Agenda Item 2

Reporting on ERISA Plan Financial Statements

Discussion Memorandum and Issues Paper

Objective

To provide the ASB with feedback from the comment letters and obtain direction from the ASB relating to certain issues from the exposure draft.

EBP Task Force

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

- Darrel Schubert (Chair)
- Josie Hammond
- Tracy Harding
- Jerry Murray
- Scot Philips (TIC representative)
- Alice Wunderlich
- Michael Auerbach and Lynne McMennamin (DOL observers)

Background

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

At the October 2017 ASB meeting the task force presented preliminary results from the comment letters and asked the ASB for direction on certain topics. The ASB provided the task force with direction for the following "Issues for Consideration" from the exposure draft: (a) Issue 1— *Required Procedures When an ERISA-Permitted Audit Scope Limitation is Imposed* (the ASB supported continuing to include required procedures in the proposed SAS relating to the certified information and asked the task force to reconsider the procedures to be required); (b) Issue 2— *The Form and Content of the Auditor's Report on ERISA Plan Financial Statements with the ERISA-Permitted Audit Scope Limitation* (the ASB continued to support developing a new type of report for the ERISA-permitted audit scope limitation); and (c) Issue 6—

Certain Requirements for Audits of ERISA Plan Financial Statements and Related Required Report on Specific Plan Provisions Relating to the Financial Statements (the ASB generally agreed that the findings from the testing of certain plan provisions should not be required to be communicated in the auditor's report).

The following is a list of the topics from the exposure draft being discussed as part of this discussion memorandum. The task force intends to bring further discussion of Issue for Consideration 6 to the May 2018 ASB meeting.

Topic	Related Materials
Issue 1— *Required Procedures When an ERISA-Permitted Audit Scope Limitation is Imposed*	Issue 1 Appendix A
Issue 2—*The Form and Content of the Auditor's Report on ERISA Plan Financial Statements with the ERISA-Permitted Audit Scope Limitation*	Issue 2 Appendix B
Reporting on ERISA Required Supplemental Schedules	Issue 3
Issue 4—Required Emphasis-of-Matter Paragraphs	Issue 4
Issue 7—*Required Procedures Relating to the Form 5500*	Issue 5

Agenda Items Presented

Item 2 — Discussion Memorandum and Issues Paper

Item 2A — Comment Letter Responses to Issues for Consideration 1—*Required Procedures When an ERISA-Permitted Audit Scope Limitation is Imposed*

Item 2B — Comment Letter Responses to Issues for Consideration 2—*The Form and Content of the Auditor's Report on ERISA Plan Financial Statements with the ERISA-Permitted Audit Scope Limitation*

Item 2C — Comment Letter Comments to Paragraphs 117-118 and Related Application Material Relating to Reporting on Supplemental Schedules

Item 2D — Comment Letter Responses to Issues for Consideration 4—*Required Emphasis-of-Matter Paragraphs*

Item 2E — Comment Letter Responses to Issues for Consideration 7—*Require Procedures Relating to the Form 5500*

Mr. Schubert will refer to the Agenda Item 2 in leading the discussion.

Issues for Discussion with the ASB

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

Exposure Draft Issues for Consideration

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

Respondents were 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.**

The procedures included in the proposed SAS were based on the procedures from the AICPA Audit and Accounting Guide, *Employee Benefit Plans* (EBP AAG). Those procedures were discussed with the *Audit Issues Task Force* in 2007 and therefore were not heavily redeliberated as part of this project.

Comment Letter Results

63 of the 108 comment letters specifically responded to the questions in Issue 1. Of the 63 who responded, 31 supported the proposed SAS and 17 supported the proposed SAS with concerns. The task force viewed this as 76% showing support for including the procedures relating to the certified information in the proposed SAS.

See Agenda Item 2A for the detailed comment letter responses.

The following is a summary of the results.

Issue 1	***# responses out of 63***	***Percentage of those who responded***
Supportive	31	49%
Supportive with concerns	17	27%
Not Supportive	15	24%

October 2017 ASB Meeting

The task force noted that many of the respondents expressed concerns with some of the procedures, particularly as they relate to the auditor's responsibilities relating to fair value disclosures for the

certified information. At the October 2017 ASB meeting, the ASB supported redeliberating the procedures relating to the certified information relative to the type of opinion required to be issued.

Subsequent Task Force Discussions

Subsequent to the October ASB meeting, the task force held four teleconference meetings to discuss the required procedures included in the exposure draft relating to the ERISA-permitted audit scope limitation. The task force discussed the history of the procedures currently included in EBP AAG. The task force noted that the guidance in the 1991 EBP AAG was revised in 1994 and then again in 2005 and 2008. The procedures in the 2008 EBP AAG were approved by the AITF in 2007. The procedures from the 2008 EBP AAG have not been changed and are reflected in the 2017 edition of the EBP AAG. The task force challenged the need for the additional procedures that have been added subsequent to the 1991 EBP AAG and discussed concerns about the intent of regulations when ERISA permitted the audit to be restricted. See appendix A to this discussion memorandum for excerpts from the prior EBP AAGs that highlight the changes that have evolved over time.

Recharacterization of the Limited-Scope Audit to an ERISA-permitted Special Purpose Audit

The task force discussed the use of the term "limited scope audit" in the exposure draft and noted that many respondents had difficulty embracing a new form of report because they consider the ERISA-permitted scope limitation to be a scope limitation that should be assessed in accordance with AU-C section 705 *Modifications to the Opinion in the Independent Auditor's Report*. The task force considered the nature of the restriction on the audit and believe that the special nature of such a restriction is not specifically contemplated by AU-C section 705 and therefore the task force is recommending that the terminology used to refer to these special audits be changed to "ERISA-permitted special purpose audit" rather than "ERISA-permitted audit scope limitation." The task force believes that recharacterizing the nature of such engagements to be that of an ERISA-permitted special purpose audit will help users to better understand the nature of such engagements. Accordingly, these materials use the term "ERISA-permitted special purpose audit."

Proposed Revisions to the Exposure Draft

Based on the discussions at the October 2017 ASB meeting, comment letter comments received, and consideration of the changes made over the years to the procedures in the EBP AAG, the task force determined that the procedures currently contained in the EBP AAG go beyond that which should be performed as part of the ERISA-permitted special purpose audit because those procedures may erode the benefit of the ERISA exception. For example, the task force believes that the auditor should not be responsible for evaluating whether the form and content of the financial statement disclosures relating to the certified investment information is in accordance with the applicable financial reporting framework because the auditor is instructed not to audit such information.

The task force is proposing the following changes to paragraphs 20-21 of the proposed SAS and related application material. (Note: the following table has been marked to reflect changes from the exposure draft).

Procedures When Performing an ERISA-Permitted Special Purpose Audit~~—Scope Limitation is Imposed~~	**Procedures When Performing an ERISA-Permitted Special Purpose Audit (Ref. par. 20)**
~~20.~~ 20. When management ~~imposes~~elects to have an ERISA-permitted ~~scope limitation on the~~special purpose 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)	A42. Performing an ERISA-permitted special purpose 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~~requirement for the auditor to plan and perform the audit in accordance with GAAS. Such ~~limitation on the scope of the~~ERISA-permitted special purpose audit is unique to EBPs and ~~differs from the~~is not considered a scope ~~limitations~~limitation as discussed in AU-C section ~~705. Unlike other scope limitations, when the scope of the audit is limited as permitted by ERISA,~~705 because the auditor is required to perform certain ~~audit~~ procedures on the certified investment information~~ even though the scope of the audit is limited~~. ~~A43. he 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.~~
a. obtain from management and read the certification particularly as it relates to investment related information prepared and certified by a qualified institution; (Ref. par. A44–A45)	A~~44.~~43. The qualified institution may certify all activity of the plan. As discussed in paragraph A8, the ERISA-permitted special purpose audit~~ scope limitation~~, and corresponding required procedures in paragraph 20, ~~extends~~extend 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. A~~45.~~44. 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.
b. ~~evaluate~~Inquire of management~~'s assessment of whether~~ about how it determined that the entity issuing the certification is a qualified institution ~~under DOL rules and regulations~~and that the certified information is complete and accurate;	
c. compare the certified investment information with the related information ~~included~~presented and disclosed in the ERISA plan financial statements and ~~related disclosures~~supplemental schedules; (Ref. par. A46)	A~~46.~~45. Comparing the certified investment information by agreeing ~~and~~or 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.~~
21. Regardless of whether an ERISA-permitted special purpose audit is performed, the auditor should also perform the necessary procedures to become satisfied that received or disbursed amounts (for example, contributions and benefit payments) reported by the trustee or custodian were determined in accordance with the plan provisions (also see paragraph 15);	A~~48. 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:~~ ~~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 b. Inquire of management whether the investments included in the certification are measured, presented and disclosed in accordance with the applicable financial reporting framework as of the appropriate date. c. Inquire of management about how investments at fair value are leveled in the fair value hierarchy table d. Consider the appropriateness of the classification of investments by management in the ERISA plan financial statements.46. The requirement 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 an ERISA-permitted special purpose audit is performed.
21. 22. 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 determine the auditor's opinion in accordance with AU-C section 705.appropriate course of action. (Ref. par. A47–A49)	A47. The additional procedures may result in a modification to the auditor's opinion in accordance with AU-C section 705. The auditor may want to consider the implications such additional procedures may have on the nature, timing, and extent of other audit procedures including consideration for the engagement letter and risk assessment. A48. If the auditor becomes aware that adequate year-end valuation procedures have not been performed, and, therefore, the financial statements may not be prepared in accordance with the applicable financial reporting framework, it is important for the auditor to communicate those findings to the plan administrator. It is the plan administrator's responsibility to prepare the financial statements and disclosures in conformity with the applicable financial reporting framework

	and in conformity with DOL rules and regulations. Accordingly, the plan administrator may request the trustee or custodian to recertify or amend the certification *a.* for such investments at their appropriate year-end values or *b.* to exclude such investments from the certification. A49. If the trustee or custodian amends the certification to exclude such investments from the certification, the plan administrator is responsible for valuing such investments as of the plan year-end and engaging the auditor to perform audit procedures on the investments excluded from the certification. A50. If the certification is not amended, it is the plan administrator's responsibility to determine whether the financial statements and disclosures related to such investment information are prepared in accordance with applicable financial reporting framework and in conformity with DOL rules and regulations. A51. In addition, the AICPA Audit and Accounting Guide *Employee Benefit Plans* contains guidance when it comes to the auditor's attention that the required supplemental schedules are omitted, do not contain all required information, or contain information that is inaccurate or inconsistent with the financial statements.

Action Requested of the ASB

1. Does the ASB agree with recharacterizing the limited scope audit to that of an ERISA-permitted special purpose audit?
2. The ASB is asked for feedback on the proposed changes to paragraphs 20-21 and related application material.

Issue 2: The Form and Content of the Auditor's Report on ERISA Plan Financial Statements with the ERISA-permitted Audit Scope Limitation

Exposure Draft Issues for Consideration

Issue 2—The Form and Content of the Auditor's Report on ERISA Plan Financial Statements with the ERISA-permitted Audit Scope Limitation

Respondents were 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.**

Comment Letter Results

70 of the 108 comment letters specifically responded to the questions in Issue 2. Of the 70 who responded, 15 supported the proposed SAS, and 17 supported the proposed SAS with concerns. The task force viewed this as 46% of respondents supporting a new form of report for when the ERISA-permitted audit scope limitation is imposed.

38 of the 108 comment letters did not support the new form of report. Many of those that did not support the proposed SAS believe the auditor cannot express an opinion on the financial statements as a whole when not auditing a vast majority of the assets. Many respondents believe that a disclaimer of opinion is the appropriate opinion in such circumstances. Some of the respondents did not believe the proposed SAS would improve transparency.

See Agenda Item 2B for the detailed comment letter responses.

The following is a summary of the results.

Issue 2	***# Responses out of 70***	***Percentage of those who responded***
Supportive	15	22%
Supportive with concerns	17	24%

Not Supportive	38	54%

October 2017 ASB Meeting

At the October 2017 ASB meeting the ASB directed the task force to continue to explore a new form of report for an ERISA plan audit when there is an ERISA-permitted audit scope limitation. The ASB asked the task force to also explore an alternative option to align the report to the existing GAAS reporting framework.

Subsequent Task Force Discussions

Subsequent to the October ASB meeting, the task force held four teleconference meetings to discuss various options for reporting under the ERISA-permitted special purpose audit. The task force developed the following two models for the ASB's consideration:

- Option 1: A new form of ERISA-permitted special purpose audit report (see illustration 1 and illustrations 2-4 in appendix B of this discussion memorandum)
- Option 2: A qualified opinion (under current GAAS) for the ERISA-permitted special purpose audit (see illustration 5)

Option 1

Option 1 contains a new form of report that is not within the GAAS model today. This special purpose report contains a section to describe the nature of the ERISA-permitted special purpose audit and provides an auditor's opinion that says that based on the audit and the procedures performed with respect to the certification of the investment information that the auditor was instructed not to audit:

- The information in the financial statements and supplemental schedules that is subject to the certification corresponds to the information certified as complete and accurate by an institution that management determined qualified for the ERISA-permitted special purpose audit
- The information in the financial statements, other than that derived from the information certified by the trustee (or custodian or insurance entity), has been audited in accordance with GAAS and in the auditor's opinion is presented in accordance with the applicable financial reporting framework
- The form and content of the information included in the supplemental schedules, other than that derived from the information certified by the trustee (or custodian or insurance entity), have been audited in accordance with GAAS and in the auditor's opinion are presented in conformity with DOL rules and regulations for reporting and disclosure under ERISA.

The reporting in option 1 would allow for the auditor to modify the standard opinion in accordance with AU-C 705 (qualified, adverse, or disclaimer) as deemed appropriate in the circumstances due to other issues with the engagement.

The following is a list of the illustrative reports in this discussion memorandum.

- Option 1: ERISA-permitted Special Purpose Report
    - Illustration 1—Option 1 (Standard Opinion)

  The standard ERISA-permitted special purpose opinion would be modified, as needed, when there are material misstatements of the financial statements or scope limitations. Appendix B to this discussion memorandum contains the following illustrations that demonstrate how this standard opinion may be modified:

    - Illustration 2—Option 1 (Qualified Opinion)
    - Illustration 3—Option 1 (Adverse Opinion)
    - Illustration 4—Option 1 (Disclaimer of opinion)
- Option 2: Current GAAS Model
    - Illustration 5—Option 2 (Qualified Opinion under current GAAS)

ERISA-Permitted Special Purpose Reports

Illustration 1—Option 1 (Standard Opinion)

Circumstances include the following:

- **Management has elected to have an ERISA-permitted special purpose audit for a complete set of general purpose financial statements of a 401(k) plan.**
- **The financial statements are not materially misstated and there are no scope limitations.**
- **The financial statements are prepared in accordance with GAAP.**

Independent Auditor's Report

[Appropriate Addressee]

We have performed an audit of the accompanying financial statements and supplemental schedules of ABC 401(k) Plan, subject to the special purpose audit as permitted by the Employee Retirement Income Security Act of 1974 (ERISA). 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. The supplemental schedules comprise the [*identify the title of schedules and period covered*]. Management has elected the special purpose audit, as permitted by 29 CFR 2520.103-8 of the Department of Labor's Rules and Regulations for Reporting and Disclosure under ERISA.

Nature of the ERISA-Permitted Special Purpose Audit

Under the authority of section 103(a)(3)(C) of ERISA, 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 (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 29 CFR 2520.103-5 and 29 CFR 2520.103-8.

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 ERISA-Permitted Special Purpose 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 an ERISA-permitted special purpose audit is permissible under the circumstances, including evaluating whether

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

Management's election of the ERISA-permitted special purpose 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 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 plan'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 plan'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.

An audit of financial statements of an employee benefit plan subject to ERISA includes procedures to address the following matters when applicable to the plan, based on the auditor's assessment of risk and materiality.

[*Placeholder: include listing of matters once determined as part of Issue 6 from the exposure draft*]

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. inquiring of management about how it determined that the entity issuing the certification is a qualified institution and that the certified information is complete and accurate

c. comparing the certified investment information with the related information presented and disclosed in the ERISA plan financial statements and supplemental schedules

Accordingly, the objective of our ERISA-permitted special purpose audit is not to express an opinion as to whether the financial statements are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America [*or other applicable financial reporting framework*].

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 ERISA-permitted special purpose audit opinion.

Auditor's Opinion

In our opinion, in all material respects, based on our audit and on the procedures performed with respect to the certification of the investment information that we were instructed not to audit:

- The information in the financial statements and supplemental schedules that is subject to the certification corresponds to the information certified as complete and accurate by an institution that management determined qualified for the ERISA-permitted special purpose audit
- The information in the financial statements, other than that derived from the information certified by the trustee (or custodian)[1], has been audited by us in accordance with auditing standards generally accepted in the United States of America and, in our opinion, is presented in accordance with accounting principles generally accepted in the United States of America.
- The form and content of the information included in the supplemental schedules, other than that derived from the information certified by the trustee (or custodian), have been audited by us in accordance with auditing standards generally accepted in the United States of America and, in our opinion, are presented in conformity with the U.S. Department of Labor's Rules and Regulations for Reporting and Disclosure under ERISA.

[*Auditor's signature*]

[*City and state report is issued*]

[*Date of the auditor's report*]

Option 2

Option 2 has been developed to illustrate what the auditor's report would look like if the ERISA-permitted special purpose audit was considered a qualified opinion under current GAAS.

Illustration 5—Option 2 (Qualified opinion under current GAAS)

Circumstances include the following:

- **Management has elected to have an ERISA-permitted special purpose audit for a complete set of general purpose financial statements of a 401(k) plan.**
- **The financial statements are not materially misstated.**
- **Due to the nature of the engagement, the auditor has determined that a qualified opinion is appropriate.**
- **The financial statements are prepared in accordance with GAAP.**

<u>Independent Auditor's Report</u>

[*Appropriate Addressee*]

[1] The words in this sentence may be modified when the assets are certified by an insurance entity.

Report on the Financial Statements [fn 4]

We have audited the accompanying financial statements of ABC 401(k) Plan, an employee benefit plan subject to the Employee Retirement Income Security Act of 1974 (ERISA), subject to the special purpose audit as permitted by the Employee Retirement Income Security Act of 1974 (ERISA). 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. Management has elected the special purpose audit, as permitted by 29 CFR 2520.103-8 of the Department of Labor's Rules and Regulations for Reporting and Disclosure under ERISA.

Management's Responsibility for the Financial Statements

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 an ERISA-permitted special purpose audit is permissible under the circumstances, including evaluating whether

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

Management's election of the ERISA-permitted special purpose 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 to determine the benefits due or which may become due to such participants.

Auditor's Responsibility

[fn 4] The subtitle "Report on the Financial Statements" is unnecessary when the second subtitle, "Report on Other Legal and Regulatory Requirements," is not applicable. In this illustration, the heading "Report on the Financial Statements" has been included even though there is no report on other legal and regulatory requirements included in this report.

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 plan'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 plan's internal control. [fn 5] 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.

An audit of financial statements of an employee benefit plan subject to ERISA includes procedures to address the following matters when applicable to the plan, based on the auditor's assessment of risk and materiality.

[*Placeholder: include listing of matters once determined*]

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. inquiring of management about how it determined that the entity issuing the certification is a qualified institution and that the certified information is complete and accurate

c. comparing the certified investment information with the related information presented and disclosed in the ERISA plan financial statements and supplemental schedules

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 qualified audit opinion.

[fn 5] In circumstances when the auditor also has responsibility to express an opinion on the effectiveness of internal control in conjunction with the audit of the financial statements, this sentence would be worded as follows: "In making those risk assessments, the auditor considers internal control relevant to the plan's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances." In addition, the next sentence, "Accordingly, we express no such opinion." would not be included.

Basis for Qualified Opinion

Under the authority of section 103(a)(3)(C) of ERISA, the audit need not extend to information related to assets held for investment of the plan and related income (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 (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 29 CFR 2520.103-5 and 29 CFR 2520.103-8.

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 and has instructed us not to audit the certified investment information.

Accordingly, we did not audit the investment information covered by the certification. However, we did perform limited procedures on this information as further described in the Auditor's Responsibility section in connection with obtaining audit evidence to provide a basis for our opinion.

Qualified Opinion

In our opinion, except for the possible effects of the matter 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 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.

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 the 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 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, 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 encompassed in the supplemental schedules include those described in the Auditor's Responsibility section.

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

In our opinion, except for the possible effects on the supplementary information of the matter described in the Basis for Qualified Opinion section, the information 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 ERISA.

_____

[*Auditor's signature*]

[*Auditor's city and state*]

[*Date of the auditor's report*]

Action Requested of the ASB

3. Does the ASB have a preference between options 1 and 2 for the form and content of the ERISA-permitted special purpose report?

Issue 3: Reporting on ERISA Required Supplemental Schedules

Paragraphs 117-118 of the exposure draft

Paragraphs 117-118 of the exposure draft and related application material address requirements when reporting on the ERISA supplemental schedules. While the exposure draft did not ask a specific question relating to this section, comments were received relating to these paragraphs that the task force considered when developing the ERISA-permitted special purpose report illustrations.

The exposure draft requires the auditor to consider the requirements in the proposed SAS rather than paragraph .09 of AU-C section 725, *Supplementary Information in Relation to the Financial Statements as a Whole* when reporting on the ERISA required supplemental schedules in accordance with AU-C section 725. The proposed SAS added incremental reporting to that in AU-C section 725 relating to the procedures performed and an opinion on the form and content of the supplemental schedules in accordance with DOL rules and regulations.

Agenda Item 2C contains the comment letter comments relating to paragraphs 117-118 that were considered by the task force.

At the October 2017 ASB meeting the ASB considered proposed amendments to AU-C section 725 to address differences with PCAOB AS 2701, *Auditing Supplemental Information Accompanying Audited Financial Statements.* The ASB noted that the primary consideration in developing PCAOB 2701 related to the PCAOB's oversight of brokers and dealers in securities. After considering the PCAOB's objective and evaluating the sufficiency of the procedures and reporting in existing GAAS, the ASB concluded that no amendments to AU-C section 725 are necessary in relation to AS 2701.

The task force considered the comments received on these paragraphs and the conclusions reached by the ASB at the October ASB meeting and continues to believe that because the supplemental schedules accompanying the ERISA plan financial statements are required by ERISA, there is support for the additional reporting in the report about these supplemental schedules.

The task force recommends that the proposed SAS distinguish between the ERISA required supplemental schedules and other supplementary information that may be included in the ERISA plan financial statements. In addition, the task force continues to believe that the form and content opinion provided for in the ERISA-permitted special purpose report should be included in all ERISA plan audit reports regardless of the type of audit being performed.

Accordingly, the task force is proposing the following revisions to paragraphs 117-118 (and related application material) for the ASB's consideration.

(Note: the following table has been marked to reflect changes from the exposure draft).

Reporting on ERISA Required Supplemental Schedules	**Reporting on ERISA Required Supplemental Schedules (Ref. par. 117–118)**
117. ERISA requires that certain supplemental schedules accompany the ERISA plan financial statements ~~if applicable. When~~(hereinafter referred to as ERISA required supplemental schedules) if applicable. In addition, ERISA plan financial statements may have accompanying supplementary information that is not required by ERISA. Except as discussed in paragraph 121, when auditing ERISA plan financial statements, the auditor should report on whether ~~such~~the ERISA required 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~~725 and paragraphs 119-120 of this proposed SAS. AU-	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. ~~A128.~~ Such schedules are required to be attached to the Form 5500 filing.[1] 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

[1] Appendix A of the AICPA Audit and Accounting Guide *Employee Benefit Plans* provides a listing of the required ERISA schedules.

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. 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*) a separate report on the supplementary information. (Ref. par. A127)	and therefore the Form 5500 contains the most current information about the required schedules.
118. When the auditor is also engaged to report on supplementary information accompanying the ERISA plan financial statements that is not required by ERISA, AU-C section 725 applies. (Ref. par. A128)	A128. The requirements in paragraphs 119-120 only apply to the ERISA required supplemental schedules. When supplementary information that is not required by ERISA accompanies the financial statements the auditor may also be engaged to report on whether the supplementary information not required by ERISA is fairly stated in all material respects in relation to the financial statements as a whole. In such circumstances, the auditor is required to follow the requirements in AU-C section 725 in its entirety and the requirements in paragraphs 119-120 of this proposed SAS do not apply. This may result in the auditor's report including an other-matter paragraph relating to the ERISA required supplemental schedules in accordance with paragraphs 119-120 of this proposed SAS and a separate other-matter paragraph relating to the other supplementary information accompanying the ERISA plan financial statements presented in accordance with AU-C section 725.
~~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~~119. When reporting on the ERISA required supplemental schedules 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,~~725, the reporting elements discussed in paragraph .09 of AU-C section 725 should be replaced with the following:	
a. A statement that the audit was conducted for the purpose of forming an opinion on the financial statements as a whole	
b. A statement that the ~~supplementary information is~~supplemental schedules are presented for purposes of additional analysis and ~~is~~are not a required part of the financial statements but ~~is~~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	
c. A statement that ~~the supplementary~~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	
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.	
~~e. When reporting on an audit of ERISA plan financial statements when the ERISA-permitted audit scope limitation is imposed, the paragraph in 0*d*. 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 *Auditor's Responsibility (Including Responsibility for the Certified Investment Information)* section. (Ref. par. A129)~~	~~A129. Paragraph 118*d* 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."~~
~~f~~e. A statement that in forming the opinion on the supplemental schedules, the auditor evaluated whether the ~~supplementary information~~supplemental schedules, including ~~its~~ their 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.	
	Errors, Omissions, or Inconsistency of ~~Supplementary Information~~Supplemental Schedules Required by the DOL
~~g~~f. 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	A~~130.~~129. When the auditor concludes, on the basis of the procedures performed, that the ~~supplementary information is~~supplemental schedules are materially misstated in relation to the financial statements as a whole, AU-C section 725 requires the auditor to discuss the ~~matter(s)~~matters

concluded that the ~~supplementary information is~~supplemental schedules are 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 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. (Ref. par. A~~130~~129–A~~133~~132)	with management and propose appropriate revision of the ~~supplementary information~~supplemental schedules. If management does not revise the ~~supplementary information~~supplemental schedules, 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~~supplemental schedules, the auditor is required to withhold the auditor's report on the ~~supplementary information~~supplemental schedules.[2] A~~131.~~130. During the audit, the auditor may become aware of a departure from DOL requirements relating to the ~~supplementary information~~supplemental schedules 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. A~~132.~~131. If a material party in interest[3] 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 auditor is required to modify the auditor's opinion in accordance with AU-C section 705. A~~133.~~132. 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

[2] Paragraph .13 of AU-C section 725.

[3] Party in interest is defined in section 3(14) of ERISA.

	supplemental schedules to disclose the omission or inconsistency of the information.[4]
~~h~~g. If the auditor issues a qualified opinion on the ERISA plan financial statements and the qualification has an effect on the ~~supplementary information~~supplemental schedules, a statement that, ~~that~~ in the auditor's opinion, except for the possible effects on the ~~supplementary information~~supplemental schedules of (refer to the paragraph in the auditor's report explaining the qualification), ~~such~~the information in the accompanying schedules is fairly stated~~,~~ in all material respects~~,~~ in relation to the financial statements as a whole.	
120. If the auditor issues an adverse opinion or a disclaimer of opinion, the auditor is precluded from expressing an opinion on the supplemental schedules. When permitted by law or regulation, the auditor may withdraw from the engagement to report on the supplemental schedules. If the auditor does not withdraw, the reporting elements in paragraph .11 of AU-C section 725 should be replaced with the following:	
a. If the auditor's report contains an adverse opinion, a statement that the audit was conducted for the purpose of forming an opinion on the financial statements as a whole; or if the auditor's report contains a disclaimer of opinion, a statement that the auditor was engaged for the purpose of forming an opinion on the financial statements as a whole.	
b. A statement that the supplemental schedules are presented for the purposes	

[4] 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.

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 ERISA	
c. A statement that because of the significance of the matter described above in [refer to the Basis for Adverse Opinion or Basis for Disclaimer of Opinion sections, as applicable], it is inappropriate to and the auditor does not express an opinion on the supplemental schedules.	
~~i. When reporting on an audit of ERISA plan financial statements when the~~121. Because the DOL requires the auditor to offer an opinion on the supplemental schedules, when management elects to have an ERISA-permitted special purpose 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~~the auditor should include in the standard ERISA-permitted report a statement that the form and content of the information included in the supplemental schedules, other than that derived from the information certified by the trustee (or custodian), have been audited by the auditor in accordance with auditing standards generally accepted in the United States of America and, 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~~ are presented in conformity with the U.S. Department of Labor's Rules and Regulations for Reporting and Disclosure under ~~the Employee Retirement Income Security Act of 1974.~~ERISA.	

122. When the auditor is engaged to perform an ERISA-permitted special purpose audit the auditor's report does not require an opinion on the supplemental schedules in accordance with in AU-C section 725; rather the opinion on the supplemental schedules is required to be made in accordance with paragraph 121 of this proposed SAS. Unless the auditor is specifically engaged to perform the procedures required by AU-C section 725, in order to provide the opinion in paragraph 121 the auditor should read the information in the supplemental schedules in order to identify material inconsistencies, if any, with the audited financial statements. The auditor may also need to perform certain audit procedures the auditor deems necessary to provide an opinion that the form and content of the information included in the supplemental schedules, other than that derived from the information certified by a qualifying institution, are presented in conformity with the DOL's rules and regulations for reporting and disclosure under ERISA. (Ref. par. A133)	A133. Paragraphs 36-48 provide guidance relating to the Form 5500 that can be used when the auditor identifies material inconsistencies, or if on reading the supplemental schedules the auditor becomes aware of an apparent material misstatement of fact.

Action Requested of the ASB

4. Does the ASB continue to support incremental reporting requirements specific for ERISA plans that differ from other entities following AU-C section 725 when reporting on the ERISA required supplemental schedules?
5. Does the ASB continue to support including the form and content opinion as part of the other-matter paragraph relating to the supplemental schedules to retain consistency with the ERISA permitted special purpose audit?

Issue 4: Required Emphasis-of-Matter Paragraphs

Exposure Draft Issues for Consideration

Issue 4—Required Emphasis-of-Matter Paragraphs

Respondents were asked to consider whether the situations identified are appropriate for requiring the inclusion of emphasis-of-matters paragraphs in the auditor's report. Respondents were also asked to consider whether there are additional situations that should result in a required emphasis-of-matter paragraph.

Comment Letter Results

62 of the 108 comment letters specifically responded to Issue 4. Of the 62 who responded, 18 supported the proposed SAS and 4 supported the proposed SAS with concerns. The task force viewed this as 35% showing support for requiring an emphasis-of-matter paragraph in the auditor's report. 40 of the respondents (65%) did not support the proposed SAS. Many of the respondents believe requiring an emphasis-of-matter paragraph in the auditor's report takes auditor judgment away and some suggested the proposed SAS require the auditor to consider including such a paragraph.

See Agenda Item 2D for the detailed comment letter responses.

The following is a summary of the results.

Issue 4 (par. 116)	***# responses out of 62***	***Percentage of those who responded***
Supportive	18	29%
Supportive with concerns	4	6%
Not Supportive	40	65%

Task Force Discussions

The task force discussed the comments received relating to required emphasis-of-matter paragraphs during a teleconference meeting. The task force noted that while 65% did not support a requirement to include the EOM paragraph, many of the respondents did support the auditor considering whether to include an EOM paragraph in the auditor's audit based upon the auditor's professional judgment and supported including application material to remind auditors about EBP specific topics to consider in addition to those already listed in appendix B to AU-C section 706.

The task force considered two views as a way forward relating to including EOM paragraphs in the auditor's report, as follows:

- View 1— remove paragraph 116 and related application material from the proposed SAS and remain silent in the proposed SAS as to specific areas to consider. Under this view the EBP AAG is considered a more appropriate place for further guidance about EBP specific areas that the auditor may consider for an EOM paragraph. The task force noted that paragraph 8 of the proposed SAS references AU-C section 706 as the standard that addresses additional communications in the auditor's report.

- View 2—remove paragraph 116 and related application material from the proposed SAS and include application material to paragraph 8 to remind auditors about areas specific for employee benefit plans to be considered. See proposed edits below.

The task force had mixed views. Some members of the task force believe the EBP AAG is sufficient to provide guidance on considerations relating to including an EOM paragraph in the auditor's report and the proposed SAS should remain silent. In addition, those members of the task force did not see a compelling reason for GAAS guidance on inclusion of an EOM paragraph on ERISA plan audits to differ from that on other audits. Other members of the task force believe that it is important to remind auditors of their responsibilities relating to the inclusion of EOM paragraphs and that including specific considerations as application material in the proposed SAS would help highlight for auditors those areas in a more prominent way than the EBP AAG.

The following is possible application material to be included with paragraph 8 to illustrate view 2. The areas listed have been compiled from the comments but have not been fully vetted by the task force yet. The task force is asking the ASB for direction on whether or not to include application material in the proposed SAS relating to emphasis of matter paragraphs.

View 2 – added application material to paragraph 8

8. AU-C section 705, *Modifications to the Opinion in the Independent Auditor's Report* (AICPA, *Professional Standards*), and AU-C section 706, *Emphasis-of-Matter Paragraphs and Other-Matter Paragraphs in the Independent Auditor's Report* (AICPA, *Professional Standards*), 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 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	A11. AU-C section 706 requires the auditor to include an emphasis-of-matter paragraph in the auditor's report when the auditor considers it necessary to draw users' attention to a matter or matters presented or disclosed in the financial statements that are of such importance that they are fundamental to users' understanding of the financial statements. The inclusion of an emphasis-of-matter paragraph in the auditor's report is not a substitute for either the auditor expressing a modified opinion when required by the circumstances of a specific audit engagement in accordance with AU-C section 705, or disclosures in the financial statements that the applicable financial reporting framework requires management to make. A12. Appendix B in AU-C section 706, "List of AU-C Sections Containing Requirements for

the auditor's opinion in accordance with AU-C section 705. (Ref. par. A63)	Emphasis-of-Matter Paragraphs" identifies AU-C sections containing specific requirements for the auditor to include an emphasis-of-matter paragraph in the auditor's report.
	A13. In addition to the required emphasis-of-matter paragraphs listed in exhibit B of AU-C section 706, and the examples in paragraph .A2 of AU-C section 706, the following are examples of circumstances in which the auditor may consider it necessary to include an emphasis-of-matter paragraph in the auditor's report on ERISA plan financial statements when the matter is appropriately presented or disclosed in the financial statements:
	a. There are significant plan amendments that affect net assets or benefit obligations.
	b. Minimum funding waivers were granted by the IRS, or if a request for waiver is pending before the IRS.
	c. There were significant changes in the nature of the plan, for example, a plan merger or spin-off.
	d. The plan has entered into nonroutine significant prohibited transactions that require correction
	e. Plan terminations, partial termination, or hard or soft freeze
	f. Status and terms of frozen DB plan
	g. Shares owned by ESOP are material to the ESOPs total plan assets
	h. Plan is significantly underfunded
	i. For multiemployer plans, the funded status of the plan is critical, or critical and declining, within the meaning of the Pension Protection Act of 2006, and whether the plan is making progress on a Funding Improvement or Rehabilitation Plan, based on information provided by the actuary.

	j. For multiemployer plans, a mass withdrawal, withdrawal of a significant number of employers, or withdrawal of a major contributing employer
	k. Plan assets include a significant percentage of alternative or hard-to-value investments whose fair values have been estimated in the absence of a readily determinable fair value
	l. any filing (actual or in process) under the IRS Voluntary Correction program

Action Requested of the ASB

6. Does the ASB agree that EOM paragraphs should not be required to be included in the auditor's report on ERISA plan financial statements?
7. If so, does the ASB support view 1 to exclude discussion about EOM paragraphs in the proposed SAS or view 2 to remove the separate section on EOM paragraphs from the proposed SAS and include application material to paragraph 8 that describes circumstances for the auditor's consideration relating to EOM paragraphs?

Issue 5: Required Procedures Relating to the Form 5500

Exposure Draft Issues for Consideration

Issue 7—Required Procedures Relating to the Form 5500

Respondents were 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?

Comment Letter Results

63 of the 108 comment letters specifically responded to Issue 7. Of the 63 who responded, 33 supported the proposed SAS and 16 supported the proposed SAS with concerns. Those with concerns predominantly recommended a new requirement be added that would require the Form 5500 to be read prior to the issuance of the auditor's report. The task force viewed this as 78% support for including AU-C section 720 requirements in the proposed SAS. 14 respondents did not support the proposed SAS primarily because they believe it extends the auditor's responsibilities too far.

See Agenda Item 2E for the detailed comment letter responses.

The following is a summary of the results.

Issue 7	***# responses out of 63***	***Percentage of those who responded***
Supportive	33	52%
Supportive with concerns	16	26%
Not Supportive	14	22%

Task Force Discussions

The task force discussed the comments received relating to the required procedures for the Form 5500. 78% of respondents supported the requirements in the proposed SAS relating to the Form 5500, stating that the proposed guidance will increase consistency and execution of procedures performed with respect to the Form 5500. Some of the respondents who did not support including these required procedures as part of the proposed SAS believe that these requirements extend the scope of the auditor's responsibilities beyond what was intended by ERISA section 103(a)(3).

While the task force did not have an opportunity to discuss the content of paragraphs 36-48 at length, they did discuss a few threshold questions on this topic and are asking for direction from the ASB, as follows:

1. Should the proposed SAS continue to address procedures relating to the Form 5500?
2. Should the proposed SAS include a new requirement that precludes the auditor from issuing the auditor's report without having obtained and reviewed a draft of the Form 5500?
3. Should the section of the proposed SAS relating to the Form 5500 (paragraphs 36-48) be aligned with the proposed SAS *The Auditor's Responsibilities Relating To Other Information Included In Annual Reports* or should the proposed SAS retain the concepts from current AU-C section 720?

Question 1

The task force strongly believes the proposed SAS should continue to include procedures relating to the Form 5500, which is supported by the 78% of respondents who supported this section. Some of the respondents that did not support these required procedures believe that these requirements extend the scope of the auditor's responsibilities beyond what was intended by ERISA section 103(a)(3). The task force noted that some respondents believe the auditor should not be responsible for information contained in the Form 5500 that is not related to financial reporting. The task force noted that a material misstatement of fact need only be identified when upon reading the Form 5500 for material inconsistencies the auditor becomes aware of an apparent material misstatement of fact. The task force does not believe this goes beyond the auditor's responsibilities under AU-C section 720.

Action Requested of the ASB

8. Does the ASB agree that the proposed SAS should retain requirements relating to the Form 5500?

Question 2

Many of the respondents believe the proposed SAS should preclude the issuance of an audit report before a draft of the Form 5500 is made available to the auditor and require the terms of the engagement to reflect this agreement. Currently, the proposed SAS does not have such a requirement and provides guidance for material inconsistencies identified after the report release date. The task force discussed the need for the auditor to review a draft of the Form 5500 prior to the issuance of the auditor's report, particularly in light of the fact that 29 CFR 2520-103-1(3) of the DOL's Rules and Regulations for Reporting and Disclosure under ERISA requires the notes to the financial statements to include an explanation of the differences, if any, between the information contained in the separate financial statements and the assets, liabilities, income, expenses and changes in the net assets as required to be reported on the Form 5500. Without reviewing a draft of the Form 5500 the task force was unsure how the auditor would be able to ascertain whether such disclosure has been properly made.

Action Requested of the ASB

9. Does the ASB believe the task force should include a new requirement for the auditor to obtain and read a copy of the Form 5500 prior to the issuance of the auditor's report?

Question 3

The content in paragraphs 36-48 of the proposed SAS is based on extant AU-C section 720. The task force discussed that the current exposure draft of proposed SAS *The Auditor's Responsibilities Relating To Other Information Included In Annual Reports* (OI SAS) changes extant AU-C section 720 and discussed whether this proposed SAS should retain extant AU-C section 720 or should be aligned with the terminology and performance requirements in the proposed OI SAS. The task force is looking for views from the ASB on this topic.

Action Requested of the ASB

10. Does the ASB believe the content in the proposed SAS should be aligned with the terminology and performance requirements of the proposed OI SAS once it is completed?

Appendix A – Excerpts from AICPA Audit and Accounting Guide *Employee Benefit Plans*

The following are excerpts from the prior EBP AAGs to highlight the changes that have evolved over time (*emphasis added to highlight changes made over time*).

Excerpt from 1991 Audit and Accounting Guide

Limited-Scope Auditing Procedures

7.45 As discussed in paragraph 13.22, the audit may be restricted with respect to assets held and transactions executed by banks, similar institutions, or insurance carriers that are regulated, supervised, and subject to periodic examination by a federal or state agency. Certain data furnished and certified by a bank, a similar institution, or an insurance carrier are based on information supplied by the plan administrator. Accordingly, the auditor should satisfy himself or herself that the amounts reported by the trustee as being received from or disbursed at the direction of, the plan administrator or other authorized party have been properly determined in accordance with the terms of the plan and that the information included in the financial statements and schedules has been presented in compliance with the DOL Rules and Regulations for Reporting and Disclosure under ERISA. If the auditor is precluded from performing these procedures, it will ordinarily be necessary to disclaim an opinion on the financial statements in accordance with SAS No. 58, paragraphs 70 through 72, because of the limitation on the scope of the audit, and it would not be appropriate for the auditor to comment on whether the financial statements and schedules are presented in compliance with ERISA and applicable DOL regulations. In such circumstances, the auditor should also read the financial statements and accompanying notes to determine that the information provided by the trustee is accurately included therein.

Excerpt from 1994 Audit and Accounting Guide

Limited-Scope Auditing Procedures

7.45 As discussed in paragraphs 5.02 and 13.23 the audit may be restricted with respect to assets held and transactions executed by certain institutions. In an ERISA limited scope audit, the auditor can limit the scope of testing on any investment information prepared and certified by a qualified trustee or custodian. *The auditor has no responsibility to obtain an understanding of the internal control structure maintained by the certifying institution over assets held and transactions executed for the Plan or to assess control risk associated with assets held and transactions executed by the institution. The auditor's responsibilities for any assets covered by the limited-scope exception are (1) to compare the information certified by the plan's trustee or custodian to the financial information contained in the plan's financial statements and (2) to perform the necessary procedures to become satisfied that any received or disbursed amounts (for example, contributions and benefit payments) reported by the trustee or custodian were determined in accordance with the plan provisions.*

7.46 *Although the auditor is not required to audit certain investment information when the limited scope audit exception is applicable, further investigation and testing are required whenever the auditor becomes aware that such information is incorrect, incomplete, or otherwise unsatisfactory for the purpose of preparing financial statements. In addition, if it comes to the auditor's attention that the required supplementary schedules are omitted, do not contain all required information, or contain information that is inaccurate or is inconsistent with the financial statements, the auditor should consider modifying his or her report on the supplementary schedules (see paragraph 13.15). Furthermore, the scope limitation and the corresponding limitation of the auditor's work extends only to investments and related investment activity certified by the qualified trustee/custodian. Plan investments not held by a qualified trustee/custodian, such as real estate, leases, mortgages, and participant loans, and any other investments or assets not covered by such an entity's certification should be subjected to appropriate audit procedures. Moreover, the appropriate audit procedures for all noninvestment related information (for example, benefit payments, employer/employee contributions, and receivables) are the same for a limited scope audit as for a full scope audit*.

<u>Excerpt from 2005 Audit and Accounting Guide</u>

Limited-Scope Auditing Procedures

7.64 As discussed in paragraphs 5.02 and 13.26 through 13.32 the audit may be restricted with respect to assets held and transactions executed by certain institutions. In an ERISA limited scope audit, the auditor can limit the scope of testing on any investment information prepared and certified by a qualified trustee or custodian. The auditor has no responsibility to obtain an understanding of internal control maintained by the certifying institution over assets held and transactions executed for the Plan or to assess control risk associated with assets held and transactions executed by the institution. The auditor's responsibilities for any assets covered by the limited-scope exception are (1) to compare the information certified by the plan's trustee or custodian to the financial information contained in the plan's financial statements and (2) to perform the necessary procedures to become satisfied that any received or disbursed amounts (for example, contributions and benefit payments) reported by the trustee or custodian were determined in accordance with the plan provisions. *When performing a limited scope audit, the auditor still has a responsibility to ensure that financial statement disclosures are in compliance with generally accepted accounting principles.*

7.65 Although the auditor is not required to audit certain investment information when the limited scope audit exception is applicable, further investigation and testing are required whenever the auditor becomes aware that such information is incorrect, incomplete, or otherwise unsatisfactory for the purpose of preparing financial statements. In addition, if it comes to the auditor's attention that the required supplementary schedules are omitted, do not contain all required information, or contain information that is inaccurate or is inconsistent with the financial statements, the auditor should consider modifying his or her report on the supplementary schedules (see paragraph 13.15). Furthermore, the scope limitation and the corresponding limitation of the auditor's work extends only to

investments and related investment activity certified by the qualified trustee/custodian. Plan investments not held by a qualified trustee/custodian, such as real estate, leases, mortgages, and participant loans, and any other investments or assets not covered by such an entity's certification should be subjected to appropriate audit procedures. Moreover, the appropriate audit procedures for all noninvestment related information (for example, benefit payments, employer/employee contributions, and receivables) are the same for a limited scope audit as for a full scope audit.

Excerpt from 2017 Audit and Accounting Guide

Limited-Scope Auditing Procedures

8.167 As discussed in paragraphs 2.22–.26 of this guide, the audit may be restricted with respect to assets held and transactions executed by certain institutions. In an ERISA limited-scope audit, the plan administrator can instruct the auditor to limit the scope of testing on investment information prepared and certified by a qualifying institution as complete and accurate. The scope limitation and corresponding limitation of the auditor's work extend only to investments and related investment information certified by the qualifying institution. Plan investments not held by a qualifying institution, such as real estate, leases, mortgages, self-directed brokerage accounts, participant loans, and any other investments or assets not covered by such an entity's certification should be subjected to appropriate audit procedures. Moreover, the appropriate audit procedures for all noninvestment-related information (for example, benefit payments, employer or employee contributions, and receivables) are the same for a limited-scope audit as for a full-scope audit.

8.168 If a limited-scope audit is to be performed on a plan funded under a master trust arrangement or other similar vehicle, separate individual plan certifications from the qualifying institution would need to be obtained for the allocation of the assets and the related income activity to the specific plan.

8.169 When the auditor is instructed by the plan administrator to perform a limited-scope audit, the auditor has no responsibility to obtain an understanding of internal control maintained by the certifying institution over investments held and investment transactions executed for the plan or to assess control risk associated with assets held and transactions executed by the institution. The auditor's responsibilities for any investments covered by the limited-scope exception are to *(a) obtain and read a copy of the certification from the plan administrator; (b) determine whether the entity issuing the certification is a qualifying institution under DOL regulations;* (*c*) compare the investment information certified by the plan's trustee or custodian to the financial information contained in the plan's financial statements and related disclosures; (*d*) perform the necessary procedures to become satisfied that any received or disbursed amounts (for example, contributions and benefit payments) reported by the trustee or custodian were determined in accordance with the plan provisions; and *(e) determine whether the form and content of the financial statement disclosures related to the investment information prepared and certified by a qualifying institution are in accordance with GAAP and in compliance with DOL rules and*

regulations. When performing a limited-scope audit, the auditor has no responsibility to test the accuracy or completeness of the investment information certified by the qualifying institution.

8.170 Although the auditor is not required to audit certain investment information when the limited-scope audit exception is applicable, if the auditor becomes aware that the certified information is incomplete, inaccurate, or otherwise unsatisfactory, further inquiry may be necessary, which might result in additional testing or modification to the auditor's report. In certain instances, a limited-scope audit may no longer be appropriate. In addition, see the table in paragraph 11.76 of this guide for guidance when it comes to the auditor's attention that the required supplementary schedules are omitted, do not contain all required information, or contain information that is inaccurate or inconsistent with the financial statements.

8.171 If, for example, the auditor becomes aware that adequate year-end valuation procedures have not been performed, and, therefore, the financial statements may not be prepared in accordance with GAAP, it is important for the auditor to communicate those findings to the plan administrator. It is the plan administrator's responsibility to prepare the financial statements and footnote disclosures in conformity with GAAP and in compliance with DOL rules and regulations. Accordingly, the plan administrator may request the trustee or custodian to recertify or amend the certification

a. for such investments at their appropriate year-end values or

b. to exclude such investments from the certification.

8.172 If the trustee or custodian amends the certification to exclude such investments from the certification, the plan administrator is responsible for valuing such investments as of the plan year-end and engaging the auditor to perform full-scope audit procedures on the investments excluded from the certification.

8.173 If the certification is not amended, it is the plan administrator's responsibility to determine whether the financial statements and note disclosures related to such investment information are prepared in accordance with GAAP and in compliance with DOL rules and regulations. The following is an illustrative limited-scope audit report[27] for when the plan investments have been certified, and the plan administrator was unable to determine whether the investment information is valued in accordance with GAAP. However, this form of report is not appropriate if the plan administrator has information that causes the auditor to believe that the investment information is not valued in accordance with GAAP.[28]

[fn27] Generally, the Department of Labor will reject Form 5500 filings that contain qualified opinions, adverse opinions, or disclaimers of opinion other than those issued in connection with a limited-scope audit pursuant to Title 29 U.S. *Code of Federal Regulations* Part 2520.103-8 or -12.

[fn28] AU-C section 705, *Modifications to the Opinion in the Independent Auditor's Report* (AICPA, *Professional Standards*), requires the auditor to disclose any material modifications from generally accepted accounting principles.

Appendix B – Illustrative Modified ERISA-Permitted Special Purpose Audit Report Under Option 1

The appendix contains the following illustrative reports:

- Illustration 2—Option 1 (Qualified Opinion)
- Illustration 3—Option 1 (Adverse Opinion)
- Illustration 4—Option 1 (Disclaimer of opinion)

Illustration 2—Option 1 (Qualified Opinion)

Circumstances include the following:

- **Management has elected to have an ERISA-permitted special purpose audit of a complete set of general purpose financial statements of a 401(k) plan.**
- **The financial statements are not materially misstated.**
- **There is a scope limitation on the audit that is material but not pervasive and the auditor determined a qualified opinion is appropriate.**
- **The financial statements are prepared in accordance with GAAP.**

Independent Auditor's Report

[Appropriate Addressee]

We have performed an audit of the accompanying financial statements and supplemental schedules of ABC 401(k) Plan, subject to the special purpose audit as permitted by the Employee Retirement Income Security Act of 1974 (ERISA). 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. The supplemental schedules comprise the [*identify the title of schedules and period covered*]. Management has elected the special purpose audit, as permitted by 29 CFR 2520.103-8 of the Department of Labor's Rules and Regulations for Reporting and Disclosure under ERISA.

Nature of the ERISA-Permitted Special Purpose Audit

Under the authority of section 103(a)(3)(C) of ERISA, 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 (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 29 CFR 2520.103-5 and 29 CFR 2520.103-8.

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 ERISA-Permitted Special Purpose 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 an ERISA-permitted special purpose audit is permissible under the circumstances, including evaluating whether

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

Management's election of the ERISA-permitted special purpose 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 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 plan'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 plan'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.

An audit of financial statements of an employee benefit plan subject to ERISA includes procedures to address the following matters when applicable to the plan, based on the auditor's assessment of risk and materiality.

[*Placeholder: include listing of matters once determined*]

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. inquiring of management about how it determined that the entity issuing the certification is a qualified institution and that the certified information is complete and accurate

c. comparing the certified investment information with the related information presented and disclosed in the ERISA plan financial statements and supplemental schedules

Accordingly, the objective of our ERISA-permitted special purpose audit is not to express an opinion as to whether the financial statements are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America [*or other applicable financial reporting framework*].

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 qualified opinion.

Basis for Qualified Opinion

[Add circumstances for qualified opinion]

Qualified Opinion

In our opinion, except for the effects of the matter described in the Basis for Qualified Opinion section, based on our audit and on the procedures performed with respect to the certification of the investment information that we were instructed not to audit:

- The information in the financial statements and supplemental schedules that is subject to the certification corresponds to the information certified as complete and accurate by an institution that management determined qualified for the ERISA-permitted special purpose audit.
- The information in the financial statements, other than that derived from the information certified by the trustee (or custodian), have been audited by us in accordance with auditing standards generally accepted in the United States of

America and, in our opinion, are presented in accordance with accounting principles generally accepted in the United States of America.

- The form and content of the information included in the supplemental schedules, other than that derived from the information certified by the trustee (or custodian), have been audited by us in accordance with auditing standards generally accepted in the United States of America and, in our opinion, are presented in conformity with the U.S. Department of Labor's Rules and Regulations for Reporting and Disclosure under ERISA.

[*Auditor's signature*]
[*City and state report is issued*]
[*Date of the auditor's report*]

Illustration 3—Option 1 (Adverse Opinion)

Circumstances include the following:

- **Management has elected to have an ERISA-permitted special purpose audit of a complete set of general purpose financial statements of a 401(k) plan.**
- **The financial statements are materially misstated, the misstatement is both material and pervasive and the auditor has determined an adverse opinion in appropriate.**
- **The framework used to prepared the financial statements is GAAP.**

Independent Auditor's Report

[Appropriate Addressee]

We have performed an audit of the accompanying financial statements and supplemental schedules of ABC 401(k) Plan, subject to the special purpose audit as permitted by the Employee Retirement Income Security Act of 1974 (ERISA). 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. The supplemental schedules comprise the [*identify the title of schedules and period covered*]. Management has elected the special purpose audit, as permitted by 29 CFR 2520.103-8 of the Department of Labor's Rules and Regulations for Reporting and Disclosure under ERISA.

Nature of the ERISA-Permitted Special Purpose Audit

Under the authority of section 103(a)(3)(C) of ERISA, the audit need not extend to information related to assets held for investment of the plan and related income (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 (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 29 CFR 2520.103-5 and 29 CFR 2520.103-8.

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 ERISA-Permitted Special Purpose 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 an ERISA-permitted special purpose audit is permissible under the circumstances, including evaluating whether

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

Management's election of the ERISA-permitted special purpose 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 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 plan'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 plan'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.

An audit of financial statements of an employee benefit plan subject to ERISA includes procedures to address the following matters when applicable to the plan, based on the auditor's assessment of risk and materiality.

[*Placeholder: include listing of matters once determined*]

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. inquiring of management about how it determined that the entity issuing the certification is a qualified institution and that the certified information is complete and accurate

c. comparing the certified investment information with the related information presented and disclosed in the ERISA plan financial statements and supplemental schedules

Accordingly, the objective of our ERISA-permitted special purpose audit is not to express an opinion as to whether the financial statements are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America [*or other applicable financial reporting framework*].

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 adverse opinion.

Basis for Adverse Opinion

[Add circumstances for adverse opinion]

Adverse Opinion

In our opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion section, the financial statements referred to above do not present fairly 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.

[*Auditor's signature*]
[*City and state report is issued*]
[*Date of the auditor's report*]

Illustration 4—Option 1 (Disclaimer of Opinion)

Circumstances include the following:

- **Management has elected to have an ERISA-permitted special purpose audit for a complete set of general purpose financial statements of a 401(k) plan.**
- **The financial statements are not materially misstated.**
- **There is a scope limitation on the audit that is both material and pervasive and the auditor has determined a disclaimer of opinion is appropriate.**
- **The financial statements are prepared in accordance with GAAP.**

Independent Auditor's Report

[Appropriate Addressee]

We were engaged to perform an audit of the accompanying financial statements and supplemental schedules of ABC 401(k) Plan, subject to the special purpose audit as permitted by the Employee Retirement Income Security Act of 1974 (ERISA). 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. The supplemental schedules comprise the [*identify the title of schedules and period covered*]. Management has elected the special purpose audit, as permitted by 29 CFR 2520.103-8 of the Department of Labor's Rules and Regulations for Reporting and Disclosure under ERISA.

Nature of the ERISA-Permitted Special Purpose Audit

Under the authority of section 103(a)(3)(C) of ERISA, 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 (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 29 CFR 2520.103-5 and 29 CFR 2520.103-8.

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 ERISA-Permitted Special Purpose 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 an ERISA-permitted special purpose audit is permissible under the circumstances, including evaluating whether

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

Management's election of the ERISA-permitted special purpose 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 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 significance of the matter 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 and supplemental schedules.

[*Auditor's signature*]

[*City and state report is issued*]

[*Date of the auditor's report*]