AICPA

Agenda 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*

Issue 2—The Form and Content of the Auditor's Report on ERISA Plan Financial Statements with the ERISA-permitted Audit Scope Limitation (Paragraphs 88-115 and related application material)

Respondents are asked to provide feedback on whether the form and content of the proposed auditor's report, including the form and proposed content of the new form of opinion

- provide improved transparency with respect to reporting on an audit of ERISA plan financial statements when an ERISA-permitted audit scope limitation exists, and if not, how could it be revised;
- will improve the auditor's understanding of his or her responsibilities in a limited scope audit resulting in potential improvements in audit quality, and if not, why;
- better describe management's responsibilities for the financial statements, and if not, why;
- provide sufficient clarity to users with respect to the auditor's responsibilities and matters reported, and if not, why.

Responder	Comment (Issue 2)	TF Consideration / Response
Supportive of Proposal		
VWC (1)	I think for the most part the proposed changes are fine.	Noted

Responder	Comment (Issue 2)	TF Consideration / Response
NJCPA (10)	• Generally, we believe that it does. We recommend that the final form of the ED addresses situations where not all of the investment information is covered by the certification. • We believe that the ED is moving in the right direction. Accordingly, we agree that it will improve the auditor's understanding of his or her responsibilities in a limited scope audit resulting in potential improvements in audit quality. However, meaningful improvements in ERISA audit quality will come about from a coordinated response including: o CPE (including consideration of required minimum CPE for all ERISA auditors, not just Audit Quality Center members) o Educating management and other users about the value of a quality ERISA audit, including how to identify high-quality ERISA auditors (including consideration of offering free training to management, third party recordkeepers, and certifying institutions) o Enhancing consistency in the peer review process for ERISA audits, peer reviewers examining ERISA audits, and related peer review reports o Enhanced efforts by the AICPA to educate the public about the value of a quality audit, and how to evaluate prospective auditors • Generally, we believe that it does. We recommend that the paragraph describing management's responsibilities is enhanced with the following underlined language: "Management is also responsible for maintaining a current plan instrument including all plan amendments, administering the plan and determining that the plan's transactions that are presented and disclosed in the financial statements are in conformity with the plan's provisions, including maintaining sufficient records with respect to each of the participants, in accordance with sections 107 and 209 of the Employee Retirement Income Security Act of 1974, to determine, <u>as applicable, eligibility, contributions, allocation of</u> <u>Plan earnings , distributions, and</u> the benefits due or which may become due to such participants."	Noted TF discussed whether the AAG would be better suited to address situations when not all investments are covered by the certification Wording aligns with the regulations

Responder	Comment (Issue 2)	TF Consideration / Response
	• Generally, we believe that it does. We are supportive of the proposed changes regarding the auditor's responsibility for the certified investment information.	Noted
FICPA (18)	The Committee agrees the form and content of the proposed auditor's report, including the form and proposed content of the new form of opinion will provide improved transparency, will better describe management's responsibilities for the financial statements and will provide sufficient clarity to users with respect to the auditor's responsibilities and matters reported. However, the auditor's understanding is required under current professional standards for ERISA-permitted limited scope engagements.	Noted
S&H (20)	We believe the proposed auditor's report, including the form and proposed content of the new form of opinion and the language of the scope limitation as permitted by ERISA (including the new Basis for Limitation section) is appropriate and provides sufficient clarity to users. However, as noted in our letter, we do not believe the changes to the auditor's report will generally improve audit quality as firms and auditors performing EBP audits should have already understood their responsibilities in a limited scope audit. If firms and auditors opted to not perform appropriate procedures or otherwise fulfill their responsibilities in a limited scope audit we do not believe the proposed changes to the form and content of the auditor's report will change that behavior.	Noted
Ross (25)	I believe that the Form and Content of the proposed language for the new opinion on Limited Scope Audits will improve transparency with respect to what is involved in a limited scope audit and management's responsibilities with respect to the certification. However, the opinion letter is quite long, and I believe that the final section titled "Report on Specific Plan Provisions Relating to the Financial Statements" and the related paragraph "Purpose of this Report," along with the section on specific findings are unnecessary.	Noted – to be addressed as part of issue 6
BT (29)	The revised language of the proposed SAS does provide increased transparency in respect to reporting on an audit of ERISA plan financial statements.	Noted

Responder	Comment (Issue 2)	TF Consideration / Response

	An auditor's understanding of his or her responsibilities should be formed in the understanding of our professional standards in the performance of an audit, the increased descriptive language in reporting will provide a better understanding to the user of the financial statements of the auditor's responsibility.
	
	The description of management's responsibilities of the proposed SAS has been enhanced which will certainly provide more clarity.
	
	The revisions in reporting do provide more clarity to users of the financial statements in respect to auditor's responsibilities.
	
	• In respect to matters to be reported as to "findings" as described in the proposed SAS, this reporting would be only seem to be valuable if definitive guidance was provided in respect to the reporting requirement.
	• For example, would this requirement be linked to:
	  ○ the occurrence of a prohibited transaction within the plan
	  ○ an operational deficiency that resulted in an error of a material adjustment to the financial statements of the plan
	  ○ a requirement within our professional standards to issue an AU-C 265 letter for the plan year
	
	Without additional guidance as the severity of the findings that would require reporting as directed in the proposed SAS, this change will result in significant diversity in practice due to a high level of auditor subjectivity and should not be considered.
		Findings to be addressed as part of issue 6

RSM (30)	U.S. Department of Labor (DOL) audit quality studies indicate that some practitioners may be confused as to their responsibilities when there is an ERISA-permitted scope limitation that currently results in a disclaimer of opinion. Some practitioners may perform insufficient procedures, or no procedures, in areas that are not permitted to be scoped out by a certification when issuing a disclaimer of opinion. We support the changes to the form and content of the proposed limited-scope auditor's report as we believe they would:	Noted

Responder	Comment (Issue 2)	TF Consideration / Response
	• Provide improved transparency into the audit procedures required with respect to reporting on an audit of ERISA plan financial statements when an ERISA-permitted audit scope limitation exists. • Improve the auditor's understanding of his or her responsibilities in a limited scope audit and may result in potential improvements in audit quality. • Better describe management's responsibilities for the financial statements, including any certified information. This is an important disclosure because we believe quite often management misunderstands its responsibilities due to the quantity of outsourced (i.e., certified) information. • Provide sufficient clarity to users with respect to the auditor's responsibilities and matters reported. We suggest consideration be given to decreasing the length of the proposed limited-scope auditor's report by deleting from the report the details of the four procedures performed with respect to the certified investment information, and instead, inserting more general verbiage, such as: Our procedures performed on the certified investment information were limited to specific procedures required by generally accepted auditing standards for audits of employee benefit plans subject to the Employee Retirement Income Security Act of 1974.	TF continued to support including the procedures because they believe it is important to clarify what the auditor's responsibilities are
CalTech (42)	We have no objections to the enhanced guidance in the SAS regarding the obligations of both preparers and auditors regarding limited-scope audits. We observe, however, that preparers and auditors that maintain a current understanding of GAAP and that consult the AICPA Audit and Accounting Guide for Employee Benefit Plans should together produce statements with the correct disclosures and sufficient audits thereof, respectively. While the SAS's more descriptive detail might "achieve the objectives of enhancing execution and consistency in these engagements" to some extent, we encourage the ASB and AICPA to determine whether additional detail in the SAS will reduce deficient audits in this area to the level desired, or whether other measures, such as revisions	Noted. The TF recognizes that revisions to the AAG will also be necessary.

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	to the Audit Guide, better auditor education, or enhanced qualifying requirements for auditors of ERISA plans, are necessary.	

AAFCPAs (44)	AAFCPAs generally agrees with the intent of providing clarity and transparency as presented within the proposed audit standard. We have the following comments regarding illustration #3 which we would like the ASB to consider in their final draft:
	• Introductory paragraph – first sentence – we suggest removing "imposed by management" as this implies that management is creating a 'road block' to completing our audit. As a substitute, we recommend adding "and endorsed by management" at the end of the first sentence. It is important for the reader to understand that a limited scope audit is allowed by current ERISA law, and that the audit service is, at its core, a 'regulatory' requirement. The word "imposed" comes with a suggestion of imposition that has immediate negative connotations. We feel a more positive word or wording, affirming the propriety of the scope limitation is critical for understanding of both the plan sponsor and of the users of the financial statements.
	• Auditor's Responsibility paragraph – we suggest adding the following procedures performed on the certified investment information:
	  o Compare management's reconciliation of the certified investment information to the trial balance and financial statements.
	  o Evaluate management's determination of investment valuation (fair value or contract value), including investment types, valuation inputs and classification in the fair value hierarchy table.
		ASB to discuss revised reporting for illustration 3 at the January 2018 meeting.

	We also suggest that the SAS include reporting illustrations for 403(b) plans that were established prior to 2009, and may not have complete and accurate recordkeeping on individual annuity contracts. Under the current reporting standards, these 403(b) plan audit reports include a disclaimer of opinion for an inability to perform audit procedures on these individual annuity contracts. There is some very unique reporting challenges for these benefit plans and to which the current literature simply does not address in any formal manner. We presently look outside the benefit plan specific	Task force believes a 403(b) example should be included in the EBP AAG

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	literature for applicable guidance. The ASB has wonderful opportunity to address 403(b) plans within this contemplated new standard, and AAFCPAs strongly encourage the ASB to do so. The revised description of management's responsibilities does provide added transparency in management's use of the certification in addition to maintaining an updated plan instrument and retention of participant records. The revised description of the auditor's responsibilities does provide added and necessary transparency.	
KSCPA (45)	We believe the proposed auditor's report will provide the transparency necessary for a user to understand the requirements under an ERISA-permitted audit scope and the auditor's responsibilities related to these matters. In addition, it better outlines and clarifies these responsibilities for the auditor. This should help establish consistency with respect to the procedures necessary to perform under this type of engagement.	Noted
TN state (55)	We agree that the form and content of the proposed auditor's report, including the form and proposed content of the new form of opinion, should provide improved transparency with respect to reporting on an audit of ERISA plan financial statements when an ERISA-permitted audit scope limitation exists; will improve the auditor's understanding of his or her responsibilities in a limited scope audit resulting in potential improvements in audit quality; better describe management's responsibilities for the financial statements; and provide sufficient clarity to users with respect to the auditor's responsibilities and matters reported.	Noted
Texas CPAs (63)	We believe the audit of the ERISA plan financial statements with the ERISA-permitted audit scope limitations provides adequate transparency of the limitations existing in such a report. Also, we do not have any substantive improvements to suggest regarding better clarity regarding the limitations or management's and the auditor's responsibilities.	Noted
GT (66)	We are supportive of the proposed requirements for reporting on ERISA plan financial statements when an ERISA-permitted audit scope limitation is imposed. We believe the proposed reporting	Noted

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	model significantly enhances transparency and clarity of the auditor's responsibilities. Further, a new reporting model that differs from the current form of report typically issued (a disclaimer of opinion) would likely (1) be more informative to users of the financial statements regarding the nature of the audit work performed, and (2) provide a better description of the auditor's responsibilities and work effort when conducting an audit in these circumstances.	
	We believe the profession will need specific transition guidance for reporting on comparative financial statements where the prior year was audited under the extant "disclaimer model" and the current year would reflect the new form of report. Although such guidance would be more appropriately conveyed outside the auditing standard itself, we encourage the Board to develop guidance in some form that is released in conjunction with the issuance of the final auditing standard. If adopted as proposed, this would obviously be a significant change in current practice, and as such, we urge the ASB and AICPA staff to provide communications and training directed to plan sponsors and their legal counsel, accounting firms, and others to provide further background and insights into the nature and purpose of the changes to the reporting model. It may be helpful to include talking points and highlights for auditors to use in discussing the changes with the plan sponsors and other relevant parties. How to educate users of the report, including plan participants, would also be helpful. It will be important for each party in the financial reporting chain to have a clear understanding of any changes made and the underlying reasons for those changes.	Noted. TF to consider transition guidance once a revised model is determined.
WFY (67)	The new proposed auditor's report is very well written and will absolutely improve transparency in limited scope audits. I would change nothing (except as it relates to Plan Provisions which will be discussed in Issue 6 below). With the new proposed report being much more detailed, it cannot help but improve the auditor's understanding of his or her responsibilities. This will lead to better overall audit quality and consistency and make substandard audits easier to enforce" in the peer or oversight review process. Essentially, the only users of the financial statements is the Department of Labor. As this Exposure Draft has been a "collaboration" between the profession and the DOL, the clarity goal has been met.	Noted

Responder	Comment (Issue 2)	TF Consideration / Response
MBAF (106)	We believe that the form and proposed content of the new form of opinion will improve the auditor's understanding of his or her responsibilities. We believe that the form and proposed content of the new form of opinion will better describe management's responsibilities. We believe the more detailed breakout of responsibilities will help management fully understand their responsibilities. We believe that the form and proposed content of the new form of opinion will provide improved clarity to users.	Noted
Supportive of Proposal with Concerns		
TIC (15)	TIC strongly disagrees with the proposed requirement to communicate findings in the auditor's report, as alluded to in response to Issue 6 in the following as well as in our previous comments in the opening of this letter. TIC believes that including findings in the auditor's report could confuse the results of the audit. TIC also believes that reporting findings in the report would open plan sponsors, plan administrators, and auditors to additional risk exposure and TIC does not believe that listing findings would enhance audit quality. TIC also is not sure that adding a listing of all the procedures performed to the report would be appropriate. Although it may help a user of those financial statements to understand what the audit encompasses, TIC does not believe that including this information in the auditor's report will necessarily help to improve audit quality. TIC believes that audit reports should not be designed as a checklist for audit procedures performed, but rather for reporting on the overall results of the audit of the Plan financial statements.	Noted – communication of findings to be addressed in issue 6 Task force supports including the procedures
BerryD (28)	Overall, we support the proposed amendments to revise and clarify the form and content of the auditor's report. However, we believe the report should contain "except for" language, similar to that required for nonpervasive scope limitations in extant AU-C section 705. The primary user of the ERISA plan financial statements is the Department of Labor (DOL), which is required by ERISA to provide relief for the audit of investment and investment-related activity in the auditor's	See issue 2 in agenda item 2 for discussion of reporting options

Responder	Comment (Issue 2)	TF Consideration / Response
	procedures. The primary user thus understands the scope limitation, including its purpose and implications, and has indicated a disclaimer of opinion does not meet its needs due to the confusion it causes among some auditors regarding the procedures they are required to perform. Therefore, a qualified opinion, as opposed to a disclaimer of opinion, provides a better representation to the users of the financial statements regarding responsibilities and procedures performed. A qualified opinion also provides clearer reporting to both the practitioner and the readers regarding procedures required to be performed, responsibilities assumed and the opinion reached. As noted under Issue 1 above, the procedures set forth related to the certified investment information are full scope procedures and would not be sufficient to provide an opinion regarding whether the form and content of the certified investment information presented and disclosed in the financial statements are in accordance with U.S. generally accepted accounting principles. If the scope exception applies to investments and investment-related activity, it should also extend to the related disclosures. Therefore, we believe item (d) in the Auditor's Responsibility section of illustration 3 (paragraph A148) should be deleted. Under the Basis for Limitation on the Scope of Audit paragraph, we suggest clarifying that the referenced Code of Federal Regulations sections contain the provisions whereby the trustee or custodian certifies that the information is complete and accurate, as this will better enable the readers to understand why the practitioner is not auditing this information. This could be achieved by combining the two paragraphs in this section. In the last paragraph of Management's Responsibilities for the Financial Statements and the Limitation on the Scope of the Audit, we suggest including that management is responsible for obtaining necessary determination letters, when applicable, and ensuring that the plan document is in compliance with the Internal Revenue Code (and any changes thereto).	Agreed – TF recommends removing 20(d) TF believes two paragraphs are suitable to cover content Because the determination letter program has been revised, the TF has not recommended this step be added
Dufek (31)	We believe the new report is a welcome change and that the limited scope audit report will be more meaningful to Plan Sponsors than the current disclaimer language.	Noted

Responder	Comment (Issue 2)	TF Consideration / Response
	We don't feel that, by itself, modifying the audit report to list procedures performed will change auditor understanding of their responsibilities and result in meaningful improvements in audit quality. We believe there are more systemic issues in the profession (see pages 1 and 2 of response) that need to be addressed simultaneously. We believe the proposed revisions to the audit report better describe management's responsibilities. We believe the proposed audit report will be more meaningful to the end users and outlines the audit process more effectively than the current disclaimer report.	
PlanteM (32)	We believe the form and content of the proposed auditor's report provides improved transparency with respect to reporting when an ERISA-permitted audit scope limitation exists. However, we believe the transparency and clarity can be further improved with the following modifications. • Given the pervasiveness of the unaudited certified information throughout the financial statements, disclosures and schedules, the opening paragraph should say, "were engaged to perform" an audit rather than "We performed an audit". • In the *Basis of Limitation on the Scope of the Audit* paragraph, we recommend the following changes to add clarity regarding the information certified: o Paragraph 1 - Include "related income" in the sentence describing information that is prepared and certified and include it in the definition of "Investment information" which is used throughout the opinion. o Paragraph 2 – In place of the term "investment information", we suggest clarifying that the qualifying institution holds the "assets held for investment" and the related "transactions". o Paragraph 2 - To have absolute clarity and transparency about the amounts not audited as a result of the limitation imposed, consideration should be given to adding a requirement to report the description and amount of the certified investment information not subject to audit procedures.	Noted TF believes the opening paragraph should distinguish this form of reporting from a disclaimer of opinion and therefore wording should be unique to this form of report TF does not believe related income is needed because investment information encompasses the related income.

Responder	Comment (Issue 2)	TF Consideration / Response
	• In the *Auditor's Opinion With the ERISA-Permitted Audit Scope Limitation on the Financial Statements* section instead of "our use of the certification of the investment information", we suggest the following changes to better describe the procedures performed: ○ In our opinion, based on our audit procedures, which were subject to the limitation on the scope of the audit imposed by management, as permitted by Employee Retirement Income Security Act of 1974, and based on ~~our use of~~ the limited procedures we performed related to ~~certification of the~~ certified investment information ~~that we were instructed not to audit~~, the financial statements referred to above present fairly… • We also believe the opinion paragraph should be clear that the <u>auditor did not audit</u> the certified investment information. • In the *Other Matter Relating to the Supplemental Schedules Required by ERISA* section, we suggest the following changes to more clearly reference the limitation of scope in the 1st and 4th paragraphs: ○ The information has been subjected to the auditing procedures applied in the audits of the financial statements, subject to the limitation on the scope of the audit imposed by management as permitted by ERISA, ~~and the use of the certification of the investment information, that we were instructed not to audit,~~ and certain additional procedures including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves,… ○ In our opinion, based on our audit, subject to the limitation on the scope of the audit imposed by management as permitted by ERISA, and ~~based on~~ the ~~our use of~~ limited procedures we performed related to the ~~certification of the~~ certified investment information ~~that we were instructed not to audit~~, the information in the accompanying schedules… In the *Auditor's Responsibility (Including Responsibility for the Certified Investment Information)* section we recommend the following be considered:	TF previously discussed with the ASB and concluded not to include amounts of the certified info in the report because they are typically already disclosed in the f/s. Opinion changed under new model New report wording does not include an AU-C 725 OM paragraph The report has been changed and these points are covered

Responder	Comment (Issue 2)	TF Consideration / Response
	• Paragraph 1 - Clarify in the opening sentence that an auditor's responsibilities are subject to the limitation on the scope of the audit imposed by management, as permitted by Employee Retirement Income Security Act of 1974. • Paragraph 3 - Clarify that the auditor did not perform any procedures on internal controls or risk assessment with respect to certified information, and did not perform any procedures on the completeness and accuracy of certified investment information.	under auditor's responsibilities as it relates to the certified information
HMV (35)	The additional wording would be beneficial for plan sponsors to better understand the level of work being performed in an ERISA-permitted limited scope audit. We do not believe this will provide noticeable improvements to overall audit quality. We believe auditors who do not understand these requirements are not seeking appropriate education. For those auditors with insufficient education, we do not believe the audit report should be viewed as a tool to bridge any knowledge gaps. Requiring a higher level of employee benefit training would better serve this purpose. With respect to audit quality, we believe some of the issues stem from lack of concern, rather than lack of understanding of the auditor's responsibilities. We do not believe the form and content of the new opinion will create any additional accountability for auditors who knowingly perform substandard audits. We believe the requirements specified by paragraph 12.d of the proposed SAS place undue burden on plan sponsors who are small business owners. We worry that these owners may not feel qualified to make a determination on whether an entity certifying their trust statement is qualified to certify. Additional regulations on plan sponsors such as this one may discourage companies from keeping their retirement plans. We believe the additional wording, with the exception of the language required by paragraph 12.d of the proposed SAS, would be beneficial to users to better understand what the ERISA-permitted audit scope limitation means.	Noted Task force believes the fiduciary responsibility exists under ERISA

Responder	Comment (Issue 2)	TF Consideration / Response
KPMG (46)	As previously stated, we believe there is a public interest benefit for greater transparency in these unique engagements. We support the objective for auditor reporting on these engagements but do not agree with the proposed wording that effectively divides the responsibility for the opinion between the audit evidence directly obtained and from the certified investment information. However, with the objective of transparency in mind, we offer another alternative for the Board's consideration. We are supportive of the language in paragraph 96 that improves transparency with respect to management's responsibilities for determining whether a limitation on the scope of the audit is appropriate in the circumstances. In an information letter dated May 17, 2002, in response to a request for further guidance regarding the wording of certifications and types of assets, the DOL, in providing non authoritative guidance to common fact patterns challenging plan administrators, cautioned that the plan administrator remains responsible to determine whether the conditions for Audit Scope Limitation have been satisfied and that the certified information is appropriate to satisfy the plan administrator's obligation to report the current value of plan assets. We are also supportive of the additional description in paragraph 102 of the auditors' responsibilities in these engagements, subject to conforming our suggestions in Issue 1 for 20 (b) to (d) to 102(b) to (d). Our recommendation to the proposed requirement, illustrated using an illustrative report in paragraph .A148, also assumes other changes to limit the required procedures to inquiries as we have suggested (strike-through deletion; underlined are additions). **Auditors' Responsibility (including Responsibility for the Certified Investment Information)** With respect to the certified investment information that management instructed us not to audit, ~~we did not assess the risks of mateiral misstatement nor did we consider~~ ~~internal control over the certified investement information. O~~our procedures were limited to the following: a. Obtaining and reading the certification.	Noted The TF was asked to present options to the board in January 2018 for a new form of report. See Issue 1 in agenda item 2 suggested edits. Changes to issue 1

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	b. Inquiring of management how it assessed that ~~evaluating management's~~ ~~assessment of whether~~ the entity issuing the certification is a qualified institution and the certified investment information is complete and accurate as required by ~~under the Employee Retirement Income Security Act of 1974~~ DOL Rules and Regulations so that the scope of the audit may be limited.	to flow through to the report
	c. Agreeing ~~Comparing~~ the certified investment information ~~with the related~~ ~~information presented and disclosed in the financial statements~~ to the same amounts included in the financial statements and disclosures.	
	d. Reading the certified information included in the financial statements and disclosures for purposes of considering whether the financial statements are appropriate in form and free from obvious material misstatements based on an understanding, through inquiry of management, the types of investments held by the Plan and how it assessed that the financial statement disclosures related to the information prepared and certified by a qualified institution are in accordance with the applicable financial reporting framework.~~evaluating~~ ~~whether the form and content of the certified investment information presented~~ ~~and disclosed in the financial statements are in accordance with accounting~~ ~~principles generally accepted in the United States of America.~~	Removed 20d
	~~Other than with respect to the certified investment information our audit procedures~~ ~~were not limited for other amounts and disclosures in the financial statements.~~ *Auditors' Opinion with the ERISA-Permitted Audit Scope Limitation on the Financial Statements* In our opinion, based on our audit which included the limited procedures described in the *Auditor's Responsibility (Including Responsibility for the Certified Investment Information)* section of this report that were applied to the certified investment information ~~and based on our use of the certification of the investment information that~~ ~~were instructed not to audit~~, the financial statements referred to above present fairly, in all material respects, the net assets available for benefits of ABC 401(k) plan as of December 31, 20X2 and 20X1, and the changes	

Responder	Comment (Issue 2)	TF Consideration / Response
	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 Certified Investment information* The limited procedures applied to the certified investment information were insufficient to provide sufficient appropriate audit evidence on which to base an opinion, and accordingly, we do not express an opinion on such information.	See new proposed report wording
MOCPA (49)	We do not foresee an overall change to the level of transparency with respect to reporting on an audit of ERISA plan financial statements when an ERISA-permitted scope limitation exists. The addition of a Report on Specific Plan Provisions Relating to Financial Statements does add a degree of transparency, as further discussed in Issue 6. The disclaimer opinion is very rarely used outside of ERISA engagements, and this type of report may be subject to misuse and misunderstandings of an auditor's responsibilities. Statements such as "we were not able to obtain sufficient appropriate audit evidence…" without specifying the subject matter is vague (regardless of the fact that the Basis of Disclaimer of Opinion paragraph is referenced). The form and content of the proposed auditor's report follows generally the same methodologies for auditor's reports in other non-public industries. The limitations are very clearly set forth and are less ambiguous than in the current disclaimer language. In this way, we agree with the Board that this form will improve the auditor's understanding of his or her responsibilities on these engagements.	Noted
EY (53)	We support the proposed form and content of the auditor's report on ERISA plan financial statements when management imposes the ERISA-permitted audit scope limitation. We believe the increased transparency about the responsibilities of management and the auditor in the auditor's report would improve audit quality. However, we recommend changes to the proposed language of the report, including the language in the opinion paragraph, to make it clear that the auditor did not audit the certified investment information and performed only limited procedures.	Noted [also see proposed changes to illustrative reports following this table]

Responder	Comment (Issue 2)	TF Consideration / Response
	We support the proposed form and content of the auditor's report for ERISA plan audits when management imposes the ERISA-permitted audit scope limitation. We believe the proposed auditor's report would improve audit quality and provide greater transparency to the users of the financial statements about the responsibilities of management and the auditor. We believe the expanded auditor's responsibilities section would improve audit quality because auditors would clearly understand that they need to perform audit procedures on amounts and disclosures other than the certified investment information. The proposed SAS also would clarify the auditor's responsibilities with respect to the certified investment information, which we believe could reduce inconsistency in practice (see Issue 1 for our comments on the proposed procedures). However, we recommend the following changes to the proposed requirements for the form and content of the auditor's report: • To make the auditor's report more understandable, in addition to "investment information," we recommend defining the following terms in the auditor's report and using them throughout the report: (1) ERISA, (2) ERISA-permitted audit scope limitation and (3) qualified institution. • To make it clear that management instructed the auditor not to audit the certified investment information, we recommend the following edits to the auditor's report: Basis for the ERISA-Permitted Audit Scope Limitation ~~on the Scope of the Audit~~ As permitted by 29 CFR 2520.103-8 of the Department of Labor's Rules and Regulations for Reporting and Disclosure under ~~the Employee Retirement Income Security Act of 1974~~ ERISA, management imposed a limitation on the scope of the audit (ERISA-permitted audit scope limitation). Under the authority of section 103(a)(3)(C) of ERISA ~~the Employee Retirement Income Security Act of 1974~~, the audit need not extend to information related to assets held for investment ~~of the plan~~ (investment information) prepared and certified by a bank or similar institution or insurance carrier which is regulated and supervised and subject to periodic examination by a State or Federal agency (qualified institution), provided that the	Noted See edits made to issue 1 in agenda item 2 New model is moving away from use of scope limitation Wording taken from regulations

Responder	Comment (Issue 2)	TF Consideration / Response
	investment information is ~~the statements~~ ~~or information regarding assets so held are~~ prepared and certified ~~to~~ by a qualified institution ~~the~~ ~~bank or insurance carrier~~ in accordance with 29 CFR 2520.103-5 ~~and 29 CFR 2520.103-8~~. We have been informed by management that a qualified institution holds the investments and executes investment transactions. Management has obtained certifications from the qualified institution as of December 31, 20X2 and 20X1, and for the year ended December 31, 20X2, stating that the investment information, described in Note X to the financial statements, is complete and accurate and has instructed us not to audit the certified investment information. • To make it clear that the auditor did not audit the certified investment information and performed only limited procedures, we recommend the following edits to the auditor's report: ~~Auditor's~~ Opinion ~~With~~ When Management Imposes the ERISA-Permitted Audit Scope Limitation ~~on the Financial Statements~~ In our opinion, based on our audit and ~~based on our use of the certification of~~ the certified investment information ~~that we were instructed not to audit~~, the financial statements referred to above present fairly, in all material respects, the net assets available for benefits of ABC 401(k) plan as of December 31, 20X2 and 20X1, and the changes in net assets available for benefits for the year ended December 31, 20X2, in accordance with accounting principles generally accepted in the United States of America. We did not audit the certified investment information. Rather we performed the limited procedures described in the *Auditor's Responsibility (Including Responsibility for the Certified Investment Information)* section. *Other Matter Relating to the Supplemental Schedules Required by ERISA* In our opinion, based on our audit and ~~based on our use of the certification of~~ the certified investment information ~~that we were instructed not to audit~~, the information in the accompanying schedules is fairly stated, in all material respects, in relation to the financial statements as a whole~~, and the form and content are presented in conformity with the Department of Labor's Rules and Regulations for Reporting and Disclosure under the~~	See issue 2 in agenda item 2 for discussion of reporting options

Responder	Comment (Issue 2)	TF Consideration / Response
	~~Employee Retirement Income Security~~ ~~Act of 1974~~ [***refer to additional recommendations on page 10 related to reporting on ERISA supplemental schedules***]. We did not audit the certified investment information. Rather, we performed the limited procedures described in the *Auditor's Responsibility (Including Responsibility for the Certified Investment Information)* section. • To eliminate redundancy and the risk of confusing users of the financial statements, we recommend deleting the following sentence in the auditor's responsibility section of the auditor's report: ~~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 the proposed SAS should include transition guidance when comparative financial statements are presented and the auditor disclaimed an opinion on the prior year but would issue an opinion following the proposed auditor's report in the year the proposed SAS is effective. We believe any transition guidance should follow Chapter 11 of the Guide, which provides guidance on a similar situation.	TF believes this sentence should be retained within the context of this section. Transition guidance to be considered by the task force at a later date
Q-Zoud (58)	In general, we concur with the concept of clarifying the audit report regarding the nature and scope of the audit engagement, particularly for the limited scope engagement. We believe the report should be a high level synopsis of the engagement performed and a high level conclusion of the results and critical risks of the underlying entity (Plan). As indicated in our response to Issue 1 above - we believe a fatal conceptual omission exists related to the ambiguous responsibility pertaining to the Asset Valuation Measurement presented in the body of the Financial Statements. A disclaimer by the auditor due to reliance on the certification provides an implicit assertion that the certification addresses the valuation issue, [when it very well may not] potentially misleading the user of the financial statements to place undue reliance on the certification, and therefor undue reliance on the audit report.	Noted

Responder	Comment (Issue 2)	TF Consideration / Response
DT (80)	**Inconsistencies between Reporting Requirements for Audits of ERISA Plan Financial Statements and Existing Reporting Standards for Other Audits** D&T believes that the form of auditor's report relating to audits of ERISA plan financial statements is overly complex and that in many instances should be more closely aligned to the existing reporting standards for other audits, in particular as it pertains to AU-C section 705, *Modifications to the Opinion in the Independent Auditor's Report* (AU-C 705); and AU-C section 725, *Supplementary Information in Relation to the Financial Statements as a Whole* (AU-C 725). This closer alignment will enhance consistency in the application of auditor reporting standards irrespective of the audit engagement being conducted by the auditor. D&T has the following concerns: • Auditor's Report When Management has Imposed the ERISA-Permitted Audit Scope Limitation While D&T acknowledges that the ERISA-permitted audit scope limitation imposed by management is unique, we believe that this scope limitation should still be treated, and communicated, in a manner similar to the form and content of the auditor's report when the auditor's report is modified as required in AU-C 705. By doing so, we believe this will avoid confusion amongst auditors in applying the professional standards, and amongst users in interpreting auditors' reports of the ERISA plan financial statements. D&T therefore recommends that when the ERISA-permitted audit scope limitation is imposed by management, the auditor should express a qualified opinion in the auditor's report (including the use of a *Basis for Qualified Opinion* paragraph as well as a *Qualified Opinion* paragraph), and paragraphs 88–115 of the proposed SAS should be amended accordingly. • Additional Modifications to the Auditor's Report When Management has Imposed the ERISA-Permitted Audit Scope Limitation With certain exceptions, paragraph 4 of the proposed SAS indicates that all the AU-C sections apply (which would include AU-C 705). This is also reiterated in paragraph 31 of the proposed SAS, which deals with modifications to an auditor's report on ERISA plan financial statements when there is no ERISA-permitted audit scope limitation imposed, and	Noted – See Issue 2 discussion in agenda item 2 for option that is more closely aligned with current GAAS. Also see detailed comment by paragraph in appendix A to this document. TF moving away from using scope limitation

Responder	Comment (Issue 2)	TF Consideration / Response
	in such circumstances, it is noted that AU-C 705 applies. However, the proposed standard has different reporting considerations as it relates to the form of the report when there are additional modifications beyond the ERISA-permitted audit scope limitation imposed by management (refer to paragraph 34 and the related application material of the proposed SAS). D&T does not believe it is necessary or appropriate to have different considerations for additional modifications to the auditor's report and that AU-C 705 should apply to any such additional modifications.	Noted – to be considered once new way forward is determined
	• Reporting on ERISA Supplemental Schedules D&T notes that when reporting on the required ERISA supplemental schedules, paragraph 4b of the proposed SAS specifically excludes the reporting elements in paragraph 9 of AU-C 725, and the related application material. These reporting elements are instead replaced by those in paragraph 118 of the proposed SAS (and include making specific reference to the DOL's Rules and Regulations under ERISA). Yet it appears that no amendments were made to the underlying performance requirements in AU-C 725. While D&T agrees that certain of the wording in the auditor's report (e.g., whether the opinion in the auditor's report is unmodified or modified) needs to be amended to refer to the supplemental schedules as being required by the DOL's Rules and Regulations under ERISA, we do not believe that other substantive changes are needed to the auditor's report in terms of content, as fundamentally the procedures performed by the auditor in accordance with AU-C 725 for supplementary information are consistent with the procedures for evaluating the supplemental schedules required by ERISA. D&T therefore recommends that the requirements in paragraph 118 be more closely aligned with AU-C 725.	See proposed changes in Issue 3 in Agenda item 2
	With the exception of the *Reporting on Specific Plan Provisions Relating to the Financial Statements* section (refer to paragraphs 110–112 of the proposed SAS) included in a management-imposed ERISA-permitted audit scope limitation auditor's report, D&T believes that the new form of auditor's report (as contemplated by paragraphs 88-115 of the proposed SAS), will provide improved	Noted.

Responder	Comment (Issue 2)	TF Consideration / Response
	transparency and additional clarity to users, in particular, as it relates to highlighting and describing the responsibilities of management and the auditor. D&T does, however, have proposed edits to the management-imposed ERISA-permitted audit scope limitation reporting requirements to align the elements in paragraphs 88–109 and paragraphs 113–115 of the proposed SAS with existing requirements and application guidance in (a) paragraphs 49–65 and paragraphs 70–72 of the proposed SAS, where appropriate; (b) AU-C 705; and (c) AU-C 706. The more significant editorial recommendations are as follows: • Basis for Limitation on the Scope of the Audit (paragraphs 93 and 94). As highlighted in Appendix A—Issue 1, D&T believes the ERISA-permitted audit scope limitation imposed by management should be described in the auditor's report in a manner similar to scope limitations as required in AU-C 705 and included instead as a paragraph under the *Basis for Qualified Opinion* heading in the auditor's report. Where the auditor is unable to obtain sufficient appropriate audit evidence due to a management-imposed ERISA-permitted audit scope limitation (albeit allowed by the DOL's Rules and Regulations under ERISA), D&T believes that the auditor's report should be appropriately modified to reflect such a qualified opinion. We believe that this will more accurately reflect the nature of the ERISA-permitted audit scope limitation imposed by management as described in the proposed SAS, while also allowing for the auditor's opinion to be qualified. • Auditor's Responsibility (Including Responsibility for the Certified Investment Information (paragraphs 98–104). D&T recommends that the statement highlighting the auditor's responsibility with respect to the ERISA-permitted audit scope limitation imposed by management as it relates to the certified investment information be amended so as to be reflective of the responsibilities that the auditor actually performs, as opposed to those areas the auditor did not address. This makes for a more positive statement of responsibilities in this section of the auditor's report. Further, D&T notes that the procedures listed should not be limited, as the auditor may, based on professional judgment, perform additional procedures and this would imply the auditor's	TF is moving away from considering this a scope limitation. Revised models for reporting to be discussed at the January ASB meeting

Responder	Comment (Issue 2)	TF Consideration / Response
	report would need to be amended to encompass any additional procedures the auditor performs. • Auditor's Opinion with the ERISA-Permitted Audit Scope Limitation of the Financial Statements (paragraphs 105–106) For reasons noted above, D&T believes that the ERISA-permitted audit scope limitation as imposed by management results in a qualified audit opinion. Refer to Appendix C for edits to the relevant reporting element paragraphs that take into account the reasons for the significant changes addressed above as well as other editorial recommendations, and Appendix D for the related edits to Illustrations 3 and 7 of paragraph A148.	
Clark N (84)	Response: The enhanced disclosures outlined in paragraphs 94 (a) - (c) do provide more transparency on the nature of the limited scope certification, the statutory framework under which it is permissible, the qualifications of the issuer of the certification, and the limited procedures applied by the auditor with respect to certified information. We are also pleased with the additional clarity provided in the opinion paragraph itself - this is a significant improvement over the "disclaimer of opinion" paragraph under current standards. Response: The auditor's understanding of his or her responsibilities must be present prior to engagement acceptance, and are normally documented in the letter of engagement in the acceptance process. Therefore, in our opinion, inclusion of this language in the auditor's report itself is certainly not detrimental, but unlikely to significantly enhance audit quality. Response: Yes, the proposed report content will better describes management's responsibilities. We agree that is it extremely important to document management's understanding of their responsibilities as noted in paragraphs 96 (a) - (d); however, we see limited value in adding these statements to the audit report. These items are all acknowledged by management in the execution of appropriate engagement and representation letters, and we believe the users of the financial statements of employee benefit plans (management and regulators primarily) do not receive a greater benefit or clarity by inclusion in the auditor's report.	noted

Responder	Comment (Issue 2)	TF Consideration / Response
	Response: While it cannot be denied that the content of paragraphs 101-102 adds clarity to the auditor's responsibilities, in our view, the inclusion in the auditor's report is unnecessary and inconsistent with the current audit report content for non-EBP financial statements.	
GJC (82)	The reporting model described in paragraphs 88 through 115 of the proposed SAS represents a distinct change from current reporting standards for ERISA limited-scope audits. Currently, the auditor issues a disclaimer of opinion (in some cases, a qualified opinion) on the fairness of presentation of the financial statements in accordance with the applicable financial reporting framework, while issuing an opinion on the fairness of presentation of the financial statements in compliance with the U.S. Department of Labor's Rules and Regulations for Reporting and Disclosure under ERISA. Under the proposed SAS, the auditor instead would issue an opinion on the fairness of presentation of the financial statements in accordance with the applicable financial reporting framework, based on the audit and the auditor's use of the certification of the investment information that the auditor was instructed not to audit. We agree that the proposed new reporting model will provide increased transparency with respect to the auditor's report, will improve auditors' understanding of their responsibilities in ERISA limited-scope audits, and will better describe management's responsibilities for the financial statements. We also agree that the proposed new reporting model will provide improved clarity to users with respect to the auditor's responsibilities. Our concern is that the auditor would be issuing an opinion on the fairness of presentation of the financial statements in accordance with the applicable financial reporting framework when the auditor has not applied audit procedures to investments and investment information, which is typically the most substantial portion of the financial statements. Even with including the caveat in the report that the opinion is based on the audit and the auditor's use of the certification of the investment information that the auditor was instructed not to audit, we believe that issuing such an opinion may give the user the impression that the same level of assurance can be expressed by the auditor on the financial statements, regardless of whether or not audit procedures were performed on investments and investment information. We do not believe that the performance of ERISA limited-scope audit procedures, as outlined in paragraph 20 of the proposed SAS, is the equivalent	Noted. See revised models in Issue 2 in Agenda Item 2 materials. See proposed revisions to par 106 in appendix A of this document.

Responder	Comment (Issue 2)	TF Consideration / Response
	of performing audit procedures on investments and investment information in accordance with other auditing standards generally accepted in the United States of America, such as occurs in a full-scope audit. While we believe that the new reporting model should express more assurance on the fairness of presentation of the financial statements than is expressed in the current reporting model, we also believe that the appropriate level of assurance should be less than issuing an unmodified opinion on the fairness of presentation of the financial statements. Under existing standards, the auditor's intent is to disclaim an opinion on investment information contained in the financial statements and to issue an opinion on the fairness of presentation on the remainder of the financial statements. Under the proposed SAS, it appears that the auditor's intent would be to provide limited assurance that the auditor is not aware of any material modifications that should be made to the investment information contained in the financial statements (similar to a review), while issuing an opinion on the fairness of presentation on the remainder of the financial statements. We believe the auditor's report should more clearly state that.	
Crowe (91)	Auditor's Report on ERISA Plan Financial Statements When Management Limits the Scope of the Audit as Permitted by ERISA (Paragraphs 98-106) While we believe changes to the wording of the auditor's report could help achieve the stated objectives, we have concerns with the proposed wording noted in paragraph 106. We have significant concerns with the proposed wording in paragraph 106 and as presented in Illustration 3 within the Proposal. The wording of the "Auditor's Opinion With the ERISA-Permitted Audit Scope Limitation on the Financial Statements" is presented in Illustration 3 below: "In our opinion, based on our audit and based on our use of the certification of the investment information that we were instructed not to audit, the financial statements referred to above present fairly, in all material respects, the net assets available for benefits of ABC 401(k) plan as of December 31, 20X2 and 20X1, and the changes in net assets available for benefits for the year ended December 31, 20X2, in accordance with accounting principles generally accepted in the United States of America."	Noted See issue 2 in agenda item 2 for discussion of reporting options TF to consider transition guidance at a later date.

Responder	Comment (Issue 2)	TF Consideration / Response
	We believe the proposed wording implies a greater level of assurance than appropriate for the information which was certified. The proposed wording could be construed to provide the same level of assurance to the certified investment information as is obtained through the audit procedures which were performed on the information which is not covered by the limited scope certification. As a result, we believe the proposed wording could be misleading to users thereby increasing the expectation gap between users and the auditors. We would recommend changing paragraph 106 to state that "the auditor's report should include a statement that in the auditor's opinion, except for the certified investment information that the auditor was instructed not to audit and did not audit, the financial statements present fairly, in all material respects, the […] in accordance with [the applicable financial reporting framework.]" The wording in Illustration 3 would be revised to the following to clearly identify the scope limitation: > In our opinion, except for the certified investment information that we were instructed not to audit and did not audit, the financial statements referred to above present fairly, in all material respects, the net assets available for benefits of ABC 401(k) plan as of December 31, 20X2 and 20X1, and the changes in net assets available for benefits for the year ended December 31, 20X2, in accordance with accounting principles generally accepted in the United States of America. Paragraphs .95-.97 have significantly expanded the description of management's responsibilities within the auditor's report. We suggest that guidance be added to the proposed paragraphs to address circumstances where management does not perform all of the items listed in these paragraphs covering management's responsibility section. The guidance might refer to further scope limitations if these responsibilities were not performed by management. Transition Guidance Paragraphs 49-108 of the Proposed SAS contain revisions to the auditor's report on ERISA plan financial statements when there is no ERISA-permitted audit scope limitation and the auditor's report on ERISA plan financial statements when management limits the scope of the audit as	

Responder	Comment (Issue 2)	TF Consideration / Response
	permitted by ERISA. EBPs are required to present comparative statements of net assets available for benefits. As comparative financial statements are required, we believe the Proposal needs to include transition guidance which addresses how these changes in the auditor's report should be presented in the year of adoption. We would recommend that the transition guidance include example wording of an auditor's report on ERISA plan financial statements when there is no ERISA-permitted audit scope limitation and an auditor's report on ERISA plan financial statements when management limits the scope of the audit as permitted by ERISA for the year in which the new reporting is presented.	
LBMC (93)	We agree that the proposed audit report improves transparency. We believe the new audit report will provide a better understanding to plan sponsors and the users of the financial statements of the procedures that are performed in a limited scope audit. Additionally, the new opinion will make practitioners aware that there are procedures that should be performed in a limited scope audit. However, we do not believe that the new audit report alone will meaningfully impact audit quality. Improvements to audit quality will require continued scrutiny by peer reviewers, possible continuing education requirements for plan auditors, and education for plan sponsors on the value of a quality audit. We do not believe that an unqualified opinion should be used when a limited scope audit is being performed. In most cases in a limited scope audit, substantially all of the plan's assets are unaudited. We believe that it will be confusing to the users of the financial statements if an unqualified opinion is issued. We believe that a disclaimer of opinion is appropriate in this circumstance. We suggest that the wording in Paragraph 102, "...management instructed the auditor not to audit..." be changed to "management instructed the auditor not to audit, and the auditor did not audit". This change would clarify that the auditor did not audit the certified investments.	Noted
NAACPA (97)	A-The proposed auditor's report will improve transparency of reporting for limited scope engagements. One of our main concerns with the new reporting relates to the Report on Specific	Noted

Responder	Comment (Issue 2)	TF Consideration / Response
	Plan Provisions Relating to the Financial Statements and the reporting of findings, which we discuss in Issue 6. A-The proposed auditor's report will improve the auditor's understanding of his or her responsibilities in a limited scope audit. We question whether the auditor's report is the place for the auditor to be understanding his or her responsibility in a limited scope audit, and how beneficial it is to the user of the financial statements compared to the increased efforts and costs. We think overall audit quality would be improved if the AICPA and state societies were more consistent in policing and penalizing the firms that are not performing well rather than placing additional burdens on plan sponsors and quality auditors. Good firms tend to always find a way to exceed expectations regardless of where the bar moves. Poor quality firms tend to find loopholes, and would probably be more likely to weigh the cost benefit of performing plan audits if they knew what the penalties were for substandard engagements. A-The proposed auditor's report does provide a better description of management's responsibilities with respect to the financial statements. We think management may need to consider retaining ERISA counsel to evaluate their risks, which is something that should be considered as potential cost and risk to the plan sponsor A-The proposed auditor's report does provide additional clarity for knowledgeable users with respect to auditor's responsibilities and matters reported. As noted previously, see Issue 6 for our comments on Report on Specific Plan Provisions Relating to the Financial Statements.	
Draffin (103)	We believe the proposed SAS will provide improved transparency with respect to reporting on an audit of ERISA plan financial statements when an ERISA-permitted audit scope limitation exists, except as noted in the following. However, we must also ask — Is it appropriate to allow an unmodified opinion on an audit engagement with a potentially material scope limitation? We believe the additions to and enhancements of auditor's responsibility may improve certain auditors' understanding of their responsibilities in these engagements, but primarily will serve to educate the readers of the financial statements.	Noted

Responder	Comment (Issue 2)	TF Consideration / Response
	We believe the additions to and enhancements of management's responsibility will provide clarity to the user of the financial statements. We believe the additions to and enhancements of auditor's responsibility will provide clarity to the user of the financial statements, with the exception of the following: • Listing procedures performed with respect to the certified investment information as such detail is more appropriate for an agreed-upon procedures engagement rather than an audit engagement. • Including the areas for which procedures were performed in such detail is more appropriate for an agreed-upon procedures engagement rather than an audit engagement. • Reporting findings as this could be applied inconsistently among audit firms and misinterpreted by the readers of the financial statements.	
EideB (107)	Response: We agree that the proposed enhanced reporting does improve transparency of the roles in a limited scope audit. Response: We noted the proposed enhanced reporting was designed to give to the auditor credit for the work performed in a limited scope audit, specifically around the procedures related to investments. In the past, it was not always clear to the user what the auditor's responsibilities were in a limited scope audit. With respect to potential improvements in audit quality, please see our comments above regarding the assumed linkage between auditor reporting and auditor performance. Accordingly, we believe the combination of more effective peer review and regulatory oversight will likely identify delinquent work more readily than the proposed changes in auditor reporting. Response: We agree the proposed new form of opinion better describes management's responsibilities, especially surrounding investments. Response: As noted above, we generally agree that the proposed changes provide increased and sufficient clarity with respect to the auditor's responsibility.	noted

Responder	Comment (Issue 2)	TF Consideration / Response
	However, as we have also noted, we do not believe that the auditor's report is the appropriate vehicle for the communication of findings with respect to outside parties. Rather, we believe it is more appropriate for the auditor to provide findings to management and/or those charged with governance, with communications to regulators and others to be provided by one of those two parties.	
Not Supportive of Proposal		
PBTK (2) (Howard Levy)	Under the proposal (paras. 102, 104 and 106), despite a severely limited audit scope imposed by the client, auditors would be required to issue an unmodified opinion, based in part on the custodian's unaudited certification (to which only limited procedures would be applied), rather than a disclaimer.	See issue 2 in agenda item 2 for discussion of reporting options
	The text of the ED and Illustration 3 (of a proposed limited scope audit report form) shown in the Exhibit (para .. A 148) of the proposed standard are inconsistent with the general provisions of AU-C secs. 705 .10-.13, which apply to reporting on a management-imposed scope limitation, although the ED proposes no amendment to secs. 705.10-.13 to provide an exception in reference to sec 703. This oversight would leave a glaring contradiction between the two standards. We firmly believe AU-C secs. 705.10-.13 should stand unmodified, without exception. Moreover, the proposed reporting model for limited scope audits is clearly inconsistent, in our opinion, with the longstanding "General Standards Rule" in the *Code of Professional Conduct,* which requires CPAs to "obtain sufficient relevant data to afford a reasonable basis for conclusions or recommendations in relation to any professional services performed" (ET sec.1.300.001 .0l(d)). No amendment to this ethical requirement has been proposed, and we believe such a proposal would be beyond the authority of the ASB. We firmly believe ET sec.1.300.001.0l(d) should likewise stand unmodified, without exception.	
PBTK (2) (Howard Levy)	As provided in AU-C secs. 705.10-.13, an auditor has three possible ways to deal with an unresolved client scope limitation. The most extreme of the three possible courses of action, of course, would be for the auditor to withdraw from the engagement, for example, when management's integrity is in doubt. Normally, however, when the possible effects on the financial	See issue 2 in agenda item 2 for

Responder	Comment (Issue 2)	TF Consideration / Response
	statements of any misstatements undetected due to the scope limitation could be both material and pervasive in the auditor's judgment, a disclaimer of opinion on the financial statements (as has historically been the case for these EBP engagements) would be required but if only material, but not pervasive, a qualified opinion (AU-C secs. 705.10-.13), which would necessarily begin with words like, "except for the effects of any adjustments ... ") may be issued.	discussion of reporting options
	In this proposal, however, the Board would have auditors skip over "Plan B" (a qualified opinion, which might be justifiable in unusual circumstances when in the auditor's judgment, the level of pervasiveness is acceptable). We do not believe the standard should allow for such auditor judgment (with caution). But in the ED, the Board by-passed that option and jumped to a self-contradictory unmodified opinion that is characterized as based in (significant) part on unaudited information. Why? What is driving this conclusion? How would this troublesome report language contribute to the achievement of the DOL's regulatory objective? Who then is supposed to benefit from such a meaningless, groundless (and outlandish) opinion?	
	We view the proposed limited scope reporting model as having the effect of severely diluting and diminishing the value of audit reporting and the attest function, in general. To emphasize by way of analogy the palpable absurdity of the proposed opinion, we can see the custodian as akin to a material, self-managing subsidiary. The subsidiary's management controls its assets, keeps its books and sends unaudited financial statements to the parent for consolidation. How could the parent's auditor express an unmodified opinion in reliance on these unaudited financial statements?	
	The limited scope report form proposed in Illustration 3 of the Exhibit (para. . A148) appears inappropriately to be modeled in certain respects after the traditional report form commonly used for dividing responsibility between participating component audit firms that now resides in AU-C 600. However, the critical distinction is that under AU-C 600, the reporting auditor's reliance is placed on audited, not unaudited information, and even when making reference to the work of a component auditor, the reporting auditor must take considerable overall responsibility for the direction, supervision, and performance of the audit engagement.	

Responder	Comment (Issue 2)	TF Consideration / Response
PBTK (2) (Howard Levy)	Alternatively, one might view the custodian's certificate as a sufficiently reliable piece of evidence like a third party confirmation (which para. A45 of the ED firmly and correctly states that it is not). Here the critical distinction is that unlike a confirmation, such a certificate does not independently confirm information that was previously recorded by the audit client; it is the sole source of such information. Moreover, reference would never otherwise be made in an audit report to a confirmation, the work of an auditor's specialist (AU-C 620.14) or any other single piece of audit evidence when it significantly supports an unmodified opinion. Why, then, should we do so when, as is proposed, it provides no support?	
PBTK (2a)	On page 3 of our earlier letter, we refer to the reporting alternative that seems to be afforded by AU-C secs. 705.10-.13 for issuing a qualified opinion when the subject matter is material but not pervasive. Since a report modification would never be considered if the subject matter is not material, the issue is whether only a lack of pervasiveness would support the qualification reporting alternative for limited scope EBP audits, an alternative we believe would likely satisfy the DOL's objection to the traditional disclaimer format and be a compromise that is more palatable to auditors than a highly objectionable unmodified opinion, as proposed in the ED. Unfortunately, however, we find that there is an overreaching definition of "pervasive" in the Auditing Standards Codification glossary that effectively renders pervasiveness irrelevant, eliminates it as a separate reporting consideration and, therefore, removes the reporting option of a qualified opinion that is implied by AU-C secs. 705.10-.13, leaving only a disclaimer available as a reporting choice in all cases. The troublesome glossary definition of "pervasive" describes effects on the financial statements that are "not confined to specific elements, accounts, or items" (which condition we believe is consistent with general English usage), but it also includes, alternatively, those effects that "if so confined, represent or could represent a substantial proportion of the financial statements," or "with regard to disclosures, are "fundamental to users' understanding of the financial statements." We view the latter two alternative conditions as substantially the same as material. Accordingly, we firmly believe it is essential that these extraneous conditions be deleted from the glossary definition of "pervasive" to keep it pure and distinctly different from "material," thus, bringing the term "pervasive," in line with common understanding and enabling the use of these two terms as separate considerations for	

Responder	Comment (Issue 2)	TF Consideration / Response
	alternative reporting of scope limitations (as appears to be intended by the language currently in AU-C secs. 705.10-.13). We further believe AU-C secs. 705.10-.13 should be amended to clarify the availability of two reporting alternatives, which is now rather obscure. afforded by AU-C secs. 705.10-.13 for issuing a qualified opinion when the subject matter is material but not pervasive. Since a report modification would never be considered if the subject matter is not material, the issue is whether only a lack of pervasiveness would support the qualification reporting alternative for limited scope EBP audits, an alternative we believe would likely satisfy the DOL's objection to the traditional disclaimer format and be a compromise that is more palatable to auditors than a highly objectionable unmodified opinion, as proposed in the ED. Unfortunately, however, we find that there is an overreaching definition of "pervasive" in the Auditing Standards Codification glossary that effectively renders pervasiveness irrelevant, eliminates it as a separate reporting consideration and, therefore, removes the reporting option of a qualified opinion that is implied by AU-C secs. 705.10-.13, leaving only a disclaimer available as a reporting choice in all cases. Given that the foregoing change in definition is made, we recommend that the final version of any EBP audit reporting standard emphasize preferability for the qualification reporting option whenever warranted for limited scope EBP audits. To further mitigate the expressed concerns of the DOL, the new standard should also state clearly that if and when the reporting auditor considers a disclaimer more appropriate, it will not relieve the auditor from applying sufficient audit procedures in all areas of the audit not related to its subject matter.	
HS (3)	As noted in the Background discussion, the DOL had requested the ASB to explore different reporting models in these circumstances, expressing a concern that the wording of the current limited scope auditor's report, and resulting disclaimer of opinion typically issued, may be a contributing factor to audit quality deficiencies because of potential confusion regarding the auditor's responsibilities in performing these engagements. The proposed SAS is intended to provide more transparency into the audit procedures that are required by requiring a new form and content of the auditor's report when the ERISA-permitted audit scope limitation is imposed by management and there are no other limitations on the scope of the audit and no identified material misstatements of the ERISA plan financial statements. Should either of the latter conditions exist (scope limitation or	See issue 2 in agenda item 2 for discussion of reporting options

Responder	Comment (Issue 2)	TF Consideration / Response
	material misstatement) the auditor would be precluded from using the format of the new proposed report and would apply the requirements in AU-C section 705, Modifications to the Opinion in the Independent Auditor's Report (AICPA, Professional Standards). This new form of opinion includes a statement that in the auditor's opinion, based on the audit and based on the use of the certification of the investment information which the auditor was instructed not to audit, the financial statements are fairly stated in all material respects in accordance with the applicable financial reporting framework.	
HS (3)	(Q1) No. As noted in my response to Issue 1, the new report language is confusing in that it is inherently self-contradictory. While the language may accommodate the DOL, it is inconsistent with extant professional standards and inappropriate. I assume the DOL was okay with this language, but their view should not be dispositive. If the certification is not sufficient appropriate audit evidence, we cannot use it as the basis for our audit report. The fact that we were instructed not to audit the accounts covered by the certification, as permitted by ERISA, is not a basis for a clean opinion. The unavoidable fact is that we did not audit what are probably substantially all the assets available, and we must disclaim an opinion on the financial statements.	See issue 2 in agenda item 2 for discussion of reporting options
HS (3)	(Q2) Maybe, but even if "yes", I don't believe this pedantic approach is how professionals should be treated. Yes, the DOL inspection results demonstrate that many CPAs don't perform properly on these engagements. Issuing this new SAS is a good step to help remedy this problem, but the convoluted reporting does not have to be part of the new standard.	Noted
	(Q3) Yes, but describing management's responsibilities is largely self-serving boilerplate	Noted
	(Q4) No. As discussed above, the proposed report language would be confusing to users. The issuance of a clean opinion may also result in the misinterpretation of the level of assurance really provided by the audit.	Noted

Responder	Comment (Issue 2)	TF Consideration / Response
Legacy (5)	We believe that the form and content of the proposed auditors report will not improve transparency. The specific form of opinion will, in our opinion, confuse the reader as to the level of assurance obtained by the auditor. We believe that the proposed content better describes management's responsibilities for the limitation on the scope of the audit.	See issue 2 in agenda item 2 for discussion of reporting options
	We believe that the procedures described in Paragraph 20 will achieve this objective. (objective to improve the auditor's understanding of his or her responsibility in a limited scope audit resulting in potential improvements in audit quality)	
	We believe that the proposed content provides decreased clarity to users with respect to the auditor's responsibilities, in the following ways: • The heading Auditor's Responsibility (Including Responsibility for the Certified Investment Information) is misleading. The auditor is not responsible for any part of the financial statements, including the certified investment information.	
	• Although the auditor may perform limited procedures with respect to the certified investment information, procedures (a) and (b) relate mainly to the certification itself and not the underlying investment information. Procedure (c) was already included in existing content and procedure (d) would, in our opinion, be better conveyed in a paragraph regarding the form and content of the financial statements in compliance with the applicable reporting framework.	
	• The proposed content makes clear that the auditor "did not assess the risks of material misstatement" nor "consider internal control" but omits information that the auditor performed no procedures to obtain reasonable assurance about whether the investment information is free from material misstatement.	

Responder	Comment (Issue 2)	TF Consideration / Response
	• The proposed content tells the user that "In our opinion, based on our audit and based on our use of the certification of the investment information …, the financial statements present fairly, in all material respects..." a. The certification, as described in paragraph A45, does not provide sufficient appropriate audit evidence on its own, and therefore, the auditors opining on the financial statements us a whole, without explaining the effect of the scope limitation, would be entirely misleading to the user. b. The possible effects on the financial statements of undetected misstatements in the area of investment information that was unaudited, could be both material and pervasive. Therefore, we believe that the disclaimer of opinion remains the appropriate modification to the auditor's report in the circumstances.	
PICPA (6)	Limited Scope Opinion — The committee does not support the revisions to the auditor's limited scope opinion in Illustration 3—An Auditor's Report on Financial Statements for a Defined Contribution Retirement Plan Subject to ERISA when Management Imposes a Limitation on the Scope of the Audit as Permitted by ERISA. "In our opinion, based on our audit and based on our use of the certification of the investment information that we were instructed not to audit, <u>the financial statements referred to above present fairly, in all material respects,</u> the net assets available for benefits of ABC 401 (k) plan as of Dec. 31, 20X2 and 20X1, and the changes in net assets available for benefits for the year ended Dec. 31, 20X2, in accordance with accounting principles generally accepted in the United States of America." Specifically, in light of the limited nature of the auditor's procedures over investments, the committee does not support the use of the wording "<u>the financial statements referred to above present fairly, in all material respects</u>." Instead, given the materiality of investments, the committee believes that a disclaimer is appropriate.	See issue 2 in agenda item 2 for discussion of reporting options

Responder	Comment (Issue 2)	TF Consideration / Response
PICPA (6)	Management's Responsibilities — The committee noted that the proposed section in the draft opinion under Management's Responsibilities is lengthy and goes beyond the responsibilities included in the standard clarified audit opinions. The committee recommends moving these proposed responsibilities to a separate management assertion that management would sign and would be attached to the opinion.	Noted
CalCPA (13)	• No. As noted in our response to Issue 1, the new report language is confusing in that it is inherently self-contradictory. While the language may accommodate the DOL, we believe it is inconsistent with extant professional standards and inappropriate. We are assuming the DOL was okay with this language, but their view should not be dispositive. We submit that if the certification is not sufficient appropriate audit evidence, we cannot use it as the basis for a clean audit report. Stated differently, the fact that we were instructed not to audit the accounts covered by the certification, as permitted by ERISA, is not a basis for a clean opinion. The unavoidable fact is that we did not audit what are probably the substantial majority of the assets available, and we must disclaim an opinion on the financial statements. • We believe that the ED may improve the auditor's understanding of his or her responsibilities, however we don't believe the pedantic approach conveyed through the ED is how professionals should be treated. We recognize the DOL inspection results demonstrate that many CPAs don't perform properly on these engagements. We further recognize that this new SAS is a good step to help remedy this problem. However, we believe the convoluted report proposed does not have to be part of the new standard. • While the Committee recognizes that the proposed report better describes management's responsibilities for the financial statements, we believe the description is largely self-serving boilerplate.	See issue 2 in agenda item 2 for discussion of reporting options

Responder	Comment (Issue 2)	TF Consideration / Response
	• No. As discussed above, we believe the proposed report language would be confusing to users. The issuance of a clean opinion may also result in the misinterpretation of the assurance provided by the auditor.	
MKA (16)	The ERISA audit scope limitation authorizes plan management to instruct an auditor not to perform any auditing procedures with respect to investment information that is certified by a bank, insurance carrier or institution that is regulated, supervised and subject to periodic examination by a federal or state agency if the certifying institution certifies both the completeness and the accuracy of the information. ERISA thereby permits an auditor to omit audit procedures that are fundamental to achieving an employee benefit plan financial statement user's principal objective, which is to assess a plan's financial status and ability to pay benefits. The SAS is intended to provide more transparency and improve execution of procedures related to employee benefit plan audits when an ERISA-permitted scope limitation is imposed by requiring expanded auditor and management responsibilities sections in the audit report. We believe this will do little to mitigate the risk that an employee benefit plan may have used inappropriate valuation processes in the financial statement presentation of net assets and changes in net assets available for benefits and urge the Accounting Standards Board not to adopt changes to the limited scope audit report contemplated in the SAS. A better means to accomplish the overriding goal of protecting participant investment interests would be for the DOL to revise qualifications necessary for an ERISA permitted limited scope certification. There is a direct correlation between the complexity of a plan's investment portfolio and the inherent risk in determining investment values. Custodians and trustees that qualify to issue ERISA-permitted scope limitations typically certify as to the best information available to them, which may not represent fair value at year end. A framework similar to that provided under 29 CFR 2520.104-46 could be adopted for limited scope certifications and restrictions could be applied to plans investing in hard to value securities, as defined. The ERISA-permitted limited scope audit option would be available only to employee benefit plans that hold qualifying assets.	Noted

Responder	Comment (Issue 2)	TF Consideration / Response
Freyberg (17)	As further explained below, we believe that the form and content of the proposed auditors report will not improve transparency. A piecemeal opinion that only attests to a portion of financial statements does not give plan sponsors the needed level of assurance. The specific form of opinion will, in our opinion, confuse the reader as to the level of assurance obtained by the auditor.	Noted.
	We believe that the procedures described in Paragraph 20 will achieve this objective [*to improve auditor's understanding of his or her responsibilities in a limited scope audit*]	
	We believe that the proposed content better describes management's responsibilities for the limitation on the scope of the audit. We believe that the proposed content provides decreased clarity to users with respect to the auditor's responsibilities, in the following ways: The heading Auditor's Responsibility (Including Responsibility for the Certified Investment Information) is misleading. The auditor is not responsible for any part of the financial statements, including the certified investment information. Although the auditor may perform limited procedures with respect to the certified investment information, procedures (a) and (b) relate mainly to the certification itself and not the underlying investment information. Procedure (c) was already included in existing content and procedure (d) would, in our opinion, be better conveyed in a paragraph regarding the form and content of the financial statements in compliance with the applicable reporting framework. The proposed content makes clear that the auditor "did not assess the risks of material misstatement" nor "consider internal control" but omits information that the auditor performed no procedures to obtain reasonable assurance about whether the investment information is free from material misstatement. The proposed content tells the user that "In our opinion, based on our audit and based on our use of the certification of the investment information..., the financial statements present fairly, in all material respects..." The certification, as described in paragraph A45, does not provide sufficient appropriate audit evidence on its own, and therefore, the auditors opining on the financial statements us a whole, without explaining the effect of the scope limitation, could be misleading to the user.	Noted. See issue 2 in agenda item 2 for discussion of reporting options

Responder	Comment (Issue 2)	TF Consideration / Response
	The possible effects on the financial statements of undetected misstatements in the area of investment information that was unaudited, could be both material and pervasive. Therefore, we believe that the disclaimer of opinion remains the appropriate modification to the auditor's report in the circumstances.	
LC&T (19)	As further explained below, we believe that the form and content of the proposed auditors report will not improve transparency. A piecemeal opinion that only attests to a portion of financial statements does not give plan sponsors the needed level of assurance. The specific form of opinion will, in our opinion, confuse the reader as to the level of assurance obtained by the auditor. We believe that the procedures described in Paragraph 20 will achieve this objective. We believe that the proposed content better describes management's responsibilities for the limitation on the scope of the audit. We believe that the proposed content provides decreased clarity to users with respect to the auditor's responsibilities, in the following ways: • The heading Auditor's Responsibility (Including Responsibility for the Certified Investment Information) is misleading. The auditor is not responsible for any part of the financial statements, including the certified investment information. • Although the auditor may perform limited procedures with respect to the certified investment information, procedures (a) and (b) relate mainly to the certification itself and not the underlying investment information. Procedure (c) was already included in existing content and procedure (d) would, in our opinion, be better conveyed in a paragraph regarding the form and content of the financial statements in compliance with the applicable reporting framework. • The proposed content makes clear that the auditor "did not assess the risks of material misstatement" nor "consider internal control" but omits information that the auditor	See issue 2 in agenda item 2 for discussion of reporting options

Responder	Comment (Issue 2)	TF Consideration / Response
	performed no procedures to obtain reasonable assurance about whether the investment information is free from material misstatement. • The proposed content tells the user that "In our opinion, based on our audit and based on our use of the certification of the investment information... , the financial statements present fairly, in all material respects…" a. The certification, as described in paragraph A45, does not provide sufficient appropriate audit evidence on its own, and therefore, the auditors opining on the financial statements us a whole, without explaining the effect of the scope limitation, could be misleading to the user. b. The possible effects on the financial statements of undetected misstatements in the area of investment information that was unaudited, could be both material and pervasive. Therefore, we believe that the disclaimer of opinion remains the appropriate modification to the auditor's report in the circumstances.	
BMF (21)	I strongly object to the wording in the new proposed limited scope report (illustration 3) – with this scope limitation, despite it being permitted under ERISA, it should still be a disclaimer of opinion and it is being presented as expressing an opinion. Conceptually, we cannot express an opinion on the financial statements as a whole when we are not auditing the vast majority of assets of a plan. I prefer some of the other language that better explains what an auditor is excluding from the audit.	Noted
BB (22)	The current auditor's report for a limited scope opinion is a disclaimer of opinion because the auditor does not perform sufficient work on investments to render an unmodified opinion. The proposed opinion creates an unmodified opinion on the portion of the financial statements that were not included in the certification and, therefore, should be subject to audit procedures. In effect, this restores the old piecemeal opinion which the profession abandoned many years ago because it was found to be misleading to the user. Additionally, the limited scope opinion, as drafted, would be four pages in length. It's difficult to imagine that extending the report to this length would improve audit	Noted See issue 2 in agenda item 2 for discussion of reporting options

Responder	Comment (Issue 2)	TF Consideration / Response
	quality in any way or bring greater clarity to the user. In our opinion, the proposed form and content of the auditor's report will not improve transparency and should be removed from the proposal. The procedures described in paragraph 20 are sufficient to inform the auditor of his or her responsibilities. The proposed description for the auditor's report might help a reader understand what the auditor should have done but will not provide improvement in the audit itself. The AICPA Audit Guide for Employee Benefit Plans is very clear regarding required procedures, but the DOL review concluded that auditors are not following written procedures already included in the Audit Guide. We believe it is wishful thinking to believe that a change to the auditor's report will suddenly improve the auditor's ability to follow procedures in the Audit Guide. This is an education problem. Improvements in audit quality will result from improvements in auditor educational requirements, rather than expanding required language in the auditor's report. The proposed additional language does describe management's responsibilities for the financial statements better and it also better describes the limitation on the scope of the audit. However, we do not believe this detail is necessary in the auditor's report. We suggest that adding this language as required language for the client representation letter is more appropriate as the client is required to sign this letter. Further, the last paragraph regarding management's responsibility for maintaining and operating the plan in accordance with ERISA is outside the scope of the heading regarding responsibility for the financial statements and the scope limitation and should be removed. The heading Auditor's Responsibility (Including Responsibility for the Certified Investment Information) is misleading. The auditor is in no way responsible for any part of the financial statements, including the certified investment information. The proposed heading should be revised. Although the auditor may perform limited procedures with respect to the certified investment information, procedures (a) and (b) relate primarily to the certification language and not the underlying investment information. Procedure (c) is already included in existing content and procedure (d) is best conveyed in a paragraph regarding the form and content of the financial statements in compliance with the applicable reporting framework. Although the proposed language says that the auditor "did not assess the risks of material misstatement" nor "consider internal	

Responder	Comment (Issue 2)	TF Consideration / Response
	control", it does not reveal that the auditor didn't perform any procedures to obtain reasonable assurance about whether the investment information is free from material misstatement. The proposed language informs the user that "In our opinion, based on our audit and based on our use of the certification of the investment information. the financial statement present fairly, in all material respects... • Opining on the financial statements as a whole as described above is not appropriate, since the certification, as described in paragraph A45, does not provide sufficient or appropriate audit evidence on its own. This renders the "In our opinion. statement entirely misleading to the user of the financial statement. • The possible effects on the financial statements of undetected misstatements in the area of investment information that was unaudited, could be material. Therefore, in our opinion, the disclaimer of opinion is the appropriate modification to the auditor's report under the circumstances	
THDL (23)	We feel that the form and content of the proposed auditor's report, including the form and content of the new form of opinion, on ERISA plan financial statements with the ERISA-permitted audit scope limitation will not provide improved transparency with respect to reporting and will not improve the auditor's understanding of his or her responsibilities in a limited scope audit. We feel that transparency with respect to reporting is not improved due to too much detail in which the objective is lost in the length of the report. The report as it is today, states that the auditor did not perform audit procedures and that we do not express an opinion. We do not feel that this will result in transparency or increased audit quality because the firms that are deficient in required procedures for limited scope audits will comply with the reporting requirements, but may not comply with the current required procedures.	Noted
Purk (24)	As further explained below, we believe that the form and content of the proposed auditors report will not improve transparency. A piecemeal opinion that only attests to a portion of financial	See issue 2 in agenda item 2 for

Responder	Comment (Issue 2)	TF Consideration / Response
	statements does not give plan sponsors the needed level of assurance. The specific form of opinion will, in our opinion, confuse the reader as to the level of assurance obtained by the auditor. We believe that the procedures described in Paragraph 20 will achieve this objective. We believe that the proposed content better describes management's responsibilities for the limitation on the scope of the audit. We believe that the proposed content provides decreased clarity to users with respect to the auditor's responsibilities, in the following ways: • The heading Auditor's Responsibility (Including Responsibility for the Certified Investment Information) is misleading. The auditor is not responsible for any part of the financial statements, including the certified investment information. • Although the auditor may perform limited procedures with respect to the certified investment information, procedures (a) and (b) relate mainly to the certification itself and not the underlying investment information. Procedure (c) was already included in existing content and procedure (d) would, in our opinion, be better conveyed in a paragraph regarding the form and content of the financial statements in compliance with the applicable reporting framework. • The proposed content makes clear that the auditor "did not assess the risks of material misstatement" nor "consider internal control" but omits information that the auditor performed no procedures to obtain reasonable assurance about whether the investment information is free from material misstatement. • The proposed content tells the user that "In our opinion, based on our audit and based on our use of the certification of the investment information..., the financial statements present fairly, in all material respects...." o The certification, as described in paragraph A45, does not provide sufficient appropriate audit evidence on its own, and therefore, the auditors opining on the	discussion of reporting options

Responder	Comment (Issue 2)	TF Consideration / Response
	financial statements us a whole, without explaining the effect of the scope limitation, could be misleading to the user. o The possible effects on the financial statements of undetected misstatements in the area of investment information that was unaudited, could be both material and pervasive. Therefore, we believe that the disclaimer of opinion remains the appropriate modification to the auditor's report in the circumstances.	
HN (27)	We believe that the proposed content provides decreased clarity to users with respect to the auditor's responsibilities, in the following ways: 1. The proposed content makes clear that the auditor "did not assess the risks of material misstatement" nor "consider internal control" but omits information that the auditor performed no procedures to obtain reasonable assurance about whether the investment information is free from material misstatement. 2. The proposed content tells the user that "In our opinion, based on our audit and based on our use of the certification of the investment information..., the financial statements present fairly, in all material respects... " a. The certification does not provide sufficient appropriate audit evidence on its own, and therefore, the auditors opining on the financial statements as a whole, without explaining the effect of the scope limitation, could be misleading to the user. b. The possible impact on the financial statements of undetected misstatements in the area of investment information that was unaudited could be both material and pervasive. Therefore, we believe that the disclaimer of opinion remains the appropriate modification to the auditor's report in the circumstances of an ERISA – permitted scope limitation.	Noted

Responder	Comment (Issue 2)	TF Consideration / Response
M Cohen (33)	We do not support the revisions to the auditor's limited scope opinion in Illustration 3—An Auditor's Report on Financial Statements for a Defined Contribution Retirement Plan Subject to ERISA men Management Imposes a Limitation on the Scope ofthe Audit as Permitted by ERISA. Due to the limited nature of the auditor's procedures over investments, we do not support the proposed unmodified opinion which states the financial statements referred to above present fairly, in all material respects. Issuance of an unmodified opinion when we are not auditing the vast majority of the Plan's assets contradicts the general provisions of the reporting standards applicable to management imposed scope restrictions. We believe that a disclaimer would be appropriate.	Noted
NYSSCPA (37)	**Response**: Rather than provide transparency, we believe the proposed report form (particularly the unmodified opinion) has considerable potential to mislead users into ascribing undue value and reliability to the unverified custodian's certification as a form of audit evidence, which as previously mentioned, we firmly believe it is not. Further, we believe the proposed reporting model would be confusing to readers and to auditors by suggesting that the auditor based an audit opinion in significant part on information that was not audited. Therefore, we do not believe the proposed reporting language will improve the auditor's understanding of his or her responsibilities in a limited scope audit or result in potential improvements in audit quality. We believe only procedural guidance included in a future auditing standard or supporting audit guide, practice aids, and mandatory continuing professional education training, but not reporting language, would have any likely positive impact on an auditor's understanding of his or her responsibilities or the quality of his or her performance. We have no issue with the current or proposed audit report language describing management's responsibilities for the financial statements.	Noted
	Principal Concerns ***Limited Scope Audits*** **–** A primary subject area of the proposal is limited scope audits of EBPs, as are permitted under ERISA. An ERISA-permitted limited scope audit is one in which management instructs the auditor not to extend the audit to information related to assets held for investment of	See issue 2 in agenda item 2 for discussion of reporting options

Responder	Comment (Issue 2)	TF Consideration / Response
	the plan (investment information) that is appropriately prepared and certified by a qualified bank or similar institution or insurance carrier. Under extant standards (AU-C Secs. 705.10-.13), when the auditor is requested by the client not to audit material parts of an entity's financial statements, that typically precludes the auditor from issuing an unqualified opinion and effectively requires a disclaimer of opinion, but only when the subject matter of the omissions are both material and pervasive. The standard appears to provide that in some circumstances, when a matter is judged not to be pervasive, auditors may issue a qualified opinion. However, because the definition of "pervasive" contained in the ASB Codification's glossary indicates that if an item is material, it is impossible to conclude that a material item is not pervasive, thus precluding the viability of a qualified opinion as a reporting option as AU-C Secs. 705.10 -.13 appear to suggest. Accordingly, a disclaimer of opinion has historically been seen as the only reporting option available under these circumstances. The DOL has expressed its dissatisfaction with these circumstances under a belief (that in our view is unfounded) that audit work has often been unacceptable because some auditors may believe the disclaimer language shelters them from responsibility to appropriately audit other areas of the financial statements that are not covered by the scope limitation. We further believe that the DOL's conclusion, that if the reporting proposed in the standard were adopted, it would lead to better auditing, is fundamentally flawed because behavioral changes are not likely to result from changes in prescribed reporting language. The ED proposes that the auditor issue an unmodified opinion on the financial statements of an EBP even when ERISA allows the auditor to scope out the investment and related accounts, provided that the audit report communicate that the unmodified opinion is based in significant part on (unaudited) information "certified" by the custodian (assuming no auditing or reporting issues other than the DOL-permitted scope restriction). Although unaudited, under the proposal, the investments would be subjected to four management inquiry procedures (which would not allow the auditor to provide any degree of assurance on these accounts) and the auditor would need to determine that the custodian is duly "qualified" to issue the certification (generally, a bank or insurance company that is subject to state or federal oversight).	

Responder	Comment (Issue 2)	TF Consideration / Response
	The ED would also require the auditor to evaluate whether the investments are measured, presented and disclosed in accordance with the applicable accounting framework based solely on unverified management inquiries. Because these procedures do not provide any degree of assurance, we view it as a disconnect to suggest that they afford any reasonable basis for an unmodified audit opinion. The crux of the issue is that the investment accounts may be, and often are, over 90% of the assets and a substantial percentage of income when the investment return has been good. In our view, the unverified custodian's certification does not qualify as audit evidence, and we object to its characterization as such in paragraph A45 of the ED. The custodian does not independently confirm information that was previously recorded by the client; the custodian, in fact, generates that information. Therefore, the custodian's certification would not be reliable and would provide auditors with little or no reliable audit evidence to support an unmodified opinion. Moreover, we are not aware of any precedent in any_other reporting literature for referencing a solitary piece of evidence such as a confirmation or the work of a specialist, no matter how significant, as partial support for an opinion. We are also concerned that AU-C Sec. 320, Materiality in Planning and Performing an Audit, which provides that risk assessment and materiality for audit scope purposes be determined on the information that could reasonably be expected to influence the economic decisions of users made on the basis of the financial statements, cannot be extrapolated in these limited scope engagements. Since materiality is to be determined based on the needs and perceptions of financial statement users, we considered the question: Who are the users? A DOL-published study in 2010, *Advisory Council Report on Employee Benefit Plan Auditing and Financial Reporting Models*, states that auditors are engaged on behalf of all plan participants but that plan participants generally do not directly use EBP financial statements. If the participants are not the primary users, who are? Is the primary user then the regulator, the DOL? And if one is unable to judge materiality quantitatively, how can one determine, based on the assessed risk of material misstatement, the appropriate scope of audit procedures to be applied to information not covered by the custodian's certification (as would be required by paragraphs 20 and A43) or render an opinion as to the absence of a material misstatement?	

Responder	Comment (Issue 2)	TF Consideration / Response
	If, on the other hand, we were to assume a hypothetical yet unidentifiable user to determine materiality quantitatively based on the financial statements, taken as a whole *(i.e.*, including the audited and unaudited information), the application of materiality to determine scope for the audited elements would result in performance materiality amounts that exceed 100% of the value of the population not carved out by the scope limitation. In essence, materiality concepts for scoping of work are not meaningful for these limited scope engagements because of the relatively small size of the items not scoped out. Depending on the size of populations being tested, we believe practice has evolved such that at times arbitrary, ostensibly "judgmental" sample sizes, such as 25 items, are often used to satisfy the DOL but with little or no theoretical justification or any basis to extrapolate results, and with no way to evaluate the precision of such tests. We believe this area should be considered by the ASB before a final standard is issued. Unlike the proposed unmodified opinion to which we object, we believe some auditors would see a qualified opinion as an effective compromise and a viable alternative to a disclaimer that could satisfactorily address the concerns of the DOL, but for, in our view, the unfortunately overreaching definition of "pervasive" in the Codification's glossary.[1] As now written, the glossary definition effectively eliminates the option of a qualified opinion by eliminating pervasiveness as a separate and distinct reporting consideration and forces a disclaimer whenever the subject matter is material. In cases where a disclaimer has been historically illustrated and used for limited scope audits of EBPs, a qualified opinion might be more acceptable to the DOL than a disclaimer and viewed by many as more appropriate despite the materiality of the unaudited information because it is easily isolated and, therefore, not pervasive (given that the following change in definition is made). To enable such auditor judgments, the definition of pervasive would have to be contracted so as to be consistent with the general English usage of the term by deleting the overreaching last two bullets therein, thus separating materiality and pervasiveness into independent considerations, which we believe they should be. [1] Pervasive effects on the financial statements are those that, in the auditor's professional judgment: • Are not confined to specific elements, accounts, or items of the financial statements;	

Responder	Comment (Issue 2)	TF Consideration / Response
	• If so confined, represent or could represent a substantial proportion of the financial statements, or • With regard to disclosures, are fundamental to users' understanding of the financial statements.	
	We also believe that AU-C Secs. 705.10-.13 should be amended so that the possible alternative of a qualified opinion instead of a disclaimer of opinion is articulated more prominently and thereby less likely to be overlooked by EBP auditors. Consequently, to overcome the DOL's observations that the typical disclaimer issued historically is often the primary cause of performing insufficient work in other areas of the audit, we believe that the qualified opinion option might be (a) emphasized in the text of the final standard as generally preferable to a disclaimer for limited scope EBP audits and (b) shown in the appropriate illustrative report rather than replaced with an unmodified opinion, as proposed. Lastly, we believe the final standard should clearly emphasize that when a disclaimer is deemed appropriate by the reporting auditor, it will not relieve the auditor from applying sufficient audit procedures in all areas of the audit not related to the subject matter of the disclaimer.	
ABA/CIEBA (39)	although we welcome AICPA's efforts to improve the quality and the content of the limited scope audit, we are concerned that the changes proposed in the Exposure Draft will become part of a broader effort by the Department of Labor ("DOL") to undermine the use of the limited scope audit altogether **This proposal should not be used to undermine limited scope audits.** The Council and CIEBA are concerned that the expanded audit procedures contained in the Exposure Draft, if adopted, could support DOL efforts to eliminate or limit the availability of limited scope audits, which streamline the audit process and lower costs. The current Exposure Draft would require the auditor to obtain new written representations from plan fiduciaries acknowledging responsibility for determining if the limited scope audit is available and whether the certification has been prepared by a qualified institution. Generally, we are comfortable with auditors seeking this representation. We are also comfortable with the Exposure	Noted

Responder	Comment (Issue 2)	TF Consideration / Response
	Draft's requirement for specified procedures when a scope limitation is involved. Our overall concern, however, is that the cumulative thrust of all of these changes appears to be to undermine, to a significant extent, the limited scope audit itself. ERISA authorizes the use of the limited scope audit as a narrow exception to its full plan audit procedures.1 The limited scope audit only applies to a plan's investment information, but not with respect to other plan information, such as participant data, contributions, or benefit payments. Full audit procedures still apply with respect to that other information. The limited scope audit offers significant and justified cost-saving advantages. If a regulated bank or insurance carrier provides a plan's auditor with investment information that is appropriately prepared and certified, then the plan administrator can instruct the auditor not to audit the financial statements and schedules relating to those plan investments. Because auditors do not need to review information that has already been prepared and certified, the limited scope audit conserves the auditor's time as well as the plan's financial and administrative resources. Consequently, using the limited scope audit prevents unnecessary costs from being imposed or passed on to plan participants. Despite the limited scope audit's statutory basis, narrow application, and proven cost-saving benefits, DOL has consistently attempted to curtail its use. In 2010, for instance, DOL asked the ERISA Advisory Council to consider whether the limited scope audit should be repealed.2 (The ERISA Advisory Council, which includes representatives from all interested parties, not just the audit community, subsequently recommended that the limited scope audit should not be repealed.3) Recently, in 2015, DOL issued a report that heavily criticized the use of the limited scope audit and described DOL's past support for failed legislative initiatives that would have	

[1] ERISA § 103(a)(3)(C). *See also* 29 CFR § 2520.103-8.

[2] ERISA ADVISORY COUNCIL, U.S. DEP'T OF LABOR, EMPLOYEE BENEFIT PLAN AUDITING AND FINANCIAL REPORTING MODELS (2010) ("ERISA Advisory Council Report"), http://www.dol.gov/ebsa/publications/2010ACreport2.html.

[3] *Id.*

Responder	Comment (Issue 2)	TF Consideration / Response
	eliminated the limited scope audit.4 In other words, DOL has made its opposition to the limited scope audit, irrespective of the procedure's usefulness, abundantly clear. Representatives of AICPA have also taken the position that the limited scope audit should be repealed, including in connection with the ERISA Advisory Council's review of the topic.5 The Council and CIEBA recognize the importance of seeking to improve the limited scope audit procedures to enhance the limited scope audit's content and quality, and does not disagree that improvements to the current procedures could be warranted.7 In our experience, however, the chief issue is the lack of training and experience of the individuals who are tasked with the plan audit, not the limited scope audit provision itself. The limited scope audit is the creation of a statutory rule, set by Congress, and it is not appropriate for either DOL or the AICPA to use improvements in audit "quality" to undermine this important tool for plans. Any increased audit cost as a result of undermining the limited scope audit, one way or another, will be charged to plans and participants. And auditing of investment statements certified by regulated banks and insurance provides no additional benefit plans for those additional fees to the audit firm. By expanding the scope of audit procedures and the written representations that management must make as part of the limited scope audit, the proposals in the Exposure Draft would increase the financial and administrative costs of the limited scope audit. These increased costs would negate the limited scope audit's inherent value. Because the Council and CIEBA are concerned that these changes could be used by DOL in future efforts to undermine the limited scope audit, we strongly urge AICPA to approach efforts to revise these procedures with these considerations in mind.	

[4] U.S. DEP'T OF LABOR, ASSESSMENT OF THE QUALITY OF EMPLOYEE BENEFIT PLAN AUDITS (2015), http://www.dol.gov/agencies/ebsa/about-ebsa/our-activities/resource-center/publications/assessment-ofthe-quality-of-employee-benefit-plan-audits.
[5] ERISA Advisory Council Report ("AICPA has supported the repeal of limited scope audits since 1978."). [7] In making these improvements to existing procedures, we ask AICPA to ensure that any changes to the limited scope audit will be cost-effective, as well as beneficial to the plan audit process.

Responder	Comment (Issue 2)	TF Consideration / Response
Lindquist (50)	We do not believe that the form and content of the proposed auditors report will improve transparency with respect to reporting when an ERISA-permitted audit scope limitation exists. The "Basis for Limitation on the Scope of the Audit" section of the Auditors Report is concise and properly represents the responsibilities of Management and Auditor as permitted under current regulations. By adding "Management's Responsibility for the Financial Statements and the Limitation on the Scope of the Audit" and "Auditors Responsibility (Including Responsibility for the Certified Investment Information)" we believe that the users of the financial statements will be further confused regarding responsibilities. We do not believe that the auditors report should be the vehicle in which to improve the auditors understanding of his or her responsibilities in a limited-scope audit. The opinion does not provide specific and detailed language to educate the auditor in problem areas with certifications. The AICPA Employee Benefit Plan Audit Quality Center provided "Limited Scope Audits of Employee Benefit Plans" Plan Advisory in 2016, which provides sufficient information to assist in the auditors understanding of his or her audit procedures responsibilities for a limited-scope audit We agree that there is sometimes a lack of understanding on management's part regarding responsibility for determining whether a limitation on the scope of the audit is permissible. We do not believe that adding a lengthy section to the opinion will help clarify this issue with management. We suggest that succinct verbiage be added to the certified investments footnote disclosure examples to help better describe management's responsibilities. We believe that the auditors responsibility and matters repotted sections provides too much information and will confuse the user of the financial statements The "Auditors Responsibility (Including Responsibility for the Certified Investment Information)" may be confusing to the user of the financial statements in that it insinuates the Auditor is responsible. This information is imparted to users in the "Basis for Limitation on the Scope of the Audit" section of the Independent Auditors Report and is generally detailed in the financial statement footnotes in the Investments Certified disclosure.	Noted

Responder	Comment (Issue 2)	TF Consideration / Response
Williams (51)	We strongly object to the wording in the new proposed limited scope report (illustration 3) — with this scope limitation, despite it being permitted under ERISA, it should still be a disclaimer of opinion and it is being presented as expressing an opinion. Conceptually, we cannot express an opinion on the financial statements as a whole when we are not auditing the vast majority of assets of a plan. We prefer some of the other language that better explains what an auditor is excluding from the audit.	Noted
WIPFLI (52)	While we support the initiatives of the Proposed SAS, we do not believe creating a hybrid opinion which disclaims information specific to limited scope employee benefit plan audits is appropriate. AU-C Section 805.21 provides guidance that if an auditor disclaims an opinion on a complete set of financial statements, the auditor should not express a separate unmodified opinion on a single statement or a specific element, account, or item within those financial statements in the same auditor's report; however, the proposed form and content of the new form of opinion disregards this guidance by issuing an unmodified opinion with a scope limitation on the investment information. We do not support venturing into this new territory, which conflicts with current reporting standards. We agree management and auditor responsibilities are more transparent in the proposed form and content of the auditor's report when an ERISA-permitted audit scope limitation exists, which may eventually improve understanding of management and auditors' responsibilities; however, we also believe an education process should coincide with implementation of the Proposed SAS since many plan sponsors, and even plan auditors, do not clearly understand their responsibilities. Upon implementation of the Proposed SAS, this lack of understanding may result in reporting challenges where responsibilities as highlighted in the expanded auditor's report are not being fulfilled. It may be helpful to include guidance in the Proposed SAS that addresses the impact to the audit report in these situations. As noted in the immediately preceding response, the new content for management responsibility states management is responsible for maintaining a current plan instrument; however, this responsibility may not be fulfilled and, therefore, guidance should indicate how this impacts the auditor's report. In addition, without a determination letter program there should be guidance related	Noted

Responder	Comment (Issue 2)	TF Consideration / Response
	to how auditors should evaluate whether management has met their responsibility to determine that the plan is designed, and currently being operated, in compliance with the applicable requirements of the IRC and, therefore, is qualified. We believe there is sufficient clarity with respect to the auditor's responsibilities and matters reported, except where otherwise noted in our previous and following responses, as applicable.	
PWC (54)	We support clarifying management's responsibilities for determining whether the ERISA-permitted audit scope limitation is permissible, as well as the fact that such limitation does not relieve management of its responsibility for determining whether the certified investment information is appropriately measured, presented and disclosed in accordance with generally accepted accounting principles ("GAAP"). However, we believe it would be helpful for the DOL to clarify certain aspects of management's responsibilities by defining terms in the regulations such as "sufficient" with respect to maintaining records or "hold" with respect to certifying entities. However, we do not support the proposal to move from the current form of opinion (i.e., a disclaimer of opinion with an other-matter paragraph) to a new format when the ERISA-permitted audit scope limitation exists for the following reasons:	Noted See issue 2 in agenda item 2 for discussion of reporting options
	• We do not agree with the DOL's view that changing the form of opinion will reinforce the auditor's responsibilities with respect to the certified investment information. We believe the focus of the proposed SAS should first be on application of the relevant auditing standards to ERISA plan audits, together with the material in the EBP Guide. As noted in our response to Issue 1, we support required procedures on this information to increase consistent application in practice.	Noted
	• The increased transparency in the Management's Responsibility for the Financial Statements and Auditor's Responsibility paragraphs in the auditor's report as proposed comes with a risk that users may misunderstand the limited extent of the auditor's procedures on what is likely to be the most significant component of the financial statements, since the Opinion paragraph refers to the fact that "the financial statements present fairly..." The previous use	Noted

Responder	Comment (Issue 2)	TF Consideration / Response
	of a disclaimer of opinion in this circumstance acknowledged that the auditor was not able to obtain sufficient appropriate audit evidence about a material amount in the financial statements.	
	Should this new format be retained, in our view, the language in the auditor's report would need to be enhanced to give appropriate context to the opinion, and make explicitly clear the limited procedures the auditor has performed. For example, the auditor's report could specifically note "with respect to the certified investment information that management instructed us not to audit, the auditor did not assess the risks of material misstatement nor did the auditor consider internal control over the certified investment information, or perform procedures to test the completeness, accuracy or valuation of this information." The auditor's report could then continue to describe the limited procedures that were performed.	See issue 2 in agenda item 2 for discussion of reporting options
BFB (56)	As further explained below, we believe that the form and content of the proposed auditors report will not improve transparency. A piecemeal opinion that only attests to a portion of financial statements does not give plan sponsors the needed level of assurance. The specific form of opinion will, in our opinion, confuse the reader as to the level of assurance obtained by the auditor.	Noted.
	We believe that the procedures described in Paragraph 20 will achieve this objective. [objective to improve the auditor's understanding of his or her responsibility in a limited scope audit resulting in potential improvements in audit quality]	
	We believe that the proposed content better describes management's responsibilities for the limitation on the scope of the audit.	
	We believe that the proposed content provides decreased clarity to users with respect to the auditor's responsibilities, in the following ways:	

Responder	Comment (Issue 2)	TF Consideration / Response
	• The heading Auditor's Responsibility (Including Responsibility for the Certified Investment Information) is misleading. The auditor is not responsible for any part of the financial statements, including the certified investment information.	
	• Although the auditor may perform limited procedures with respect to the certified investment information, procedures (a) and (b) relate mainly to the certification itself and not the underlying investment information. Procedure (c) was already included in existing content and procedure (d) would, in our opinion, be better conveyed in a paragraph regarding the form and content of the financial statements in compliance with the applicable reporting framework.	
	• The proposed content makes clear that the auditor "did not assess the risks of material misstatement" nor "consider internal control" but omits information that the auditor performed no procedures to obtain reasonable assurance about whether the investment information is free from material misstatement.	

	• The proposed content tells the user that "In our opinion, based on our audit and based on our use of the certification of the investment information..., the financial statements present fairly, in all material respects... "
	  ○ The certification, as described in paragraph A45, does not provide sufficient appropriate audit evidence on its own, and therefore, the auditors opining on the financial statements as a whole, without explaining the effect of the scope limitation, could be misleading to the user.
	  ○ The possible effects on the financial statements of undetected misstatements in the area of investment information that was unaudited, could be both material and pervasive. Therefore, we believe that the disclaimer of opinion remains the appropriate modification to the auditor's report in the circumstances.	

Responder	Comment (Issue 2)	TF Consideration / Response
BDO (57)	Overall, we agree that the proposed form and content of the auditor's report provides greater transparency and clarity to users of the financial statements with respect to reporting when an ERISA-permitted audit scope limitation exists, with the exception of the wording in the auditor's opinion paragraph, as described in our comments in the next paragraph. We appreciate the clarity provided throughout the proposed report on the limitation on the scope of the audit as permitted by ERISA and the addition of further detail regarding management and auditor responsibilities. While we concur with the specific management responsibility in paragraph 96(d) of maintaining sufficient records, we are concerned that this wording could cause unintended issues during the audit due to the subjective nature of what is considered "sufficient records." In addition, the auditor's responsibilities in paragraph 102(b) and 102(d) that refer to evaluating management's assessment and the form and content of disclosures are vague, as previously noted in our response to Issue 1 above. Additionally, we believe users of the financial statements may misinterpret the term "evaluate" to indicate that the auditor is providing a higher level of assurance than is actually provided. Avoiding vague or undefined terminology, wherever possible, would allow for consistent interpretation and provide greater clarity to users of the financial statements about the level of assurance expressed. The proposed auditor's opinion wording for an ERISA-permitted audit scope limitation described in paragraph 106 may be misleading to users of the financial statements. The opinion wording appears to indicate that the auditor is giving an opinion that "the financial statements present fairly, in all material respects." We believe such wording is not suitable, given the materiality of plan investments for which the ERISA permitted scope limitation applies, and instead consider the current disclaimer of opinion to be appropriate. Also, we note that the example wording in paragraph 106 and in the example auditor's report (Illustration 3) states that the auditor "was instructed not to audit…" However, as neither the proposed standard nor the example auditor's report states that the investment information was not audited, we request the ASB consider adding language to clearly state that the investment	Noted See issue 2 in agenda item 2 for discussion of reporting options

Responder	Comment (Issue 2)	TF Consideration / Response
	information was not audited (in addition to the language that indicates the auditor was instructed to not audit such information). If the ASB does continue to allow the ERISA permitted-audit scope limitation opinion, we ask that the ASB consider the applicability of guidance currently in paragraph 118 that refers to the form and content of the supplementary information. As mentioned throughout this letter, we do not support the reporting of findings (described in paragraphs 110-112) on specific plan provisions relating to the financial statements and recommend that such reporting should be communicated directly with plan management and those charged with governance. Refer to our response in Issue 6 below for further details.	
Allinial (59)	We strongly object to the wording in the new proposed limited scope report (illustration 3) – with this scope limitation, despite it being permitted under ERISA, it should still be a disclaimer of opinion and it is being presented as expressing an opinion. Conceptually, we cannot express an opinion on the financial statements as a whole when we are not auditing the vast majority of assets of a plan. We prefer some of the other language that better explains what an auditor is excluding from the audit.	Noted
H Gluckman (65)	Supports NYSSCPA (37) letter: see response (37)	
CLA (68)	In the auditor's opinion section, we believe it is inaccurate and misleading to state the financial statements are presented fairly, in all material respects, when a scope limitation exists. Under an ERISA-permitted scope limitation, auditors perform very limited procedures on investments and related investment activity which is a significant portion of a plan's net assets available for benefits and changes in net assets available for benefits. We believe issuing an unmodified opinion on financial statements when auditors perform limited audit procedures over a significant portion of the statement of net assets available for benefits and statement of changes in net assets available for benefits is contradictory to generally accepted auditing standards, under which a material and	See issue 2 in agenda item 2 for discussion of reporting options

Responder	Comment (Issue 2)	TF Consideration / Response
	pervasive scope limitation generally leads to a disclaimer of opinion. Users of the financial statement may place inappropriate reliance on financial statement believing the entire financial statement was audited. We believe the proposed reporting format, with the expanded *Management's Responsibility for the Financial Statements* sections in a limited and full scope audit, does provide more transparency and clarity with respect to management responsibilities. We believe the last sentence in the *Auditor's Responsibility (Including Responsibility for the Certified Investment Information)* section of the report is inaccurate and misleading. This language seems to imply the certification is audit evidence of the investment balances and related investment activity. The term "form and content" is used throughout the report, but the term is not defined. We believe "form and content" should be defined to accomplish the goal of transparency, consistency, and quality.	
CLA (68)	We believe the proposed auditor's report will not improve the auditor's understanding of his or her responsibilities in a limited scope audit, nor result in improvements in audit quality. We recognize the DOL inspection results demonstrate that many auditors do not perform proper audit procedures in a limited scope audit; but we do not believe having additional language in an auditor's opinion will improve the work performed in support of the auditor's report. We believe that the proposed report better describes management's responsibilities for the financial statements. Please refer to our above response regarding the Auditor's Responsibility (Including Responsibility for the Certified Investment Information). As to the matters reported, we believe the proposed report language in the opinion paragraph may cause the user to misinterpret the assurance provided by the auditor.	Noted
OD (69)	We disagree and believe that the new report language is contradictory and will be more confusing to auditors and the users of the financial statements. We further believe that it will potentially lead	Noted

Responder	Comment (Issue 2)	TF Consideration / Response
	to users of the financial statements concluding that the custodian's certification is reliable audit evidence to render an unmodified audit opinion, which in our view, it is not. We agree with the proposed audit report language addressing management's responsibilities for the financial statements.	
Hemming (71)	As further explained below, we believe that the form and content of the proposed auditors report will not improve transparency. A piecemeal opinion that only attests to a portion of financial statements does not give plan sponsors the needed level of assurance. The specific form of opinion will, in our opinion, confuse the reader as to the level of assurance obtained by the auditor. We believe that the procedures described will achieve this objective. We believe that the proposed content better describes management's responsibilities for the limitation on the scope of the audit. We believe that the proposed content provides decreased clarity to users with respect to the auditor's responsibilities, in the following ways: a. The heading Auditor's Responsibility (Including Responsibility for the Certified Investment Information) is misleading. The auditor is not responsible for any part of the financial statements, including the certified investment information. b. Although the auditor may perform limited procedures with respect to the certified investment information, procedures (a) and (b) relate mainly to the certification itself and not the underlying investment information. Procedure (c) was already included in existing content and procedure (d) would, in our opinion, be better conveyed in a paragraph regarding the form and content of the financial statements in compliance with the applicable reporting framework. c. The proposed content makes clear that the auditor "did not assess the risks of material misstatement" nor "consider internal control" but omits information that the auditor	Noted See issue 2 in agenda item 2 for discussion of reporting options

Responder	Comment (Issue 2)	TF Consideration / Response
	performed no procedures to obtain reasonable assurance about whether the investment information is free from misstatement. d. The proposed content tells the user that "In our opinion, based on our audit and based on our use of the certification of the investment information..., the financial statements present fairly, in all material respects... " • The certification, as described in paragraph A45, does not provide sufficient appropriate audit evidence on its own, and therefore, the auditors opining on the financial statements us a whole, without explaining the effect of the scope limitation, could be misleading to the user. • The possible effects on the financial statements of undetected misstatements in the area of investment information that was unaudited, could be both material and pervasive. Therefore, we believe that the disclaimer of opinion remains the appropriate modification to the auditor's report in the circumstances.	
Ohio (76)	The committee was supportive of the report clarifying the responsibilities of management and the auditor, and clarifying the differences between limited and full-scope. Members did not believe implementation of these requirements would be difficult or costly, or have significant impact on most clients or auditors. We would recommend that paragraph 106 reflect that the auditor was instructed not to audit the certified investment information and did not audit this information. While the committee felt it was beneficial to include within the Standards a unique form of opinion for an ERISA-permitted limited scope audit, it had concerns with wording in paragraph 106 as the wording could be interpreted to provide undue assurance on the information covered by the limited scope certification. The committee felt it was important to distinguish that the certified investment information is not equivalent to the evidence obtained through audit testing, so an opinion should not be issued. This is important due to the proportional significance of investment information covered by the limited scope certification to the respective plans.	Noted See issue 2 in agenda item 2 for discussion of reporting options

Responder	Comment (Issue 2)	TF Consideration / Response
H&S (81)	Limited Scope Audit: Under the proposal, auditors would be required to issue an unqualified opinion, based in part, on the custodian's certification of investments. With a limitation, such as this imposed by the plan sponsor, we would not be able to obtain sufficient appropriate audit evidence on which to base our opinion. As auditors, we cannot in good conscience, provide an unqualified opinion when there is such a significant scope limitation.	Noted
Wiss (85)	We do believe that it does provide improved transparency. We do not believe the form and content of the proposed limited scope audit report would improve an auditor's understanding of his or her responsibility. We believe the best approach to enhance an auditor's understand of his or her responsibilities is through CPE, technical training and experience. We believe the reporting does provide clarity to the reader with respect to management responsibilities. We believe that the proposed guidance provides clarity with respect to the auditor's responsibility to the user of the financial statements. However, we believe statement d under the "Auditor's Responsibility" "evaluating whether the form and content of the certified investment information presented and disclosed in the financial statements are in accordance with accounting principles generally accepted in the United States of America " would result in the user of the report, assuming that the auditor has done additional procedures other than required under 20D of the proposed ASU. We recommend deleting the statement noted above from the auditor's responsibility from the limited scope audit report to avoid confusion. As noted above, the proposed guidance will provide the reader with more transparency with respect to reporting on limited scope audits and also clarity on an auditor's and manager's responsibility. We also believe that the current financial reporting requirements does provide the reader of the financial statements with a clear understanding of the requirements of a limited scope audit and changing the reporting requirement would not result in the desired impact the ASB is looking for. We would encourage the ASB to consider keeping the current reporting structure.	Noted 20(d) removed

Responder	Comment (Issue 2)	TF Consideration / Response
Moss (86)	ERISA Permitted Scope Limitation Audit Report We are doubtful that the proposed new form of report, which employs a scope limitation approach rather than a disclaimer approach, will accomplish the objective of addressing certain audit quality concerns when an ERISA-permitted audit scope limitation exists. Simply changing the format of the report and the nature of the audit opinion does not change the underlying nature of the ERISA scope limitation, and many auditors' response to it. While the proposed change in reporting model will not necessarily drive changes in behavior, we acknowledge that it does provide a big enough change to test auditors' adoption of the new standard for quality assessment purposes. Furthermore, while we appreciate some of the expanded language to better explain the auditor's responsibility when such an audit is being conducted, we object to the creation of a new type of report that could further confuse the application of existing reporting models. The exposure draft should better clarify whether the "special form of opinion" is unmodified, modified, or a new category of opinion all together. The types of audit opinion available on the 2016 Form 5500, Schedule H are unqualified, qualified, disclaimer or adverse. Modification to the Form 5500, Schedule H or advice from the DOL on how to complete the Schedule H, will be necessary to accommodate disclosing the new ERISA permitted scope limitation opinion on the Form 5500.	Noted See issue 2 in agenda item 2 for discussion of reporting options
MSCPA (89)	**MA ERISA Committee's Comment:** We agree with the intent of providing clarity and transparency but have the following comments which we feel will make it easier for the reader to understand what procedures were performed (or not performed) and why: • In the first sentence of the introductory paragraph we would prefer to see a term like "endorsed by management" as opposed to "imposed by management" at the end of first sentence. We feel that the term "imposed by management" has a negative connotation and sounds as though management is restricting the auditor from procedures that the auditor wanted to perform.	See issue 2 in agenda item 2 for discussion of reporting options

Responder	Comment (Issue 2)	TF Consideration / Response

	• In the Auditor's Responsibility paragraph we suggest adding wording regarding the following procedures performed on the certified investment information:
	  ○ That a comparison was made of management's reconciliation of the certified investment information to the trial balance and financial statements.
	  ○ That the auditor evaluated management's determination of investment valuation (fair value or contract value), including investment types, valuation inputs and classification in the fair value hierarchy table.
	• We would also like to see guidance in the form of reporting illustrations for 403(b) Plans that were established prior to 2009 which may not have complete and accurate recordkeeping on individual annuity contracts, Under the current reporting standards, these 403(b) plan audit reports include a disclaimer of opinion due to the inability to perform audit procedures on these individual annuity contracts.
		TF discussed including 403(b) plan illustrations in the AAG

MSCPA (89)	**MA Accounting Principles and Auditing Committee's Comment** The Accounting Principles and Auditing Procedures Committee is very concerned with the auditor's opinion on a qualified limited scope engagement. In illustration 3 it states "In our opinion, based on our audit and based on the certification of the investment information we were instructed not to audit, the financial statements referred to above present fairly, in all material respects, the net assets available for benefits". The Committee is concerned that a large percentage of net assets are not being subjected to audit procedures but the auditor opinion is stating that net assets are accurate. The Committee's belief is the present wording can be interpreted as the auditor performed audit procedures to the investments when that is not what the auditor was able to perform. The Committee believes readers of these financial statements, outside of the DOL personnel, will interpret that the entire plan was fully audited. The Committee believes that the present disclaimer opinion should be retained as a part of the auditor opinion when a limited scope audit is imposed. The Committee further finds illustration 3 inconsistent with illustration 7 which allows a disclaimer of opinion when the auditor is unable to gain competent audit evidence. The Committee could not	Noted See issue 2 in agenda item 2 for discussion of reporting options

Responder	Comment (Issue 2)	TF Consideration / Response
	reconcile the difference between the two illustrations. The Committee does not understand that in illustration 7 a disclaimer opinion is acceptable when sufficient audit evidence is not available and why that same thinking is not present in illustration 3.	
Calibre (90)	The proposed opinion would be an unmodified opinion on the portion of the financial statements we are able to audit. With such an opinion, the auditor is only attesting to the fairness of a portion of the financial statements. The reader of the financial statements will be misled which will result in less clarity and transparency. The limited scope opinion, as drafted is very long and confusing to the reader of the financial statement. This may in turn lead to a misunderstanding as to the level of assurance that is being provided by the auditor. We believe the procedures described in paragraph 20 will achieve this objective. We believe that the proposed content better describes management's responsibilities for the limitation on the scope of the audit. We believe that the proposed content provides decreased clarity to users with respect to the auditor's responsibilities, in the following ways: • The heading Auditor's Responsibility (Including Responsibility for the Certified Investment Information) is misleading. The auditor is not responsible for any part of the financial statements, including the certified investment information. • Although the auditor may perform limited procedures with respect to the certified investment information, procedures (a) and (b) relate mainly to the certification itself and not the underlying investment information. Procedure (c) was already included in existing content and procedure (d) would be better conveyed in a paragraph regarding the form and content of the financial statements in compliance with the applicable reporting framework. • The proposed content makes clear that the auditor "did not assess the risks of material misstatement" nor "considered internal control" but omits information that the auditor	Noted See issue 2 in agenda item 2 for discussion of reporting options

Responder	Comment (Issue 2)	TF Consideration / Response
	performed no procedures to obtain reasonable assurance about whether the investment information is free of material misstatement.	
Torillo (92)	The proposed auditor's report for an ERISA limited-scope engagement contains the following wording "In our opinion, based on our audit and based on our use of the certification of the investment information that we were instructed not to audit, the financial statements referred to above present fairly, in all material respects, the net assets available for benefits of ABC 401(k) plan as of December 31, 20X2 and 20X1, and the changes in net assets available for benefits for the year ended December 31, 20X2, in accordance with accounting principles generally accepted in the United States of America." The audit scope has been limited with respect to investments and investment activity. Using the phrase ('the financial statements referred to above present fairly, in all material respects" suggests that an unqualified opinion is being issued versus a disclaimer of opinion. This could be misleading for plan sponsors, the DOL and other user of plan financial statements	See issue 2 in agenda item 2 for discussion of reporting options
ACLI (98)	The reporting model set forth in the April 20, 2017 Exposure Draft would create a problem rather than address one. The proposed reporting model seeks to raise questions in the minds of plan sponsors as to the adequacy and efficacy of relying on certified information from insurance companies and the work performed by independent auditors these companies engage. The Exposure Draft references the DOL's May 2015 report: Assessing the Quality of Employee Benefit Plan Audits. This DOL report identifies deficiencies in plan audit quality. It also indicates that there has been an increase in the number of limited scope audits between 2001 and 2013. The report seeks to correlate plan audit quality to this increase in limited scope audit. The DOL hypothesizes that limited scope audits have contributed to a decline in audit quality as CPAs "have less incentive to focus on relevant audit areas when they know the engagement will result in their issuance of "no opinion" on the plan's financial statement." It is important to note that this is nothing more than a hypothesis with no demonstrable support. It would be more logical as well as more	See issue 2 in agenda item 2 for discussion of reporting options

Responder	Comment (Issue 2)	TF Consideration / Response
	likely that an increase in limited scope audits may have occurred as a result of increased adoption of collective or pooled investment products. If the DOL hypothesis were true, it does not call into question the prudence or benefits of the limited scope audit, but instead is an indictment of the CPAs who are failing to properly audit employee benefit plans. The report goes on to identify four key areas of non-compliance, none of which have any relationship to limited scope audits. AICPA should focus its efforts on ensuring that CPAs perform employee benefit plan audits in accordance with GAAS appropriately when presented with a limited scope audit, not raise alarms in the minds of plan sponsors as to the prudence of a limited scope audit. There is simply no support for the AICPA's conclusion that limited scope audit transparency and quality are problematic. The limited scope audit promotes plan sponsorship by allowing employers to forego the expense of an audit on investment information certified by certain banks or insurance carriers. As banks and insurance companies are heavily regulated, auditing certified information is both redundant and unnecessarily costly for plan sponsors with no added protection for plan participants. In particular, the limited scope audit provides a balanced approach that give plans sponsors the ability to satisfy their audit requirements under ERISA while appropriately accommodating the characteristics of insurance contracts issued to ERISA plans. In adopting this limitation under section 103(a)(3)(C) of ERISA, Congress recognized that the rules governing insurance carriers and the manner in which they are examined are sufficient to protect the interests of policy holders which include employee benefit plans and their participants and beneficiaries. The Exposure Draft would require the plan auditor to, in essence, "look behind" the certified information provided by the insurance carrier. Had Congress intended this structure, it would have included it in ERISA. As such, the Exposure Draft appears inconsistent with Congressional intent. As highly regulated companies, insurers undergo thorough risk-focused examinations by state insurance departments, usually every three years. Insurance carriers engage independent auditors to examine their books and records every year. We believe that the limited-scope audit continues to be an effective and efficient audit methodology for employee benefit plans. For	

Responder	Comment (Issue 2)	TF Consideration / Response
	insurance arrangements, the scope exception only applies to the plan's investment in an annuity or other insurance contract issued by an insurance carrier. The investments are reported at fair value on the statements prepared and certified by insurance carriers. In general, the current US GAAP accounting guidance requires that employee benefit plan assets be accounted for at fair value. We continue to believe that this is the most objective valuation measure and do not believe any additional regulatory guidance is needed. While increasing the costs borne by both the plan sponsor and insurers, full scope audits of these investments would yield no new information for the plan sponsor. Thus, the cost of a full-scope audit would add unnecessary costs with no added benefit for plan participants. In a limited-scope audit, the auditor still assesses the fair value of all the assets within the benefit plan, just as he or she would in a full-scope audit. Auditors must perform procedures to adequately ascertain that any certification is proper and complies with regulations. The AICPA offers no evidence that the use of limited scope audits by plans with assets held by insurance carriers has resulted in fiduciary breaches or created situations that have left participants vulnerable. Adding additional costs and layers of administration on plan sponsors without any additional benefit to the plan or its participants would discourage, not encourage employers to sponsor and maintain retirement plans. AICPA's work should be supportive of the work performed by independent auditors who examine the books and records of insurance carriers. AICPA should refocus its efforts on improving plan audit quality regardless of whether a plan sponsor utilizes a limited scope audit with respect to applicable portions of its plan.	
Anders (100)	Anders' Response: We do not feel the form and content of the proposed auditor's report will provide improved transparency with respect to reporting on an audit of ERISA plan financial statements when an ERISA-permitted audit scope limitation exists. The proposal purports to expand reporting beyond that of a financial audit. We strongly suggest that any additional reporting beyond that of the core financial statement audit be removed.	See issue 2 in agenda item 2 for discussion of reporting options

Responder	Comment (Issue 2)	TF Consideration / Response
	Anders' Response: While the auditor's responsibilities are more clearly described and more consistent with business entity audits, we do not feel that the proposed form and content changes will result in improvements in audit quality. Quality practitioners are already performing many of these procedures. Research has shown that most problems in EBP audit quality are the result of practitioners who "dabble" in the field, and/or fail to maintain their continuing education in this specific area of practice. Unfortunately, the proposed changed are unlikely to solve this problem. Anders' Response: We have concerns about the clarity to users. While the proposed format of the report more closely follows that of business entity audits, there is some potential for confusion about the auditor's level of assurance. For example, the heading "Auditor's Responsibility Including Responsibility for the Certified Investment Information" may cause the user to conclude that the auditor has active responsibility for this information. Furthermore, there is no indication that the auditor did not perform procedures on investment information.	
ERIC (101)	**The scope of the proposed changes are overly-broad and could discourage the use of limited scope audits**. The AICPA is very open in acknowledging that the Department of Labor (DOL) was the impetus for this review of auditing standards. This is of particular concern because the Chamber and ERIC have opposed several attempts by the DOL to expand requirements for, or restrict, the limited scope audit. Now it appears that the DOL is attempting a new method to change procedure where it was previously unsuccessful. The limited scope audit allows an auditor to forego the audit of investment information certified by certain banks or insurance carriers. Because banks and insurance companies are heavily regulated, the auditing of certified information is not only redundant but also adds unnecessary costs for plan sponsors with few protections for plan participants. Moreover, reconsideration of the limited scope audit rules seems to be addressing a problem that does not exist. To our knowledge, the use of limited scope audits has not led to fiduciary breaches or created situations that have left participants vulnerable. At a time when we want to encourage employers to sponsor and maintain retirement plans, adding additional costs and layers of administration on top of plan sponsors is simply wrong.	Noted

Responder	Comment (Issue 2)	TF Consideration / Response
	In the background section of the Proposal there is reference to the DOL report entitled, Assessing the Quality of Employee Benefit Plan Audits[6]. The DOL report, issued in 2015, found that 39 percent of audits had one or more major deficiencies with respect to one or more major requirements of generally accepted auditing standards. The Proposal uses this report as a basis for many of the proposed changes. However, the DOL report did not recommend any of the changes included in the Proposal. A particular focus was placed in the DOL report on smaller audit firms that do not handle a large number of employee benefit plan audits due to the fact that a majority of deficiencies in the audits were from these smaller audit firms. The DOL report recommended a focus on proper training for auditors at these smaller firms as well as other recommendations. However, none of these recommendations stated a need for a revamped audit process. Consequently, we strongly encourage AICPA to revoke this Proposal and focus on the training standards in place to properly train auditors of employee benefit plans. We do not intend to single out smaller firms; rather, any proposal from AICPA that focuses on training programs should be applicable to all firms.	
NCCMP (102)	Legislative history is also clear that Congress limited the purpose of the audit to assessing the plan's financial soundness rather than to function as an ERISA compliance audit enforcing ERISA's legal requirements. (See Senate Report 93-127 (April 18, 1973), p. 28 published in Committee Print, Legislative History of the Employee Retirement Income Security Act of 1974, Public Law 93-406 ("Legislative History"), p. 614 (stating "[T]he annual report must include an opinion of an independent auditor based on the results of a required annual audit. Such information will allow better assessment of the plan's financial soundness by administrators and participants alike (the exemption for the books of financial institutions providing investment, insurance and related functions and subject to periodic examination by a government agency will prevent duplicative audit examinations by these institutions.")). It is important to note DOL has attempted to have Congress pass laws that would eliminate the limited scope audit and that would require notice to DOL of any "irregularity" discovered by the auditors that may have occurred	Noted.

[6] See Department of Labor, Employee Benefits Security Administration, Office of the Chief Accountant May 2015 report entitled, *Assessing the Quality of Employee Benefit Plan Audits*, May 2015. The full report is available online at: https://www.dol.gov/sites/default/files/ebsa/about-ebsa/our-activities/resource-center/publications/assessing-thequality-of-employee-benefit-plan-audits-report.pdf

Responder	Comment (Issue 2)	TF Consideration / Response
	in the plan. However, Congress declined to pass these laws. See e.g., "Pension Audit Improvement Act of 1995" (S.1490, 104th Cong., introduced Dec. 20, 1995). The NCCMP is opposed to provisions in the ED (e.g., ¶¶ 20.b-d further discussed in Section VII below) that could restrict ERISA's limited scope audit exception. The ED makes clear that the DOL Chief Accountant and other DOL personnel advocated adopting a legal compliance audit model consistent with Generally Accepted Government Auditing Standards contained in the "Yellow Book." (ED pg. 5) The DOL Audit Report "Background" section states that "[u]nder ERISA, the Department plays no role in setting GAAP and GAAS standards. Such standards are set by institutions closely related to the accounting industry – the Financial Accounting Standards Board (FASB) and the American Institute of Certified Public Accountants (AICPA)." Nonetheless, DOL personnel not only "requested that the ASB take a fresh look at the auditor reporting model for ERISA plan audits . . ." (ED pg. 4) but also "participated in the task force and ASB deliberations and provided the task force with insights and recommendations as to areas where the DOL believes the auditor's report can be strengthened. The task force considered this information as this proposed SAS was developed." (ED pg. 4) We also note that DOL's active involvement in the AICPA Task Force was designed to affect the information that plans must report on the Form 5500 at the same time that the DOL was engaged in the Form 5500 Proposed rulemaking under the Administrative Procedures Act. While we are concerned that the DOL's active participation in the AICPA Task Force may appear to impinge upon the AICPA's independence, we are more concerned that the DOL's participation reportedly resulted in provisions which will require plan auditors to perform "compliance audits" of plan operations instead of an audit of a plan's financial statements to show the plan's financial soundness as intended by ERISA.	

Proposed changes to illustrative limited scope Report:

EY (53)

For an ERISA-permitted audit scope limitation, we recommend the following edits to the section *Other Matter Relating to the Supplemental Schedules Required by ERISA*:

> Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The supplemental schedules of [*identify title of schedules and period covered*] are presented for purposes of additional analysis and are not a required part of the financial statements but are supplementary information required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under ERISA ~~the Employee Retirement Income Security~~ ~~Act of 1974~~. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information, other than the certified investment information, has been subjected to the auditing procedures applied in the audits of the financial statements ~~and the use of the~~ ~~certification of the investment information, that we were instructed not to audit~~, and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, ~~performing procedures to test the completeness and accuracy of~~ ~~the information presented in the supplemental schedules,~~ and other additional procedures in accordance with auditing standards generally accepted in the United States of America.
>
> Our procedures with respect to the certified investment information ~~included in the supplemental~~ ~~schedules were limited to those procedures~~ are described in the *Auditor's Responsibility (Including Responsibility for the Certified Investment Information)* section.
>
> ~~In forming our opinion on the supplemental schedules, we evaluated whether the supplementary~~ ~~information, including its form and content, is presented in conformity with the Department of~~ ~~Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement~~ ~~Income Security Act of 1974.~~
>
> In our opinion, based on our audit and ~~based on our use of the certification of~~ the certified investment information ~~that we were instructed not to audit~~, the information in the accompanying schedules is fairly stated, in all material respects, in relation to the financial statements as a whole~~, and the form and content are presented in conformity with the Department of Labor's~~ ~~Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income~~ ~~Security Act of 1974~~. We did not audit the certified investment information. Rather we performed the limited procedures described in the *Auditor's Responsibility (Including Responsibility for the Certified Investment Information)* section.

- We recommend also illustrating an auditor's report on financial statements for an ERISA defined benefit plan (with a beginning-of-the-year presentation of accumulated plan benefits) when management imposes the ERISA-permitted audit scope limitation.

- We recommend changing the title as follows: An Auditor's Report on Financial Statements for an ERISA Defined Contribution Retirement Plan ~~Subject to ERISA~~ When Management Imposes ~~a Limitation of the Scope of~~ ~~the Audit as Permitted by ERISA~~ the ERISA-Permitted Audit Scope Limitation
- We recommend adding or modifying the following items in the circumstances section:
  - Audit of a complete set of general purpose financial statements for an ERISA defined contribution plan (comparative statement of net assets available for benefits and a single-year statement of changes in net assets available for benefits).
  - Management imposed a limitation on the scope of the audit, as permitted by 29 CFR 2520.103-8 of the DOL's Rules and Regulations for Reporting and Disclosure under ERISA, with respect to the certified investment information ~~for a complete set of general purpose financial~~ ~~statements of a 401(k) plan~~. No other scope limitations were imposed and the financial statements are not materially misstated.
  - Supplementary information as required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under ERISA accompanies the plan's financial statements. The report on the supplementary information is presented as an other-matter paragraph. The auditor has concluded that the supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole.
- We recommend changing the management's responsibility heading as follows: Management's Responsibility for the ERISA Plan Financial Statements and the ERISA-Permitted Audit Scope Limitation ~~on the Scope~~ ~~of the Audit~~
- We recommend the following edits to management's responsibilities:
  - Management is also responsible for determining whether the ERISA permitted audit scope limitation ~~a limitation on the scope of the audit~~ is permissible ~~in~~ under the circumstances~~, in accordance with the~~ ~~Employee Retirement Income Security Act of 1974,~~ including evaluating whether…
  - The ERISA-permitted audit scope limitation ~~on the scope of the audit~~ does not affect management's responsibility for the financial statements. Management is responsible for determining whether the certified investment information is appropriately measured, presented and disclosed in accordance with accounting principles generally accepted in the United States of America.
- We recommend the following edits to auditor's responsibilities:
  - We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion ~~with~~ when management imposes the ERISA-permitted audit scope limitation ~~on~~ ~~the financial statements~~.

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

Independent Auditor's Report

[Appropriate Addressee]

We have performed an audit of the accompanying financial statements of ABC 401(k) Plan, subject to the limitation on the scope of the audit imposed by management~~,~~ as permitted by 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.

Basis for the ERISA-Permitted Audit Scope Limitation ~~on the Scope of the Audit~~

As permitted by 29 CFR 2520.103-8 of the Department of Labor's Rules and Regulations for Reporting and Disclosure under ~~the Employee Retirement Income Security Act of 1974~~ ERISA, management imposed a limitation on the scope of the audit (ERISA-permitted audit scope limitation). Under the authority of section 103(a)(3)(C) of ERISA ~~the Employee Retirement Income Security Act of 1974~~, the audit need not extend to information related to assets held for investment ~~of the plan~~ (investment information) prepared and certified by a bank or similar institution or insurance carrier which is regulated and supervised and subject to periodic examination by a State or Federal agency (qualified institution), provided that the investment information is ~~the statements or information regarding assets so held are~~ prepared and certified ~~to~~ by a qualified institution ~~the bank or insurance carrier~~ in accordance with 29 CFR 2520.103-5 ~~and 29 CFR 2520.103-8~~.

We have been informed by management that a qualified institution holds the investments and executes investment transactions. Management has obtained certifications from the qualified institution as of December 31, 20X2 and 20X1, and for the year ended December 31, 20X2, stating that the investment information, described in Note X to the financial statements, is complete and accurate and has instructed us not to audit the certified investment information.

Management's Responsibility for the ERISA Plan Financial Statements and the ERISA-Permitted Audit Scope Limitation ~~on the Scope of the Audit~~

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

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

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

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

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

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

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

(a) obtaining and reading the certification

(b) inquiring of management how it assessed ~~evaluating management's assessment of~~ ~~whether~~ that the entity issuing the certification is a qualified institution and that the certified investment information is complete and accurate ~~under the Employee Retirement Income Security Act of 1974~~

(c) comparing the certified investment information with the related information presented and disclosed in the financial statements and supplemental schedules

(d) ~~evaluating whether the form and content of the certified investment information presented and~~ ~~disclosed in the financial statements are in accordance with accounting principles generally~~ ~~accepted in the United States of America~~

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

As part of obtaining reasonable assurance about whether ABC 401(k) Plan's financial statements are free of material misstatement, we performed procedures to test the plan's compliance with certain plan provisions that could result in a material misstatement to the financial statements, but not for the purpose of expressing an opinion on compliance with those provisions. Accordingly, we express no such opinion.

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

~~Auditor's~~ Opinion ~~With~~ When Management Imposes the ERISA-Permitted Audit Scope Limitation ~~on the Financial Statements~~

In our opinion, based on our audit and ~~based on our use of the certification of~~ the certified investment information ~~that we were instructed not to audit~~, the financial statements referred to above present fairly, in all material respects, the net assets available for benefits of ABC 401(k) Plan as of December 31, 20X2 and 20X1, and the changes in net assets available for benefits for the year ended December 31, 20X2, in accordance with accounting principles generally accepted in the United States of America. We did not audit the certified investment information. Rather, we performed the limited procedures described in the *Auditor's Responsibility (Including Responsibility for the Certified Investment Information)* section.

Other Matter Relating to the Supplemental Schedules Required by ERISA

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

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

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

In our opinion, based on our audit and ~~based on our use of the certification of~~ the certified investment information ~~that we were instructed not to audit~~, the information in the accompanying schedules is fairly stated in all material respects in relation to the financial statements

as a whole~~, and the form and content are presented in conformity with the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974~~. We did not audit the certified investment information. Rather we performed the limited procedures described in the *Auditor's Responsibility (Including Responsibility for the Certified Investment Information)* section.

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

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

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

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

~~*Purpose of this Report*~~

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

[Auditor's signature]

[City and state report is issued]

[Date of the auditor's report]

DT (80)

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

Circumstances include the following:

- ~~Management imposed a limitation on the scope of the audit, as permitted by 29 CFR 2520.103-8 of the DOL's Rules and Regulations for Reporting and Disclosure under ERISA,~~**Audit of a complete set of general purpose financial statements for a 401(k) plan subject to ERISA (comparative statement of net assets available for benefits and a single year statement of changes in net assets available for benefits), when management has imposed a limitation on the scope of the audit, as permitted by 29 CFR 2520.103-8 of the DOL's Rules and Regulations for Reporting and Disclosure under ERISA**[7] ~~with respect to the certified investment information for a complete set of general purpose financial statements of a 401(k) plan~~. **The auditor considered the possible effects of the management-imposed ERISA-permitted audit scope limitation on the auditor's opinion.**
- **The appropriate qualified institution is a bank.**
- No other scope limitations were imposed and the financial statements are not materially misstated.
- The financial statements are prepared in accordance with U.S. GAAP**.**
- There are no matters disclosed in the notes to the financial statements that require an emphasis-of-matter paragraph to be included in the auditor's report.
- **The auditor's reporting on the supplemental schedules required by ERISA is included in an other-matter paragraph.**
- ~~The *Report on Specific Plan Provisions Relating to Financial Statements* is included with the auditor's report and includes findings. The auditor performed procedures relating to participant eligibility, benefit payments, participant vesting provisions, employer and employee contributions, disclosure of prohibited transactions, IRC compliance tests, participant asset allocations, use of forfeitures, and recording of account activity.~~

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

Independent Auditor's Report

[*Appropriate Addressee*]

We have ~~performed an audit of~~ **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), when management has imposed a** limitation on the scope of the audit **as permitted by ERISA**~~imposed by management,~~ **(ERISA-permitted audit scope limitation)**~~ as permitted by Employee Retirement Income Security Act of 1974. The financial statements~~ **, which** comprise the statements of net assets available for benefits as of December 31, 20X2 and 20X1, and the related statement of changes in net assets available for benefits for the year ended December 31, 20X2, and the related notes to the financial statements.

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

~~As permitted by 29 CFR 2520.103-8 of the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974, management imposed a limitation on the scope of the audit. Under the authority of section 103(a)(3)(C) of the Employee Retirement Income Security Act of 1974, the audit need not extend to information related to assets held for investment of the plan (investment information) prepared and certified by a bank or similar institution or insurance carrier which is regulated and supervised and subject to periodic examination by a State or Federal agency, provided that the statements or information regarding assets so held are prepared and certified to by the bank or insurance carrier in accordance with 29 CFR 2520.103-5 and 29 CFR 2520.103-8.~~

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

Management's Responsibility for the Financial Statements of an Employee Benefit Plan Subject to ERISA When the ERISA-Permitted Audit Scope Limitation Is Imposed ~~and the Limitation on the Scope of the Audit~~

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

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

- the **statement relating to assets held for investment of the plan (investment information)**~~certification~~ is prepared **and certified** by **the**~~a~~ **appropriate** qualified institution, and

- the certified investment information is complete and accurate.

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

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

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

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the **plan's**~~entity's~~ preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the **plan's**~~entity's~~ internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

With respect to the **ERISA-permitted audit scope limitation imposed by management as it relates to** 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~~ **we are responsible for** the following:

(a) obtaining and reading the certification

(b) evaluating management's **assertion**~~assessment~~ of whether the **bank**~~entity~~ ~~issuing~~ **preparing and certifying** the ~~certification~~**statement relating to investment information, and transmitting such statement,** is **the**~~a~~ **appropriate** qualified institution under **ERISA**~~the Employee Retirement Income Security Act of 1974~~

(c) comparing the certified investment information with the related information presented and disclosed in the financial statements

(d) evaluating whether the form and content of the certified investment information presented and disclosed in the financial statements **is**~~are~~ in accordance with accounting principles generally accepted in the United States of America

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

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

Basis for Qualified Opinion ~~Limitation on the Scope of the Audit~~

As permitted by 29 CFR 2520.103-8 of the Department of Labor's Rules and Regulations for Reporting and Disclosure under **ERISA**~~the Employee Retirement Income Security Act of 1974~~, management imposed a limitation on the scope of the audit. Under the authority of section 103(a)(3)(C) of **ERISA**~~the Employee Retirement Income Security Act of 1974~~, the audit need not extend to ~~information related to assets held for investment of the plan (~~investment information~~)~~ prepared and certified by a bank or similar institution or insurance carrier which is regulated and supervised and subject to periodic examination by a State or Federal agency, provided that the statements or information regarding assets so held are prepared and certified ~~to~~ by the bank or **similar institution or** insurance carrier in accordance with 29 CFR 2520.103-5 and 29 CFR 2520.103-8 **of the Department of Labor's Rules and Regulations for Reporting and Disclosure under ERISA**.

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

Because of the ERISA-permitted audit scope limitation imposed by management, we were unable to obtain sufficient appropriate audit evidence about the certified investment information of ABC 401(k) Plan as of December 31, 20X2 and 20X1, and for the year ended December 31, 20X2. Consequently, we were unable to determine whether any adjustments to these amounts were necessary.

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

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

Other Matter Relating to the Supplemental Schedules Required by ERISA

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

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

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

In our opinion, **except for the possible effects on the supplemental schedules of the ERISA-permitted audit scope limitation imposed by management as it relates to certified investment information**~~based on our audit and based on our use of the certification of the investment information that we were instructed not to audit~~, the information in the accompanying schedules is fairly stated in all material respects in relation

to the financial statements as a whole~~, and the form and content are presented in conformity with the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974~~.

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

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

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

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

~~*Purpose of this Report*~~

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

[*Auditor's signature*]

[**Auditor's** ~~*C*~~*city and state* ~~*report is issued*~~]

[*Date of the auditor's report*]

APPENDIX A — Comments by Paragraph (Paragraphs 88-115– Limited scope report)

Topic/ Paragraph No.	Commenter	Comment	Response to Comment
Introductory Paragraph (92) [Limited scope]			
92	DT (80)	The following edits are recommended to address the matters noted in Appendix A—Issue 2, as well as other considerations identified by D&T relevant to this section in the proposed SAS: <u>Paragraph 92</u> D&T recommends defining "Employee Retirement Income Security Act of 1974" as "ERISA" and the phrase "limitation on the scope of the audit as permitted by ERISA" (or similar) as "the ERISA-permitted audit scope limitation" in the introductory paragraph as this will facilitate the consistent use of these defined terms/phrases throughout the auditor's report. 92. The introductory paragraph in the auditor's report should (Ref. par. A82-A83) a. Identify the entity whose financial statements have been audited b. State that the **<u>financial statements have been audited, the entity is an employee benefit plan</u>** ~~auditor performed an audit~~ subject to **<u>the Employee Retirement Income Security Act of 1974 (ERISA), and</u>** ~~the~~ **<u>management has imposed a</u>** limitation on the	Edits considered as TF developed option 2 in issue 2 of agenda item 2.

Topic/ Paragraph No.	Commenter	Comment	Response to Comment
		scope of the audit ~~imposed by management,~~ as permitted by **ERISA**~~the Employee Retirement Income Security Act of 1974~~ **(ERISA-permitted audit scope limitation)**~~.~~ c. Identify the title of each statement that the financial statements comprise, and d. Specify the date or period covered by each statement that the financial statements comprise**.**	
Basis for Limitation on the Scope of the Audit (93-94) [Limited scope]			
93-94	DT (80)	Paragraphs 93 and 94 D&T recommends deleting paragraphs 93 and 94 of the proposed SAS and instead include this language in a paragraph under the heading *Basis for Qualified Opinion* as noted in new paragraphs A104A and A104B below (refer to Appendix A—Issue 2 for further discussion). ~~*Basis for Limitation on the Scope of the Audit*~~ ~~93. The auditor's report should include a section with the heading "Basis for Limitation on the Scope of the Audit."~~ ~~94. The auditor's report should include~~ ~~a. A statement that as permitted by 29 CFR 2520.103-8 of the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974, management imposed a limitation on the scope of the audit. Under the authority of section 103(a)(3)(C) of the Employee Retirement Income Security Act of 1974, the audit~~	Edits considered as TF developed option 2 in issue 2 of agenda item 2

Topic/ Paragraph No.	Commenter	Comment	Response to Comment
		~~need not extend to information related to assets held for investment of the plan prepared and certified by a bank or similar institution or insurance carrier which is regulated and supervised and subject to periodic examination by a State or Federal agency, provided that the statements or information regarding assets so held are prepared and certified to by the bank or insurance carrier in accordance with 29 CFR 2520.103-5 and 29 CFR 2520.103-8. (Ref. par. A120)~~ ~~b. A statement that the auditor has been informed by management that a qualified institution holds the investments and executes investment transactions.~~ ~~c. A statement that management has obtained a certification[s] from the qualified institution as of [date] and for the period under audit [year end date] stating that the information described in [insert note reference] the financial statements is complete and accurate.~~	
Management's Responsibility for Financial Statements and the Limitation on the Scope of the Audit (95-97) [Limited scope]			
95-97	DT (80)	Paragraphs 95–97 D&T suggests that terms and phrases be used consistently throughout the headings and paragraphs in the proposed SAS, as well as in the proposed illustrative auditor's reports. *Management's Responsibility for Financial Statements* ***of an Employee Benefit Plan Subject to ERISA When the ERISA-Permitted Audit Scope Limitation Is Imposed*** ~~*and the Limitation on the Scope of the Audit*~~	Edits considered as TF developed option 2 in issue 2 of agenda item 2 – TF moving away from using scope limitation

Topic/ Paragraph No.	Commenter	Comment	Response to Comment
		95. The auditor's report should include a section with the heading "Management's Responsibility for the Financial Statements **of an Employee Benefit Plan Subject to ERISA When the ERISA-Permitted Audit Scope Limitation Is Imposed**~~and the Limitation on the Scope of the Audit~~". 96. The auditor's report should describe … It should also state that: (Ref. par. A84-A85) a. management is also responsible for determining whether a limitation on the scope of the audit is permissible in the circumstances, in accordance with **ERISA**~~the Employee Retirement Income Security Act of 1974~~, including evaluating whether *i.* the **statement relating to assets held for investment of the plan (investment information)**~~certification~~ is prepared **and certified** by **the**~~a~~ **appropriate** qualified institution, and *ii.* the certified investment information is complete and accurate. b. the ~~limitation on the scope of the audit~~ **ERISA-permitted audit scope limitation** does not affect management's responsibility for the financial statements. c. … d. management is also responsible for maintaining a current plan instrument, including all plan amendments, administering the plan and determining that the plan's transactions that are presented and disclosed in the financial statements are in conformity with the plan's provisions, including maintaining sufficient records with respect to each of the participants, in	

Topic/ Paragraph No.	Commenter	Comment	Response to Comment
		accordance with sections 107 and 209 of **ERISA**~~the Employee Retirement Income Security Act of 1974~~, to determine the benefits due or which may become due to such participants.	
96c	RSM (30)	Although management may only elect to limit the scope of the audit over the certified assets held for investment purposes, the certifying entity certifies all of the information and activity in the trust statements. Management often prepares the plan's financial statements using those certified trust statements. Therefore, in paragraphs 22d.d. and 96c, management should be responsible for determining that "all" of the certified information (including contributions, distributions, etc.) used for financial reporting, not just the certified "investment" information, is appropriately measured, presented and disclosed in accordance with the applicable financial reporting framework.	TF to consider changes to specific paragraphs once a new model has been determined.
96d	BDO (57)	While we concur with the specific management responsibility in paragraph 96(d) of maintaining sufficient records, we are concerned that this wording could cause unintended issues during the audit due to the subjective nature of what is considered "sufficient records."	TF to consider changes to specific paragraphs once a new model has been determined.
96d	GT (66)	We recommend edits similar to those provided above for paragraph .54b (that is, removing the mention of ERISA Sections 107 and 209).	Also see par 54 and 12c
Auditor's Responsibility (Including Responsibility for the Certified Investment Information) (98-104) [Limited scope]			
98 [Heading]	Legacy (5)	The heading "Auditor's Responsibility (Including Responsibility for the Certified Investment Information)" is misleading. The auditor is not responsible for any part of the financial statements, including the certified investment information.	Agreed`

Topic/ Paragraph No.	Commenter	Comment	Response to Comment
98-104	DT (80)	Paragraphs 98–104 D&T noted that the audit description makes reference to the "internal control relevant to the entity" or the "entity's internal control." We believe that this should be reworded to reflect that it is the plan's internal control that is relevant. D&T recommends rewording elements of the auditor's responsibility to reflect those procedures the auditor actually performed (refer to Appendix A—Issue 2 for further discussion). We believe that the auditor's responsibility extends to evaluating management's assertion, and not management's assessment, of whether the bank or similar institution or insurance carrier preparing and certifying the statement relating to investment information is a qualified institution under ERISA (refer to Appendix A—Issue 1 for further discussion). Additionally, in order to more appropriately align with paragraph 27 of AU-C 705, D&T recommends that the wording in the Auditor's Responsibilities section be amended such that where the auditor expresses a qualified opinion, the auditor should state that the audit evidence the auditor has obtained is sufficient and appropriate to provide a basis for the auditor's qualified audit opinion. 101. The auditor's report should describe an audit by stating that ~~i.~~**a.** an audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. ~~ii.~~**b.** the procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk	TF to consider changes to specific paragraphs once a new model has been determined.

Topic/ Paragraph No.	Commenter	Comment	Response to Comment
		assessments, the auditor considers internal control relevant to the **plan's**~~entity's~~ preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the **plan's**~~entity's~~ internal control, and accordingly, no such opinion is expressed. ~~iii.~~**c.** an audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of significant accounting estimates made by management, as well as the overall presentation of the financial statements. In circumstances when the auditor also has a responsibility to express an opinion on the effectiveness of internal control in conjunction with the audit of the financial statements, the auditor should omit the phrase required in paragraph 101~~(~~b~~)~~ that the auditor's consideration of internal control is not for the purpose of expressing an opinion on the effectiveness of internal control, and accordingly, no such opinion is expressed. 102. The auditor's report should state that, with respect to the **ERISA-permitted audit scope limitation imposed by management as it relates to** certified investment information ~~that management instructed the auditor not to audit, the auditor did not assess the risks of material misstatement nor did the auditor consider internal control over the certified investment information, and that the procedures were limited to~~**, the auditor is responsible for the following**: a. obtaining and reading the certification	

Topic/ Paragraph No.	Commenter	Comment	Response to Comment
		b. evaluating management's **assertion**~~assessment~~ of whether the **[*insert bank or similar institution or insurance carrier, as applicable*]**~~entity issuing~~ **preparing and certifying** the ~~certification~~**statement relating to investment information, and transmitting such statement,** is **the**~~a~~ **appropriate** qualified institution under **ERISA**~~the Employee Retirement Income Security Act of 1974~~ c. … d. evaluating whether the form and content of the certified investment information presented and disclosed in the financial statements **is**~~are~~ in accordance with the applicable financial reporting framework 103. … 104. The auditor's report should state whether the auditor believes that the audit evidence the auditor has obtained is sufficient and appropriate to provide a basis for the auditor's **qualified** opinion ~~with the ERISA-permitted audit scope limitation~~ on the financial statements Paragraphs 104A (new) and 104B (new) As noted above, D&T believes the report elements previously included in the Basis for Limitation on the Scope of the Audit section are more appropriately included under the Basis for Qualified Opinion paragraph. Additional wording is inserted so that the reporting elements align with paragraph 21 of AU-C 705. ***Basis for Qualified Opinion*** **104A. The auditor's report should include a section with the heading "Basis for Qualified Opinion"**	

Topic/ Paragraph No.	Commenter	Comment	Response to Comment
		104B. The auditor's report should include a statement that **a. as permitted by 29 CFR 2520.103-8 of the Department of Labor's Rules and Regulations for Reporting and Disclosure under ERISA, management imposed a limitation on the scope of the audit. Under the authority of section 103(a)(3)(C) of ERISA, the audit need not extend to investment information prepared and certified by a bank or similar institution or insurance carrier which is regulated and supervised and subject to periodic examination by a State or Federal agency, provided that the statements or information regarding assets so held are prepared and certified ~~to~~ by the bank or similar institution or insurance carrier in accordance with 29 CFR 2520.103-5 and 29 CFR 2520.103-8 of the Department of Labor's Rules and Regulations for Reporting and Disclosure under ERISA. (Ref. par. A120)** **b. the auditor has been informed by management that a qualified institution holds the investments and executes investment transactions.** **c. management has obtained a certification[s] from the qualified institution as of [date], and for the period under audit [year end date] stating that the investment information, described in [insert note reference] to the financial statements is complete and accurate.** **d. because of the ERISA-permitted audit scope limitation imposed by management, the auditor was unable to obtain sufficient appropriate audit evidence about the certified investment information of the plan as of [date], and for the period under audit [year end date]. Consequently, the auditor was unable to determine whether any adjustments to these amounts were necessary.**	

Topic/ Paragraph No.	Commenter	Comment	Response to Comment
101	GT (66)	We recommend edits similar to those provided above for paragraph .59. Par 59 comments: We recommend adding a sub-bullet in this paragraph to describe that the auditor is required to perform certain procedures to test whether the plan and plan transactions are in accordance with specific plan provisions and to communicate the results of those procedures to those charged with governance. The sub-bullet would also include the fact that such procedures are not performed for the purpose of providing an opinion on compliance with those provisions and that, accordingly, the auditor does not express such an opinion. Refer to our suggested edits to the illustrative reports below.	
102	RSM (30)	We suggest consideration be given to decreasing the length of the proposed limited-scope auditor's report by deleting from the report the details of the four procedures performed with respect to the certified investment information, and instead, inserting more general verbiage, such as: Our procedures performed on the certified investment information were limited to specific procedures required by generally accepted auditing standards for audits of employee benefit plans subject to the Employee Retirement Income Security Act of 1974.	TF agreed to keep the procedures because they believe it is important to be specific as to what the auditor's responsibilities are
102	LBMC (93)	We suggest that the wording in Paragraph 102, "...management instructed the auditor not to audit..." be changed to "management instructed the auditor not to audit, <u>and the auditor did not audit</u>". This change would clarify that the auditor did not audit the certified investments	TF to consider changes to specific paragraphs once a new model has been determined.
102 b & d	BDO (57)	the auditor's responsibilities in paragraph 102(b) and 102(d) that refer to evaluating management's assessment and the form and content of disclosures are vague, as previously noted in our response to Issue 1 above.	TF to consider changes to specific paragraphs once a

Topic/ Paragraph No.	Commenter	Comment	Response to Comment
		Additionally, we believe users of the financial statements may misinterpret the term "evaluate" to indicate that the auditor is providing a higher level of assurance than is actually provided. Avoiding vague or undefined terminology, wherever possible, would allow for consistent interpretation and provide greater clarity to users of the financial statements about the level of assurance expressed.	new model has been determined.
103	GT (66)	We believe this paragraph should be deleted to correspond with our suggested report edits below. Such a statement may confuse users of the financial statements and we believe removing it will not diminish the quality of the reporting and would help streamline the report content.	TF to consider changes to specific paragraphs once a new model has been determined.
Auditor's Opinion with the ERISA-permitted audit scope limitation on the financial statements (105-107) [Limited Scope]			
105-106	DT (80)	Paragraphs 105–106 D&T believes that the ERISA-permitted audit scope limitation imposed by management results in a qualified audit opinion (refer to Appendix A—Issue 2 for further discussion). The wording suggestions in this paragraph appropriately align with paragraph 24 of AU-C 705. ~~*Auditor's*~~ ***Qualified*** *Opinion* ~~*with the ERISA-permitted audit scope limitation on the Financial Statements*~~ 105. The auditor's report should include a paragraph with the heading "~~Auditor's~~ **Qualified** Opinion ~~with the ERISA-permitted Audit Scope Limitation on the Financial Statements~~" 106. When the ERISA-permitted audit scope limitation **imposed** is the only limitation on the scope of the audit ~~and the auditor has not identified any material misstatements,~~ the auditor's report should	TF to consider changes to specific paragraphs once a new model has been determined.

Topic/ Paragraph No.	Commenter	Comment	Response to Comment
		include a statement that in the auditor's opinion, **except for the possible effects of the matter described in the Basis for Qualified Opinion** ~~based on the audit and based on the use of the certification of the investment information, that the auditor was instructed not to audit~~, the financial statements **[referred to above]** present fairly, in all material respects, the […]**,** in accordance with [the applicable financial reporting framework**]**.~~]~~ 107. …	
106	BDO (57)	The proposed auditor's opinion wording for an ERISA-permitted audit scope limitation described in paragraph 106 may be misleading to users of the financial statements. The opinion wording appears to indicate that the auditor is giving an opinion that "the financial statements present fairly, in all material respects." We believe such wording is not suitable, given the materiality of plan investments for which the ERISA permitted scope limitation applies, and instead consider the current disclaimer of opinion to be appropriate. we note that the example wording in paragraph 106 and in the example auditor's report (Illustration 3) states that the auditor "was instructed not to audit…" However, as neither the proposed standard nor the example auditor's report states that the investment information was not audited, we request the ASB consider adding language to clearly state that the investment information was not audited (in addition to the language that indicates the auditor was instructed to not audit such information).	Opinion has been revised TF to consider changes to specific paragraphs once a new model has been determined.
106	GJC (82)	We propose that paragraph 106 of the proposed SAS be revised as follows:	Considered by task force as developed revised

Topic/ Paragraph No.	Commenter	Comment	Response to Comment
		"When the ERISA-permitted audit scope limitation is the only limitation on the scope of the audit and the auditor has not identified any material misstatements, the auditor's report should include the following: a. A statement that, because of the significance of the investment information that the auditor was instructed not to audit, the auditor was not able to obtain sufficient, appropriate audit evidence to provide a basis for an audit opinion on this investment information. b. A statement that, based on the audit and based on the use of the certification of the investment information that the auditor was instructed not to audit, the auditor is not aware of any material modifications that should be made to the certified investment information in order for it to be presented fairly, in all material respects, in accordance with [the applicable financial reporting framework]. c. A statement that, in the auditor's opinion, the remainder of the financial statements, not including the investment information that the auditor was instructed not to audit, present fairly, in all material respects, the […] in accordance with [the applicable financial reporting framework]." To implement the proposed revision above, we propose that the auditor's opinion section of Illustration 3 of the proposed SAS be revised as follows: "Because of the significance of the investment information summarized in Note X that we were instructed not to audit, we have	proposal. See Issue 2 in Agenda Item 2 for revised models.

Topic/ Paragraph No.	Commenter	Comment	Response to Comment
		not been able to obtain sufficient, appropriate audit evidence to provide a basis for an audit opinion on this investment information. However, based on our audit and our use of the certification of the investment information that we were instructed not to audit, we are not aware of any material modifications that should be made to the investment information summarized in Note X of the accompanying financial statements in order for it to be presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America. In our opinion, the remainder of the financial statements referred to above, not including the investment information summarized in Note X that we were instructed not to audit, present fairly, in all material respects, the net assets available for benefits of ABC 401(k) Plan as of December 31, 20X2 and 20X1, and the changes in net assets available for benefits for the year ended December 31, 20X2, in accordance with accounting principles generally accepted in the United States of America."	
Other Reporting Responsibilities (108-109) [Limited Scope]			
Reporting on Specific Plan Provisions Relating to the Financial Statements (pars. 110-112) [Limited scope]			
110-112	GT (66)	We believe these paragraphs should be deleted, based on our comments in the body of our letter.	TF to consider changes to specific paragraphs once a new model has been determined.
110	RSM (30)	The last sentence of paragraph 110 is not clear and seems to contradict the first sentence of paragraph 110 when the auditor's report on the ERISA plan financial statements is modified. We believe it would be more clear if	TF to consider changes to specific paragraphs once a

Topic/ Paragraph No.	Commenter	Comment	Response to Comment
		the last sentence was modified as follows (proposed additions are in bold font and deletions are struck through): When the auditor's opinion on the ERISA plan financial statements is modified, and such modification relates to the findings, the auditor is required to ~~omit such~~ **include** a statement **that the auditor's opinion on the financial statements was modified with respect to the findings** ~~from the report on specific plan provision~~.	new model has been determined.
110	BDO (57)	Paragraph 110 of the Exposure Draft indicates that no reference would be made in the auditor's opinion to findings in situations where the report was modified due to those findings. If the reporting of findings is retained, we suggest the proposed standard include such a reference in the auditor's opinion in order to more clearly identify to the user those findings that impact the report.	Report of findings to be addressed in issue 6
Date of the Auditor's Report (115) [Limited Scope]			
115	DT (80)	<u>Paragraph 115</u> D&T believes that the date of the auditor's report is that date on which sufficient appropriate audit evidence is obtained, which includes obtaining evidence that an appropriate certification has been obtained. See the following proposed recommendation: 115. The auditor's report should be dated no earlier than the date on which the auditor ~~has obtained an appropriate certification and~~ has obtained sufficient appropriate audit evidence on which to base the auditor's opinion on the ERISA plan financial statements, including evidence that	TF to consider changes to specific paragraphs once a new model has been determined.

Topic/ Paragraph No.	Commenter	Comment	Response to Comment
		a. a certification from the appropriate qualified institution(s) has been obtained; ~~a.~~**b.** the audit documentation has been reviewed; ~~b.~~**c.** all the statements that the ERISA plan financial statements comprise, including the related notes, have been prepared; and ~~c.~~**d.** management has asserted that they have taken responsibility for those ERISA plan financial statements. (Ref. par. A100-A102)	