies and material weaknesses provides a basis for reporting, but recognizes that the ASB did not support reporting on internal control over financial reporting in the auditor’s report. The EBP task force noted that paragraph 40(a) of ISA 700 (Revised) requires the “Auditor’s Responsibilities for the Audit of the Financial Statements” section in the auditor’s report to include a statement that the auditor communicates with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that the auditor identifies during the audit.

The EBP task force recognizes that, as part of the ASB’s project to converge with the new and revised reporting ISAs, the Auditor Reporting Task Force will be considering whether or not to include such requirement in GAAS for all entities. The EBP task force, however, feels that in light of the strong views expressed by the DOL, there is a basis for the EBP auditor’s report to include a communication about the auditor’s GAAS responsibilities for internal control over financial reporting.

Accordingly, the EBP task force recommends that the following be included in the proposed EBP auditor’s report

“We communicate with those charged with governance regarding, among other matters significant audit findings, including deficiencies in internal control that have been identified during the audit as significant deficiencies or material weaknesses.”

Paragraphs .18(c) (full scope) and .19(e)(iii) (limited-scope) of the proposed SAS include such requirements.

***Action Requested of the ASB — Issue 1***

1. Given the strong views of the DOL, does the ASB support including information in the EBP auditor’s report about the auditor’s communications relating to internal control over financial reporting, prior to the larger ASB reporting project being finalized?
2. If so, does the ASB agree with including information about the auditor’s responsibilities under GAAS for reporting on internal control over financial reporting as proposed above?
3. Does the ASB believe further consideration should be given to including more robust reporting in the auditor’s report about internal control over financial reporting for all entities?

**Reporting on Compliance with ERISA Rules and Regulations**

Paragraphs .39-.46 of the proposed SAS contain the requirements relating to reporting on compliance. The following is an example of a separate report on compliance based on the requirements established in the proposed SAS (also found in Illustration 4—*Illustrative Separate Report on Compliance with Certain Provisions of ERISA Rules and Regulations Based on an Audit of ERISA Financial Statements Performed in Accordance with GAAS* in Appendix A of the proposed SAS.)

**Action Requested of the ASB**

The ASB is asked to review the requirements in paragraph .45 in the attached proposed SAS as illustrated in the following illustrative report and provide feedback to the EBP Task force.

**Illustration 4—Illustrative Separate Report on Compliance with Certain Provisions of ERISA Rules and Regulations Based on an Audit of ERISA Financial Statements Performed in Accordance with GAAS**

Circumstances include the following:

- Full scope audit of a 401(K) plan. For ERISA limited-scope audits 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 .41 of the proposed SAS) regarding the report on compliance that was issued separately. The following is an example of such a paragraph.

**Other Matter Regarding Separate Report on Compliance**

In accordance with GAAS, we have also issued our report dated [*date of report*] on our tests of ABC 401(k) Plan’s compliance with certain provisions of the Plan document, Department of Labor Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974, and the Internal Revenue Code (ERISA Rules and Regulations). The purpose of that report is to describe the scope of our testing of compliance and the results of that testing, and not to provide an opinion on compliance. That report is an integral part of an employee benefit plan audit performed in accordance with generally accepted auditing standards in considering ABC 401(K) Plan’s compliance with certain provisions of ERISA Rules and Regulations.

Proposed  
SAS – par.  
.41

Proposed SAS par. .45(a)

**Independent Auditor’s Report**

[*Appropriate Addressee*]

Proposed SAS par. .45(b)

We have audited, in accordance with auditing standards generally accepted in the United States of America, the 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, 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>1</sup>

Proposed  
SAS par.  
.45(c)

### ***Compliance With Certain Provisions of ERISA Rules and Regulations***

As part of obtaining reasonable assurance about whether ABC 401(k) Plan’s financial statements are free from material misstatement, we performed procedures to test its compliance with certain provisions of the plan document, DOL Rules and Regulations for Reporting and Disclosure under ERISA and the Internal Revenue Code (ERISA Rules and Regulations) for the year ended December 31, 20X2 as required by generally accepted auditing standards in AU-C section XXX. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

Proposed  
SAS par.  
.45(d)

*[No instances of noncompliance were identified]*

Given the limitations in the first paragraph, during our audit we did not identify instances of noncompliance with certain provisions of ERISA Rules and Regulations. However, instances of noncompliance may exist that have not been identified.

or

*[Instances of noncompliance have been identified]*

Given the limitations in the first paragraph, during our audit we identified certain instances of noncompliance with certain provisions of ERISA Rules and Regulations. The following are the instances of noncompliance with certain provisions of ERISA Rules and Regulations that were identified, other than those matters considered inconsequential.

Proposed SAS par. .45(e)

*[Describe identified items of Noncompliance]*

Proposed SAS par. .45(f)

<sup>1</sup> For a limited-scope audit, this paragraph would be replaced with the following:

“We have performed an ERISA limited-scope audit of the financial statements of XYZ 401(k) Plan as instructed by XYZ 401(k) plan management. 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, XYZ 401(k) plan management elected to limit the scope of the audit under ERISA Section 103(a)(3)(c) that allows plan management to instruct the auditor not to perform auditing procedures with respect to the investment information prepared and certified by a qualified certifying institution. XYZ plan management has determined that the certification is acceptable in the circumstances. An ERISA limited-scope audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements, other than for the certified information described in Note X to the financial statements. 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 standard ERISA limited-scope opinion thereon dated October 15, 20X3. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole.

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

The purpose of this report is solely to describe the scope of our testing of compliance with certain provisions of ERISA Rules and Regulations, and not to provide an opinion on the effectiveness of the entity's compliance. This report is an integral part of an employee benefit plan audit performed in accordance with generally accepted auditing standards in considering the plan's compliance. Accordingly, this communication is not suitable for any other purpose.

[Auditor's signature]

[Auditor's city and state]

[Date of the auditor's report]

Proposed SAS par. .45(h)

Proposed SAS par. .45(g)

### **Issue 2 — Reporting on Compliance Limited to the Current Period**

Paragraphs .39–.41 set the overall requirements to report on compliance.

ERISA requires the statement of net assets available for benefits to be presented in comparative form. The EBP task force discussed whether the report on compliance should be required for both years presented. The EBP task force determined that the report on compliance should be limited to compliance with certain provisions of ERISA Rules and Regulations for the current period, even when comparative financial statements are presented. The current period is the most recent period upon which the auditor is reporting. This is reflected in paragraph .39 and related application material.

#### ***Action Requested of the ASB — Issue 2***

4. Does the ASB support limiting the report on compliance to the current period?

### **Issue 3 — Filing of the Separate Report on Compliance with the Form 5500 on EFAST 2**

Paragraph .40 of the proposed SAS requires the report on compliance to be in writing and provided either in a separate report or included in the auditor's report on the audited financial statements. When the report on compliance is issued as a separate report, the EBP task force discussed whether the auditor would consider that report part of the GAAS report and include the separate report on compliance with the Form 5500 filing. The EBP task force believes that because this requirement is established as part of GAAS, the report on compliance should be included in the Form 5500 filing, even when it is issued as a separate report. Accordingly, the EBP Task Force included application material in paragraph .A54 to explain that the report on compliance is an integral part of the audit of the ERISA financial statements and such report is to be included with the auditor's report that is attached to the Form 5500 filing. The EBP task force noted that the Form 5500 filing is included in the DOL's EFAST 2 system that is a public document.

Paragraph .41 of the proposed SAS requires an other-matter paragraph to be included in the auditor's report on the financial statements when the report on compliance is issued as a separate report to alert the readers of the audited financial statements that the auditor also issued a report on the auditor's tests of the plan's compliance with certain provisions of ERISA Rules and Regulations.

***Action Requested of the ASB — Issue 3***

5. When the report on compliance is issued as a separate report, does the ASB agree that the separate report on compliance should be included with the auditor's report and attached to the Form 5500 filing because the report is required by GAAS?
6. When the report on compliance is issued as a separate report, does the ASB support including an other-matter paragraph in the auditor's report to alert readers that the auditor also issued a report on the auditor's tests of the plan's compliance with certain provisions of ERISA Rules and Regulations?

**Issue 4 — Procedures to Report on Compliance**

Paragraph .42 (and related application material) of the proposed SAS contains the required procedures the auditor should perform to report on compliance with ERISA Rules and Regulations. These procedures form the basis for the report on compliance.

The EBP task force considered those areas of compliance that are typically tested, as part of the audit of the financial statements, and are considered to have a possible direct effect on the financial statements if the plan is not in compliance. In addition, the DOL requested these items be included in the report on compliance. These items contain compliance with certain provisions of the plan document, DOL rules and regulations for reporting and disclosure under ERISA, and the Internal Revenue Code. For purposes of the proposed SAS the EBP task force has defined these as "ERISA Rules and Regulations." In most cases, the application material identifies the source of the compliance requirement.

As requested by the ASB, the EBP task force considered AU-C section 250 when developing the content for this section. Chapter 2 of the EBP Guide discusses consideration of laws and regulations in an employee benefit plan audit. AU-C section 250 addresses the auditor's responsibility to consider laws and regulations in an audit of financial statements. It is the responsibility of management, with the oversight of those charged with governance, to ensure that the plan's operations are conducted in accordance with the provisions of laws and regulations, including compliance with the provisions of laws and regulations that determine the reported amounts and disclosures in the plan's financial statements. For employee benefit plans, noncompliance would include party in interest transactions that may be prohibited by ERISA. Because of the inherent limitations of an audit, an unavoidable risk exists that some material

misstatements in the financial statements might not be detected, even though the audit is properly planned and performed in accordance with GAAS. An employee benefit plan engagement includes various compliance aspects. For example, compliance with ERISA, DOL, IRS, PBGC, the plan document, as well as Acts such as Sarbanes Oxley (for plans that file a Form 11-K), Health Insurance Portability and Accountability Act (HIPAA), and the Affordable Care Act (ACA).

***Action Requested of the ASB — Issue 4***

The ASB is asked to review paragraph .42 and the related application material of the proposed SAS.

7. Does the ASB support the procedures listed in paragraph .42 of the proposed SAS, and related application material as a framework in GAAS for reporting on compliance in ERISA engagements?

**Issue 5 — Identifying Instances of Noncompliance in the Report on Compliance**

Paragraph .43 of the proposed SAS requires the auditor to include in the report on compliance the identified instances of noncompliance with the ERISA Rules and Regulations (that were tested in paragraph .42), other than when the matters are clearly inconsequential.

As discussed in the “Background” section of this issues paper, at the October 2015 ASB meeting, the ASB supported a model that required the inclusion of the instances of noncompliance in the report on compliance.

The EBP task force used “clearly inconsequential” as the assessment to determine which items of noncompliance should be included in the report on compliance. The EBP task force noted that the concept of “clearly inconsequential” already exists in GAAS as it relates to assessing items of noncompliance with laws and regulations to be communicated to those charged with governance. Paragraph .21 of AU-C 250 requires the auditor to communicate with those charged with governance matters involving noncompliance with laws and regulations that come to the auditor’s attention during the course of the audit, other than when the matters are clearly inconsequential.

*EBP Task Force Discussions*

The proposed SAS reflects the ASB’s direction to require the instances of noncompliance to be included in the report on compliance. Certain members of the EBP task force, however, expressed strong concerns with including the identified instances of noncompliance in the report on compliance because they believe including such information could be harmful to the plan. Those members of the EBP task force recommended that the proposed SAS include a requirement for the auditor to communicate those findings to management and those charged with governance rather than make them public in the report on compliance.

For example, if a plan overpays certain participants because the plan is using an incorrect definition of compensation, often the plan sponsor will choose not to ask participants to return their distributions and will make the corrections going forward. This information, that certain participants were paid more than others, could have a detrimental public perception for the plan sponsor.

As another example, if an ERISA plan identifies areas of noncompliance they may choose to apply for the DOL's Voluntary Fiduciary Correction Program (VFCP). The VFCP is designed to encourage employers to voluntarily comply with ERISA by self-correcting certain violations of the law. The VFCP covers certain types of violations, such as delinquent participant contributions, fair market and below market interest rate loans to parties in interest, and benefit payments based on improper valuation of plan assets, to name a few. Certain members of the EBP task force believe that reporting the identified instances of noncompliance in the report on compliance could jeopardize the plan's ability to use the VFCP program and therefore would recommend the report on compliance not include the identified instances of noncompliance.

Other members of the EBP task force supported including the identified instances of noncompliance in the report on compliance.

***Action Requested of the ASB — Issue 5***

8. Does the ASB continue to support including the identified instances of noncompliance in the report on compliance or does the ASB support a requirement to communicate those matters only with management and those charged with governance?
9. Does the ASB support the use of “clearly inconsequential” when determining which identified instances of noncompliance should be included in the report on compliance?

**Standard Limited-Scope Auditor's Report**

The EBP task force discussed ideas to improve the standard limited-scope auditor's report. There is much confusion around the ERISA limited-scope audit and the DOL has asked that the auditor's report do a better job of explaining what an ERISA limited-scope audit involves. In discussing their ideas, the EBP task force had difficulty fitting the ERISA limited-scope auditor's report into the current reporting standards because of the specialized nature of such an audit.

The EBP task force therefore explored developing a new form of standard limited-scope auditor's report that would better explain this special type of engagement that is permitted by the DOL. In a limited-scope audit the auditor performs certain limited audit procedures on the amounts that have been certified by a qualified certifying institution and also performs full audit procedures on the other material amounts in the financial statements.

At the July 2015 ASB meeting, the ASB supported the development of a standard that would address the form and content of the standard limited-scope auditor's report. By developing a new standard the EBP task force can create a reporting model specific to fit the circumstances of a limited-scope engagement.

The ASB noted that the limited-scope report is unique and challenged the EBP task force to think about the unique differences and how one might report in a situation when the auditor does not test completeness or valuation of the investments but think about the certification as evidence and determine to what extent the auditor can rely on it to form his or her conclusions.

Based upon the feedback from the ASB meeting, the EBP task force has developed a draft limited-scope auditor's report. The report has been developed as a special report (standard limited-scope auditor's report) and is not bound to AU-C 705 but rather creates its own requirements and language.

Paragraphs .12-.17 and .19-.20 of the proposed SAS contain the requirements relating to the standard limited-scope auditor's report. The following is an example of the standard limited-scope auditor's report for a defined contribution retirement plan based on the requirements established in the proposed SAS (also found in Illustration 3—*An Auditor's Report on Comparative ERISA Financial Statements of a Defined Contribution Retirement Plan Prepared in Accordance with Accounting Principles Generally Accepted in the United States of America for an ERISA Limited-Scope Audit* in Appendix A of the proposed SAS.)

***Action Requested of the ASB***

The ASB is asked to review the requirements in paragraphs .19-.20 in the attached proposed SAS as illustrated in the following illustrative report and provide feedback to the EBP task force.

**Illustration 3—An Auditor's Report on Comparative ERISA Financial Statements for a Defined Contribution Retirement Plan Prepared in Accordance with Accounting Principles Generally Accepted in the United States of America for an ERISA Limited-scope Audit (Standard Limited-Scope Report)**

Circumstances include the following:

- Limited-scope audit of a complete set of general purpose ERISA financial statements (comparative) for a 401(k) plan
- The financial statements are prepared in accordance with 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 includes a report on compliance with certain provisions of ERISA Rules and Regulations

**Independent Auditor's Report**

AU-C 700

[Appropriate Addressee]

AU-C 700

We have performed an ERISA limited-scope audit of the accompanying financial statements of XYZ 401(k) Plan as instructed by XYZ 401(k) plan management. 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, XYZ 401(k) plan management elected to limit the scope of the audit under ERISA Section 103(a)(3)(c) that allows plan management to instruct the auditor not to perform auditing procedures with respect to the investment information prepared and certified by a qualified certifying institution. XYZ plan management has determined that the certification is acceptable in the circumstances. An ERISA limited-scope audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements, other than for the certified information described in Note X to the financial statements. 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.

Proposed SAS par. .19(a)

**Management's Responsibility for Limited-Scope ERISA Financial Statements**

Proposed SAS par. .19(b)

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.

AU-C 700

Management is also responsible for:

- maintaining records with respect to each of the participants sufficient to determine the benefits due or which may become due to such participants in accordance with ERISA sections 107 and 209
- administering the plan and determining whether, for financial reporting purposes, the plan is in compliance with plan provisions and applicable laws and regulations
- electing to have a limited-scope audit performed and determining that a limited-scope audit is appropriate in the circumstances
- determining whether the entity issuing the certification is a qualified certifying institution under section 2520.103-5 of the Department of Labor's Rules and Regulations for Reporting and Disclosure under ERISA

Proposed SAS par. .19(c)

- determining whether the certified information from the qualified certifying institution includes the appropriate valuation of such investments at the reporting date, in accordance with accounting principles generally accepted in the United States of America

***Auditor’s Responsibility for an ERISA Limited-Scope Audit***

Proposed SAS par. .19(d)

AU-C  
700

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 ERISA limited-scope 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, involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements, other than for the certified information described in Note X to 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 except for internal control over the investments held and investment transactions executed for the plan by the qualified certifying institution, 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.

Proposed SAS par. .19(e) – based on AU-C 700 with revisions for ltd-scope (underlined)

We communicate with those charged with governance regarding, among other matters significant audit findings, including deficiencies in internal control that have been identified during the audit as significant deficiencies or material weaknesses.

Proposed SAS par. .19(e)(iii)

AU-C  
700

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

***Basis for ERISA Limited-scope Opinion***

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, the plan administrator instructed us not to perform, and we did not perform, any auditing procedures with respect to the certified information described in Note X, except as described in the Other Matter Relating to Certified Information paragraph. We have been informed by the plan administrator that the qualified certifying institution holds the Plan’s investment assets and executes investment transactions. The plan administrator has obtained a certification from the qualified certifying institution as of December 31, 20X2 and 20X1, and for the year ended December 31, 20X2, that the information provided to the plan administrator by the qualified certifying institution is complete and accurate.

Proposed SAS par. .20(a)

***Auditor’s ERISA Limited-Scope Opinion***

In our opinion, except for the possible effects of the matter described in the Basis for ERISA Limited-Scope Opinion paragraph, the financial statements referred to above present fairly, in all material respects, the net assets available for benefits of the 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.



Proposed  
SAS par. .19  
(f) and (g)

***Other Matter Relating to Participant Accounts***

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. As part of our audit, we also applied certain procedures to participant accounts at the individual participant account level. We do not express an opinion on these individual accounts.



Proposed  
SAS par. 22

***Other Matter Relating to Certified Information***

As part of the ERISA limited-scope audit, the plan administrator instructed us to limit the scope of our testing on investment information prepared and certified by a qualified certifying institution as complete and accurate. Accordingly, we performed the following procedures with respect to the certified investment information described in Note X to the financial statements: (a) obtained and read a copy of the certification from the plan administrator; (b) evaluated management’s assessment of whether the entity issuing the certification is a qualified certifying institution under DOL rules and regulations for reporting and disclosure under ERISA; (c) compared the certified information with the related information included in the financial statements and related disclosures, and (d) assessed whether the form and content of the financial statement disclosures related to the investment information prepared and certified by a qualified certifying institution are in accordance with accounting principles generally accepted in the United States of America.



Proposed  
SAS – par.  
.20(b)

The scope limitation and corresponding limitation of our audit work permitted under ERISA extend only to investments and related investment information certified by the qualified certifying institution. Plan investments not held by a qualified certifying institution and other investments or assets not covered by a qualified certification have been subjected to appropriate audit procedures. As part of the audit procedures we performed procedures to test that received or disbursed amounts, other than certified investment income such as contributions and benefit payments, were determined in accordance with the plan provisions.

We do not express an opinion on these individual accounts and related disclosures.

***Other Matter Relating to Report on Supplemental Schedules and Form and Content in Compliance with DOL Rules and Regulations***

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 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. Such information is the responsibility of the Plan’s management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Except for the certified information described in the Basis for ERISA Limited-scope Opinion paragraph, 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 supplemental 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, except for the possible effects on the supplementary information as described in the Basis for ERISA Limited-Scope Opinion paragraph, the information in the accompanying schedules is fairly stated in all material respects in relation to the financial statements as a whole and is 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 Compliance With Certain Provisions of ERISA Rules and Regulations**

As part of obtaining reasonable assurance about whether ABC 401(k) Plan’s financial statements are free from material misstatement, we performed procedures to test its compliance with certain provisions of the plan document, DOL Rules and Regulations for Reporting and Disclosure under ERISA and the Internal Revenue Code (ERISA Rules and Regulations) for the year ended December 31, 20X2 as required by generally accepted auditing standards in AU-C section XXX. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

*[No instances of noncompliance were identified]*

Given the limitations in the first paragraph, during our audit we did not identify instances of noncompliance with certain provisions of ERISA Rules and Regulations. However, instances of noncompliance may exist that have not been identified.

or

*[Instances of noncompliance have been identified]*

Proposed  
SAS pars.  
.24–.25  
  
(AU-C 725  
with add’l  
content  
underlined)

Proposed  
SAS par. .46

Given the limitations in the first paragraph, during our audit we identified certain instances of noncompliance with certain provisions of ERISA Rules and Regulations. The following are the instances of noncompliance with certain provisions of ERISA Rules and Regulations that were identified, other than those matters considered inconsequential.

*[Describe identified items of Noncompliance]*

### ***Purpose of Report on Compliance***

The purpose of this report is solely to describe the scope of our testing of compliance with certain provisions of ERISA Rules and Regulations, and not to provide an opinion on the effectiveness of the entity's compliance. This report is an integral part of an employee benefit plan audit performed in accordance with generally accepted auditing standards in considering the plan's compliance. Accordingly, this communication is not suitable for any other purpose.

*[Auditor's signature]*

*[Auditor's city and state]*

*[Date of the auditor's report]*



### **Issue 6 — Definition of ERISA Limited-Scope Audit and Qualified Certifying Institution**

Paragraph 7 of the proposed SAS includes definitions for an ERISA Limited-Scope Audit and a Qualified Certifying Institution for purposes of the proposed SAS, as follows:

- **ERISA Limited-scope Audit.** An audit in which the plan administrator instructs the auditor not to perform auditing procedures with respect to investment information prepared and certified by a bank or similar institution or by an insurance carrier that is regulated, supervised, and subject to periodic examination by a state or federal agency, as permitted by Title 29 CFR 2520.103-8 of the Department of Labor's Rules and Regulations for Reporting and Disclosure under ERISA.
- **Qualified Certifying Institution.** A bank or similar institution or an insurance carrier that is regulated, supervised, and subject to periodic examination by a state or federal agency that prepares and certifies the investment information of the plan, as permitted under 29 CFR 2520.103-8 of the DOL Rules and Regulations for Reporting and Disclosure under ERISA.

### ***Action Requested of the ASB— Issue 6***

The ASB is asked to review paragraph .07 and related application material of the proposed SAS.

10. Does the ASB support including definitions for ERISA Limited-Scope Audit and Qualified Certifying Institution in paragraph .07 of the proposed SAS?

### **Issue 7 — Limited-Scope Audit Procedures**

Paragraphs .15–.17 of the proposed SAS address the procedures the auditor should perform when performing an ERISA limited-scope audit. This section clarifies that full scope audit procedures are required to be performed on the non-investment related information and provides clarification on which procedures should be performed on the certified investment information. The EBP task force based these procedures on those contained in the EBP Guide.

#### ***Action Requested of the ASB— Issue 7***

The ASB is asked to review the requirements in paragraphs .15–.17, and related application material.

11. Does the ASB agree with the auditing procedures in paragraphs .15–.17 when performing an ERISA limited-scope audit?

### **Full Scope Auditor’s Report**

Paragraph .18 of the proposed SAS addresses the elements of the full scope auditor’s report of ERISA financial statements that are in addition to those required by AU-C section 700. The primary addition to the auditor’s report relates to enhanced management’s responsibilities to be discussed in the auditor’s report. At the July 2015 ASB meeting the ASB supporting including these additional items in the auditor’s report.

The following is an example of the full scope auditor’s report for a defined contribution retirement plan based on the requirements established in the proposed SAS (also found in Illustration 1—*An Auditor’s Report on Comparative ERISA Financial Statements for a Defined Contribution Retirement Plan Prepared in Accordance with Accounting Principles Generally Accepted in the United States of America for a Full Scope ERISA Audit* in Appendix A of the proposed SAS.)

#### ***Action Requested of the ASB***

The ASB is asked to review the requirements in paragraphs .18 in the attached proposed SAS as illustrated in the following illustrative report and provide feedback to the EBP task force.

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### **Illustration 1—An Auditor’s Report on Comparative ERISA Financial Statements for a Defined Contribution Retirement Plan Prepared in Accordance with**

## Accounting Principles Generally Accepted in the United States of America for a Full Scope ERISA Audit

Circumstances include the following:

- Full Scope audit of a complete set of general purpose ERISA financial statements for a 401(k) plan (comparative)
- The financial statements are prepared in accordance with 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 includes a report on compliance with certain provisions of ERISA Rules and Regulations

AU-C 700

### Independent Auditor's Report

[Appropriate Addressee]

AU-C 700

AU-C 700

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 ERISA Financial Statements*

Proposed SAS par. .18(a)

AU-C 700

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 records with respect to each of the participants sufficient to determine the benefits due or which may become due to such participants in accordance with ERISA sections 107 and 209
- administering the plan and determining whether, for financial reporting purposes, the plan is in compliance with plan provisions and applicable laws and regulations.<sup>2</sup>

Proposed SAS par. .18(b)

<sup>2</sup> For example, the timely remittance of employee deferrals, prohibited transactions, and hardship withdrawals.

***Auditor's Responsibility***

AU-C  
700

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.

AU-C  
700

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 communicate with those charged with governance regarding, among other matters significant audit findings, including deficiencies in internal control that have been identified during the audit as significant deficiencies or material weaknesses.

Proposed SAS  
par. .18(c)

AU-C 700

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

***Opinion***

AU-C 700

In our opinion, the financial statements referred to above, present fairly, in all material respects, the net assets available for benefits of the 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.

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

As discussed in Note X to the financial statements, the Board of Directors of ABC Company, the Plan's sponsor, voted on March 9, 20X2, to merge the XYZ Plan into the ABC 401(k) Plan effective December 31, 20X2. All plan assets were transferred to the ABC 401(k) Plan on December 31, 20X2. Our opinion has not been modified with respect to this matter.

Proposed  
SAS par. .21

***Other Matter Relating to Participant Accounts***

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. As part of our audit, we also applied certain procedures to participant accounts at

Proposed  
SAS par. .22

the individual participant account level. We do not express an opinion on these individual accounts.

***Other Matter Relating to Report on Supplemental Schedules and Form and Content in Compliance with Department of Labor’s Rules and Regulations***

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 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. Such information is the responsibility of the Plan’s 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.

Proposed  
SAS par.  
.24–.25  
  
(AU-C 725  
with add’l  
content  
underlined)

In forming our opinion on the supplemental schedules, we evaluated whether the supplemental 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 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.

**Report on Compliance With Certain Provisions of ERISA Rules and Regulations**

As part of obtaining reasonable assurance about whether ABC 401(k) Plan’s financial statements are free from material misstatement, we performed procedures to test its compliance with certain provisions of the plan document, DOL Rules and Regulations for Reporting and Disclosure under ERISA, and the Internal Revenue Code (ERISA Rules and Regulations) for the year ended December 31, 20X2 as required by generally accepted auditing standards in AU-C section XXX. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

Proposed  
SAS par.  
.46

*[No instances of noncompliance were identified]*

Given the limitations in the first paragraph, during our audit we did not identify instances of noncompliance with certain provisions of ERISA Rules and Regulations. However, instances of noncompliance may exist that have not been identified.

or

*[Instances of noncompliance have been identified]*

Given the limitations in the first paragraph, during our audit we identified certain instances of noncompliance with certain provisions of ERISA Rules and Regulations. The following are the instances of noncompliance with certain provisions of ERISA Rules and Regulations that were identified, other than those matters considered clearly inconsequential.

*[Describe identified items of Noncompliance]*

### ***Purpose of Report on Compliance***

The purpose of this report is solely to describe the scope of our testing of compliance with certain provisions of the plan document and ERISA Rules and Regulations, and not to provide an opinion on the effectiveness of the entity's compliance. This report is an integral part of an employee benefit plan audit performed in accordance with generally accepted auditing standards in considering the plan's compliance. Accordingly, this communication is not suitable for any other purpose.

*[Auditor's signature]*

*[Auditor's city and state]*

*[Date of the auditor's report]*

## **Other Reporting Elements**

### **Issue 8 — Considerations Relating to the Form 5500 Filing**

Information in the Form 5500 may be relevant to an independent audit or the continuing propriety of the auditor's report. The AICPA Audit and Accounting Guide *Employee Benefit Plans* (EBP Guide) contains a section that provides the auditor with guidance on the procedures needed to be performed relating to the Form 5500. That section of the EBP Guide is based on AU-C section 720, *Other Information in Documents Containing Audited Financial Statements*. However discussions with AICPA staff and the EBP Expert Panel (EP) led the EBP task force to believe that the Form 5500 does not meet the definition of an annual report, as contemplated by AU-C 720. The EBP EP has indicated that they do not believe that the Form 5500 should be within the scope of AU-C 720, particularly because of the possible changes that may occur to converge with ISA 720 (Revised). However, the EBP EP recognizes that the auditor should perform procedures on the information contained in the Form 5500 and would like consistency in practice on what

those procedures should include. Accordingly, the EBP EP asked the EBP task force to consider including such guidance as part of this EBP reporting project.

The EBP task force considered the guidance from the EBP Guide and decided to include a section in this proposed SAS to address the auditor’s responsibilities related to information in the Form 5500. Paragraphs .26–.38 have been included in the proposed SAS to address this issue. This section is based on AU-C section 720 and the related content from the EBP guide as it is currently drafted today. In addition, definitions for inconsistency and material misstatement of fact have been included in paragraph .07 of the proposed SAS.

***Action Requested of the ASB— Issue 8***

12. Does the ASB support including requirements in the proposed SAS to address the auditor’s responsibilities related to information in the Form 5500 filing?

13. Does the ASB support including definitions of inconsistency and material misstatement of fact as it relates to this proposed SAS?

**Issue 9 — Emphasis-of Matter Paragraphs**

Paragraph .21 of the proposed SAS addresses required emphasis-of-matter (EOM) paragraphs to be included in the auditor’s report on ERISA financial statements.

At the July 2015 ASB meeting, the ASB discussed including EOM paragraphs in the auditor’s report and the ASB agreed with the concept set forth by the EBP task force that the addition of EOM paragraphs in the EBP auditor’s report could be required when those items are required to be disclosed in the notes to the financial statements and when in the auditor’s professional judgment it is of such importance that it is fundamental to users’ understanding of the financial statements. The ASB asked the EBP task force to consider examples that could be included provided they meet the criteria and are specific to employee benefit plans.

The EBP task force reviewed all the employee benefit plan required disclosures under GAAP and narrowed down the list to those items that would occur less frequently (so that the EOM paragraph does not become standardized language in all auditor reports) and would be considered fundamental to the users’ understanding of the financial statements.

The EBP task force agreed with the following topics to be included in an EOM paragraph, if applicable and appropriately disclosed in the ERISA financial statements:

- significant plan amendments that affect net assets
- minimum funding waivers (DB plans)

- significant changes in nature of the plan

***Action Requested of the ASB — Issue 9***

The ASB is asked to review paragraph .21 and related application material in the proposed SAS.

14. Does the ASB agree with the requirements in paragraph .21 of the proposed SAS to require certain EOM paragraphs to be included in the auditor’s report on ERISA financial statements?

**Issue 10 — Other-Matter Paragraphs**

At the July 2015 ASB meeting, the EBP task force was asked to consider the use of other-matter (OM) paragraphs in the auditor’s report that could discuss some best practices of what auditors do in an employee benefit plan audit. The ASB discussed that OM paragraphs do not need a related disclosure in the notes to the financial statements. This approach would enable the auditor to create a more free form report that provides more transparency into the audit. This could be achieved by including application guidance that highlights areas that the auditor might consider including in an OM paragraph.

The EBP task force discussed the use of OM paragraphs in the auditor’s report and determined that the following two areas of an ERISA audit should be required to be discussed in an OM paragraph in the auditor’s report on ERISA financial statements:

- Participant accounts (to point out that auditors perform procedures on participant accounts as part of the audit of the ERISA financial statements)
- Additional audit procedures that are needed to be performed when an initial audit of opening balances occurs.

Paragraphs .22–23 of the proposed SAS provide such reporting requirements.

***Action Requested of the ASB — Issue 10***

The ASB is asked to review paragraphs .22–.23 and the example OM paragraph in illustrations 1 and 3 of appendix A in the proposed SAS.

15. Does the ASB agree with the requirements in paragraphs .22–.23 and the related application material of the proposed SAS to require certain OM paragraphs to be included in the auditor’s report on ERISA financial statements?

**Issue 11 — Reporting on ERISA Supplemental Schedules**

At the July 2015 ASB meeting, the ASB supported expanding the other-matter paragraph that is included in the full scope auditor’s report for an employee benefit plan audit relating to the supplemental schedules (in accordance with AU-C section 725), to include that the auditor performed procedures to test the completeness and accuracy of the information presented in the supplemental schedules and that in forming the opinion on the supplemental schedules, the auditor evaluated whether the supplemental 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.

The ASB also supported including a report on the form and content of the supplemental schedules. The EBP task force determined that the same paragraph should be included in both the full scope and the standard limited-scope auditor’s report.

Paragraphs .24–.25 of the proposed SAS addresses the auditor’s reporting on the ERISA supplemental schedules. Underlined content in the example OM paragraph in the illustrations show new language added to the paragraph (beyond that required by AU-C 725).

***Action Requested of the ASB — Issue 11***

The ASB is asked to review paragraphs .24–.25 and the example OM paragraph in the auditor reporting illustrations of appendix A in the attached proposed SAS relating to reporting on the supplemental schedules and the form and content in conformity with DOL rules and regulations.

16. Does the ASB agree with the requirements in paragraphs .24–.25 of the proposed SAS to require the auditor’s report to include an OM paragraph that reports on whether the ERISA supplemental schedules are fairly stated in relation to the financial statements as a whole, in accordance with AU-C section 725 and to report on whether the supplemental schedules are in conformity with the DOL rules and regulations?