



## Agenda Item 2

### Reporting on ERISA Plan Financial Statements — Cover Letter

#### Objective

To consider a discussion draft of a proposed standard that addresses special considerations in the application of generally accepted auditing standards when auditing employee benefit plans subject to the Employee Retirement Income Security Act of 1974 (ERISA), including the form and content of the auditor's report for such audits.

#### 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 2 – Cover Letter

Item 2A – Proposed SAS *Special Considerations—Audits of Employee Benefit Plan Financial Statements Subject to ERISA* (clean)

Item 2B – Proposed SAS *Special Considerations—Audits of Employee Benefit Plan Financial Statements Subject to ERISA* (marked to reflect changes from August 2016 ASB meeting – to be sent under separate email)

Mr. Schubert will walk through the clean version of the proposed SAS (Agenda Item 2A) with the ASB.

#### 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 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 the Employee Retirement Income Security Act of 1974 (ERISA). The DOL provided specific suggestions on ways to improve auditor reporting for plans.

### **Prior ASB Discussions**

The ASB discussed this topic at the July 2015, October 2015, May 2016, and August 2016 ASB meetings. The ASB provided the EBP task force with direction on various aspects of this project. The highlights from the ASB meetings summarize the ASB's discussions.

At the August 2016 meeting the ASB continued to support reporting on specific plan provisions relating to the financial statements, and including the findings in the report. In addition, the ASB supported the development of a standalone report for ERISA plan financial statements when the ERISA-permitted scope limitation is imposed.

The ASB also asked the task force to include all relevant reporting requirements in the proposed SAS and scope ERISA plan audits out of AU-C section 700, *Forming an Opinion and Reporting on Financial Statements*.

### **Subsequent Task Force Discussions**

Subsequent to the August 2016 ASB meeting, the EBP task force held conference calls to consider the comments from the ASB meeting and discuss various aspects of the proposed SAS. In particular, the EBP task force scoped employee benefit plans out of AU-C section 700 and included applicable AU-C 700 content in the proposed SAS. The EBP task force reorganized the proposed SAS to better incorporate the new required audit procedures for specific plan provisions relating to the financial statements, as part of the audit. In addition, the EBP task force further expanded the guidance about the reporting of findings.

### ***Including Percentage of Investments Certified in the Auditor's Report***

At the August 2016 ASB meeting, the ASB asked the task force to consider including the percentage of investments that are certified in the auditor's report to provide information about the extent of assets that have been certified. In response to the ASB's request, the EBP task force asked the EBP Expert Panel for feedback on whether including the percentage of investments certified in the auditor's report would be meaningful. Both the EBP task force and the EBP Expert Panel believe including such information in the auditor's report would be misleading and is unnecessary. Both groups believe that the disclosure in the notes to the financial statements is sufficient to provide users with an understanding about the extent of the assets that have been certified. In addition, they believe that including a percentage of assets certified would overshadow the audit work that is performed on the related income statement items. Accordingly, the task force has not included a proposed requirement to include such information in the auditor's report.

*DOL's Proposed Revisions to the Form 5500*

In July 2016, the DOL's Employee Benefits Security Administration (EBSA), the Internal Revenue Service, and the Pension Benefit Guaranty Corporation asked for public comments on proposed revisions to modernize and improve the Form 5500 Annual Return/Report filed by private-sector employee benefit plans. The proposed form revisions would begin with the plan year 2019 Form 5500 series returns/reports. Comments on the proposal have been extended to a December 5, 2016 comment deadline. As part of the proposed changes, the Form 5500 would include a requirement for the certification to be attached to the Form 5500 filing, in which case the assets certified would also be clearly identified. However, the task force recognizes that the proposal is not final.

***Action Requested of the ASB***

The ASB is asked to review the proposed SAS for discussion at the meeting.

Agenda item 2A includes a clean version of the proposed SAS. The EBP task force recommends the ASB use agenda item 2A when reviewing the materials because the reorganization and revisions of the proposed SAS makes the marked version more difficult to follow.