



Agenda Item 2

Reporting on ERISA Plan Financial Statements

Cover Letter and Issues Paper

Objective

To review revisions to the exposure draft of the proposed Statement on Auditing Standards (SAS), *Forming and Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA* (ED), based on comments received on the ED and direction from the ASB from the October 2017 and January 2018 ASB meetings.

EBP Task Force

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

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

Background

In April 2017, the proposed SAS, *Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA*, was released for public comment. The ED contained nine “Issues for Consideration” seeking specific feedback from the public. The public comment period on the proposed SAS was extended from the original August 21, 2017 deadline to September 29, 2017.

The following is a list of the nine issues for consideration from the ED and the disposition of those issues.

Issue for Consideration from the Exposure Draft	Disposition of Issue	Related Materials for this Meeting
<i>Issue 1— Required Procedures When an ERISA-Permitted Audit Scope Limitation is Imposed</i>	Discussed at the October 2017 and January 2018 ASB Meetings to provide task force with direction	Issue 1
<i>Issue 2—The Form and Content of the Auditor’s Report on ERISA Plan Financial Statements with the ERISA-Permitted Audit Scope Limitation</i>	Discussed at the October 2017 and January 2018 ASB Meetings to provide task force with direction	Issue 2
<i>Issue 3— Modifications to the Opinion in the Independent Auditor’s Report</i>	This issue related to the interplay between AU-C 705 and the proposed limited scope report. Because the ASB moved away from the ED version of the report the interplay being questioned is not relevant	
<i>Issue 4—Required Emphasis-of-Matter Paragraphs</i>	Discussed at the January 2018 ASB meeting and agreed to remove the requirement for emphasis-of-matter paragraphs. Accordingly, the proposed SAS shows the removal of this section.	Paragraphs 116 and A125-A126 of the ED removed
<i>Issue 5—Reporting on Internal Control Deficiencies</i>	Discussed at the October 2017 ASB meeting. 98% of those who responded supported current GAAS requirements. No content added to the proposed SAS.	
<i>Issue 6—Certain Requirements for Audits of ERISA Plan Financial Statements and Related Required Report on Specific Plan Provisions Relating to the Financial Statements</i>	Preliminary results discussed at the October 2017 ASB meeting to provide task force with direction	Issue 3
<i>Issue 7—Required Procedures Relating to the Form 5500</i>	Discussed at the January 2018 ASB meeting. The ASB agreed to retain the required procedures relating to the Form 5500 in the proposed SAS. The ASB also– <ul style="list-style-type: none"> • asked the task force to consider requiring the auditor to obtain a draft or the final Form 5500 prior to issuance of the auditor’s report <p>Note: this content will be aligned with the proposed SAS <i>The Auditor’s</i></p>	See paragraphs 36-48 and related application material (paragraphs A64-A72) of proposed SAS in Agenda item 2A

	<i>Responsibilities Relating to Other Information Included in Annual Reports once that proposed SAS becomes final.</i>	
<i>Issue 8—Proposed New Reporting Standard and Amendments to Other AU-C Sections</i>	<p>Issue 8 included three questions about the overall structure of the proposed SAS.</p> <ol style="list-style-type: none"> 1. 53% of those who responded supported the proposed SAS. Of those that did not support the proposed SAS their objection related primarily to issue 6 and reporting findings in the auditor’s report. 2. 95% of those who responded agreed that the proposed amendments were appropriate. 3. 97% of those who responded did not think additional amendments to AU-C sections are needed. 	
<i>Issue 9— Proposed Effective Date</i>	84% of those who responded did not agree with the effective date. Some respondents recommended 18 months to 2 years implementation period after issuance of a final standard.	Effective date to be aligned with the overall reporting project

This issues paper focuses on “Issues for Consideration” numbers 1, 2, and 6 from the ED. However the entire proposed SAS has been revised to reflect the ASB discussions. The ASB is asked to review this issues paper and the entire proposed SAS (agenda item 2A) for discussion at the May 2018 ASB meeting. Agenda item 2C has been included for informational purposes only and contains the disposition of the comments received on the ED. Agenda Item 2C will be provided separately and will not be discussed at the meeting.

Agenda Items Presented

- Item 2 — Cover Letter and Issues Paper
- Item 2A — Proposed SAS, *Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA*, redlined to reflect changes from the ED
- Item 2B — Proposed SAS, *Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA*, clean
- Item 2C — Comment Letter Responses to *Issues for Consideration* 1-9 and suggested revisions to individual paragraphs (to be provided separately at a later date- For Informational Purposes Only)

Mr. Schubert will refer to the Agenda Items 2 and 2A in leading the discussion.

Issues for Discussion with the ASB

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

[Paragraphs 22-24 and A41-A50 of the proposed SAS (Agenda Item 2A)]

Results From October 2017 and January 2018 ASB Meetings

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

At the January 2018 ASB meeting, the ASB suggested the task force consider renaming the limited-scope report to better describe these types of engagements, such as an “ERISA section 103 audit.” The ASB also recommended the following:

- moving the limited scope audit procedure from paragraph 20b to the engagement acceptance section of the proposed SAS to include, as a precondition for the audit, that the auditor inquire about how management determined that the certifying entity is a qualified institution and that the certified information is certified as complete and accurate
- directed the task force to remove the limited scope audit procedure in paragraph 20d relating to evaluating disclosure of the investment information

Subsequent Task Force Discussions and Proposed Revisions to the ED

Subsequent to the January 2018 ASB meeting, the task force held four teleconference meetings to discuss revisions to the proposed SAS, including the required procedures when performing a limited scope audit. The task force discussed renaming the report and recommend that the report be called an “ERISA section 103(a)(3)(C) audit” because that is the relevant section of ERISA that permits management to instruct the auditor not to audit the investment information provided it is certified by a qualified institution.

The task force moved the procedure in paragraph 20b of the ED to the engagement acceptance section of the proposed SAS (see paragraph 12 of the proposed SAS (agenda item 2A)).

As directed by the ASB, the task force removed the procedure in paragraph 20d of the ED to evaluate whether the form and content of the financial statement disclosures relating to the certified investment information is in accordance with the financial reporting framework. The DOL observers expressed concerns with the auditor no longer performing the procedure in paragraph 20d of the ED.

Action Requested of the ASB

The ASB is asked to review paragraphs 22-24 (and related application material) relating to the procedures for an ERISA section 103(a)(3)(C) audit and provide the task force with feedback.

1. Does the ASB continue to believe that the auditor should not perform any audit procedures relating to disclosure of the certified investment information?

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

[Paragraphs 84-111 and A113-A120; Illustrations 3-6 of the proposed SAS (Agenda Item 2A)]

Results of October 2017 and January 2018 ASB Meetings

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

At the January 2018 ASB meeting the task force presented the ASB with two options for reporting when an audit is performed subject to the ERISA section 103(a)(3)(C) exception. A majority of the ASB supported the first option presented that contained a new form of report not within the current GAAS model and directed the task force to continue exploring a new form of report in accordance with that option. The ASB also asked the task force to consider whether there is a need for further guidance around the appropriate materiality level for the audit in order to provide the option 1 auditor's report.

The ASB continued to support including an opinion on the form and content of the supplemental schedules to align all ERISA related reports.

Subsequent Task Force Discussions and Proposed Revisions to the ED

Subsequent to the January 2018 ASB meeting, the task force held four teleconference meetings to discuss revisions to the proposed SAS, including the form and content of the auditor's report when management elects the ERISA section 103(a)(3)(C) audit.

The task force believes the materiality for an audit of ERISA plan financial statements is the same regardless of whether the audit is subject to the ERISA section 103(a)(3)(C) exception. The task force recommends that the opinion section include "in all material respects" to clarify that the materiality levels do not differ. The task force does not believe further discussion about materiality should be included in the proposed SAS.

Illustration 3 in the proposed SAS (agenda item 2A) reflects the changes from the ED. The following shows the changes to the ERISA section 103(a)(3)(C) report, marked to the draft discussed at the January 2018 ASB meeting (option 1):

Illustration 3—An Auditor's Report on Financial Statements for a Defined Contribution Retirement Plan Subject to ERISA When Management Elects the ERISA Section 103(a)(3)(C) Audit

Circumstances include the following:

- Management ~~has~~ elected ~~to have an~~ ERISA- section 103(a)(3)(C) Audit , as permitted ~~special purpose audit~~ by 29 CFR 2520.103-8 of the DOL’s Rules and Regulations for Reporting and Disclosure under ERISA,¹ with respect to the certified investment information for a complete set of general purpose financial statements of a 401(k) plan.
- The financial statements are ~~not materially misstated and there are no scope limitations~~, prepared in accordance with U.S. GAAP
- ~~The financial statements are prepared in accordance with GAAP.~~

Independent Auditor’s Report

[Appropriate Addressee]

We have performed an audit of the accompanying financial statements ~~and supplemental schedules~~ of ABC 401(k) Plan, an employee benefit plan subject to the ~~special purpose audit as permitted by the~~ Employee Retirement Income Security Act of 1974 (ERISA), as permitted by section 103(a)(3)(C) of ERISA (ERISA section 103(a)(3)(C) audit). The financial statements comprise the statements of net assets available for benefits as of December 31, 20X2 and 20X1, and the related statement of changes in net assets available for benefits for the year ended December 31, 20X2, and the related notes to the financial statements. ~~The supplemental schedules comprise the [identify the title of schedules and period covered].~~ ~~Management has elected the special purpose audit, as permitted by 29 CFR 2520.103-8 of the Department of Labor’s Rules and Regulations for Reporting and Disclosure under ERISA.~~

Nature of the ~~ERISA-Permitted Special Purpose~~ Section 103(a)(3)(C) Audit

~~Under the authority of~~ As permitted by section 103(a)(3)(C) of ERISA, the audit need not extend to any statement or information related to assets held for investment of the plan (investment information) prepared and certified by a bank or similar institution or insurance carrier which is regulated and supervised and subject to periodic examination by a State or Federal agency (qualified institution), provided that the statements or information regarding assets so held are prepared and certified to by the bank or similar institution or insurance carrier in accordance with 29 CFR 2520.103-5 ~~and 29 CFR 2520.103-8.~~

~~Management has obtained certifications from the qualified institution~~ Management has elected to have the audit of the plan’s financial statements performed in accordance with ERISA section 103(a)(3)(C) pursuant to 29 CFR 2520-103-8 of the Department of Labor’s Rules and Regulations for Reporting and Disclosure under ERISA. As described in Note X to the financial statements, management has obtained certifications as of December 31,

¹ Although not as common, the ERISA section 103(a)(3)(C) audit may relate to the audit of the plan’s investment in a 103-12 entity as permitted by 29 CFR 2520.103-12. Accordingly, the wording in this illustrative report may need to be revised to fit the circumstances of the engagement.

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.²

Management's Responsibility for the Financial Statements ~~and the ERISA-Permitted Special Purpose Audit~~

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error. Management's election of the ERISA section 103(a)(3)(C) audit does not affect management's responsibility for the financial statements.

Management is also responsible for determining whether an ERISA ~~permitted special purpose~~ section 103(a)(3)(C) audit is permissible under the circumstances, including evaluating whether

- the ~~certification~~ investment information is ~~prepared~~ prepared and certified by a qualified institution, ~~and~~
 - ~~the certified investment information is complete and accurate.~~
- Management's election of the ERISA permitted special purpose audit does not affect management's responsibility for the financial statements. Management is responsible for determining whether the certification meets the requirements in 29 CFR 2520-103-5, and
- the certified investment information is appropriately measured, presented and disclosed in accordance with accounting principles generally accepted in the United States of America.

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

Auditor's Responsibility

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

² If the note to the financial statements does not identify the names of the qualified certifying institutions and periods covered, then such information should be included in the auditor's report.

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 internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

~~*{Placeholder: include listing of matters once determined as part of Issue 6 from the exposure draft}*~~

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

(a) obtaining and reading the certification, and

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

(b) comparing the certified investment information with the related information presented and disclosed in the ~~ERISA plan~~ financial statements ~~and supplemental schedules~~

Accordingly, the objective of ~~our~~ the ERISA ~~permitted special purpose section 103(a)(3)(C)~~ audit is not to express an opinion as to whether the financial statements ~~as a whole~~ are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America [~~or other applicable financial reporting framework~~].

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our ERISA ~~permitted special purpose section 103(a)(3)(C)~~ audit opinion on the financial statements.

Auditor's Opinion

In our opinion, in all material respects, based on our audit and on the procedures performed with respect to the ~~certification of the certified~~ investment information ~~that we were instructed not to audit~~ as described in the Auditor's Responsibility section:

- The information in the financial statements ~~and supplemental schedules~~ that is subject to the certification corresponds to the information certified as complete and accurate by an institution that management determined qualified for the ERISA ~~permitted special purpose~~ section 103(a)(3)(C) audit
- The information in the financial statements, other than that derived from the information certified by the trustee (or custodian)³, has been audited by us in accordance with auditing standards generally accepted in the United States of America and, in our opinion, is presented fairly in accordance with accounting principles generally accepted in the United States of America.

Supplemental Schedules Required by ERISA

The supplemental schedules comprise the [identify the title of schedules and period covered]. ~~The~~ The information included in the supplemental schedules, other than that derived from the information certified by the trustee (or custodian) has been subjected to auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America.

In our opinion, in all material respects:

- the information in the supplemental schedules that is subject to the certification corresponds to the information certified as complete and accurate by an institution that management determined qualified for the ERISA section 103(a)(3)(C) audit
- the form and content of the information included in the supplemental schedules, other than that derived from the information certified by the trustee (or custodian), ~~have been audited by us in accordance with auditing standards generally accepted in the United States of America and, in our opinion,~~ are presented in conformity with the U.S. Department of Labor's Rules and Regulations for Reporting and Disclosure under ERISA.

[Auditor's signature]

[City and state report is issued]

[Date of the auditor's report]

³ The words in this sentence may be modified when the assets are certified by an insurance entity.

Paragraph 105 and related application material in paragraphs A116-A117 of the proposed SAS (Agenda item 2A) describe the interplay between AU-C section 705 and the standard ERISA section 103(a)(3)(C) report.

Illustration 3 in the exhibit to the proposed SAS (agenda item 2A) contains an example ERISA section 103(a)(3)(C) report. Illustrations 4-6 in the exhibit contain example reports when the ERISA section 103(a)(3)(C) report is used and there are modifications to the opinions.

Action Requested of the ASB

2. Does the ASB agree with the ERISA section 103(a)(3)(C) form of report?
3. Does the ASB agree with the interplay between AU-C section 705 and the ERISA section 103(a)(3)(C) form of report when there are scope limitations or the financial statements are materially misstated as described in paragraph 105 of the proposed SAS?
4. Does the ASB agree with the report illustrations 3-6 in the exhibit of the proposed SAS?

Issue 3: Certain Requirements for Audits of ERISA Plan Financial Statements and Related Required Report on Specific Plan Provisions Relating to the Financial Statements

[Paragraphs 14-21 and A13-A40 of the proposed SAS (Agenda Item 2A)]

The ED contained three questions relating to Issue for Consideration No. 6. Question 1 related to the required areas to be tested relating to plan provisions (paragraphs 15-16 of the ED); question 2 related to the report on findings (paragraphs 119-124 of the ED); and question 3 related to possible additional costs.

72 percent of those who responded did not support the required procedures relating to the plan provisions. Many of the concerns expressed in the comment letters related to the requirement that these procedures be performed irrespective of the risk of material misstatement. Many respondents, however, acknowledged that plan auditors should be performing procedures relating to the plan provisions as part of the audit.

94% of those who responded did not support the reporting of findings in the auditor's report. Many of the respondents noted it would be more appropriate to report to those charged with governance.

Results From October 2017 ASB Meeting

At the October 2017 ASB meeting the ASB asked the task force to consider revising the proposed SAS to better align the testing of certain plan provisions relating to the financial statements to the audit of the ERISA-plan financial statements, taking into consideration the auditor's risk assessment. The ASB generally agreed that the provisions to be tested will depend upon the auditor's risk assessment and the type of plan being audited. Further, the ASB generally agreed that findings from such testing should not be required to be communicated in the auditor's report

but could be communicated to those charged with governance and asked the task force to explore ways to develop such a framework. The ASB also discussed the possibility of aligning such a communication with existing requirements to communicate with those charged with governance, including those that relate to internal control over financial reporting.

Subsequent Task Force Discussions and Proposed Revisions to the ED

Subsequent to the October 2017 ASB meeting, the task force held four teleconference meetings to discuss revisions to the proposed SAS, including the testing and reporting on plan provisions. Based upon comments received on the ED, and feedback from the ASB, the task force has revised the proposed SAS relating to testing of plan provisions to be more principles-based (paragraphs 14-16 of the proposed SAS (Agenda item 2A)). Further the task force has revised the proposed SAS to replace the requirement to report findings in the auditor’s report (paragraphs 119-124 of the ED) to a communication with those charged with governance (paragraph 21 of proposed SAS (Agenda item 2A)).

Testing of Plan Provisions

One respondent (EY (53)) provided the following suggestions relating to the testing of specific plan provisions:

Paragraph 15 of the proposed SAS:

We recommend replacing paragraph 15 with more principles-based guidance. Based on risk assessment procedures, we believe the auditor should identify the classes of transactions, account balances and disclosures where the risk of misstatement could be material to the financial statements. For these classes of transactions, account balances and disclosures, we believe the auditor should test the following plan provisions, if applicable

- eligibility and participation provisions
- formula/calculation provisions
- individual participant account provisions
- other plan provisions for which noncompliance could result in material misstatement to the financial statements.

The task force believes that, as part of the audit of the ERISA plan financial statements, the auditor should test relevant plan provisions relating to classes of transactions, account balances, and disclosures when the risk of misstatement could be material. Further, the task force agrees that the requirement should be principles-based with the application material providing guidance giving examples of plan provisions that may need to be tested as part of the audit. Accordingly, the task force is proposing to replace paragraphs 15-16 of the ED with a new section entitled “Audit Risk Assessment and Response in an Audit of ERISA Plan Financial Statements” (see paragraphs 14-21 of proposed SAS (Agenda item 2A)).

This revised section contains the following requirement relating to the testing of plan provisions:

16. When designing and performing audit procedures the auditor should consider relevant plan provisions that affect the significant accounts or classes of transactions when the risk of misstatement could be material to the financial statements.

The application material to paragraph 16 of the proposed SAS (paragraphs A20-A26 (Agenda item 2A)) provides guidance relating to applying paragraph 16 based on plan provisions that may be relevant to an account. For example, when testing contributions the plan instrument often includes plan provisions such as participation and eligibility, types of contributions, timing of contributions, contribution limitations, investment of contributions, allocation to participants, use of forfeitures, and service requirements or credits. When the auditor is designing and performing their audit procedures the auditor is required to consider plan provisions relevant to that account.

Action Requested of the ASB

The ASB is asked to review paragraphs 14-16 (and related application material in paragraphs A13-A22) of the proposed SAS (Agenda item 2A) and provide the task force with feedback.

5. Does the ASB agree with the new risk-based model as discussed in paragraphs 14-16?
6. Does the ASB believe the application material in paragraphs A13-A22 provide adequate guidance for the auditor when testing plan provisions?

Plan Tax Status

Paragraph 16 of the ED required the auditor to perform audit procedures for whether the plan has performed and passed, corrected, or intends to correct, failures of relevant IRC compliance tests within the time provided by the regulations. The task force recommends the proposed SAS include application material relating to the plan's tax status rather than include a specific requirement. The task force has added application material to paragraphs A23-A26 of the proposed SAS in Agenda item 2A to provide background and direct the auditor to the EBP Guide for further guidance.

Action Requested of the ASB

The ASB is asked to review the application guidance in paragraphs A23-A26 of the proposed SAS in agenda item 2A and provide the task force with feedback relating to this content.

Prohibited Transactions

Paragraph 15e of the ED required the auditor to test whether prohibited transactions identified by management or as part of the audit have been appropriately reported in the supplemental schedules. The task force does not believe that this procedure would be covered by the requirement in paragraph 16 of the proposed SAS and therefore recommends that the following requirement be included relating to prohibited transactions because ERISA requires that all transactions with

parties in interest (excluding any transactions exempted from prohibited transaction rules) be disclosed in the supplemental schedules, without regard to their materiality.

Prohibited Transactions

17. The auditor should evaluate whether prohibited transactions identified by management or as part of the audit have been appropriately reported in the supplemental schedules.

Action Requested of the ASB

7. Does the ASB agree with including the requirement in paragraph 17 of the proposed SAS (agenda item 2A) relating to prohibited transactions?

The task force also recommends that the following requirements be included in the proposed SAS to address how to report when parties in interest are not appropriately disclosed in the supplemental schedules or financial statements (see paragraphs 18-19 and related application material in paragraph A30 of the proposed SAS in agenda item 2A).

The following requirements in paragraphs 18-19 of the proposed SAS (Agenda item 2A) are based on the guidance from paragraph 2.128 of the AICPA Audit and Accounting Guide *Employee Benefit Plans* (EBP Guide).

~~[strikethrough~~ denotes content from the EBP guide that has not been included in the proposed SAS]

18. If the auditor concludes that the plan has entered into a prohibited transaction with a party in interest, and the transaction has not been properly disclosed in the ERISA-required supplemental schedule, the auditor should modify the report on the ERISA-required supplemental schedule ~~if the effect of the transaction is material to the financial statements.~~

19. If a material party in interest transaction that is not disclosed in the ERISA-required supplemental schedule is also considered a related party transaction and if that transaction is not properly disclosed in the notes to the financial statements, the auditor should modify the opinion in accordance with AU-C section 705.

The task force removed “if the effect of the transaction is material to the financial statements” from the content in the EBP guide because the task force believes that the auditor should modify the report on the supplemental schedule when any prohibited transaction is omitted from the schedule. As noted previously, ERISA requires that all transactions with parties in interest (excluding any transactions exempted from prohibited transaction rules) be disclosed in the supplemental schedules, without regard to their materiality.

Action Requested of the ASB

The ASB is asked to review paragraphs 18-19 (and related application material in paragraph A30) of the proposed SAS in agenda item 2A and provide the task force with feedback for including requirements relating to prohibited transactions.

8. Does the ASB agree with not including “if the effect of the transaction is material to the financial statements” in paragraph 18 of the proposed SAS as discussed above?

Evaluation and Documentation

Paragraph 17 of the ED included a requirement for the auditor to document audit procedures performed and the findings accumulated during the audit relating to the testing of plan provisions.

The task force has replaced this section with a new section entitled “Evaluation and Documentation” that requires the auditor to evaluate the work performed as part of paragraph 16 of the proposed SAS to determine whether there are “reportable findings.” This section also requires the auditor to report such reportable findings within existing GAAS. Paragraph 20 of the proposed SAS explains that when the audit work performed results in items that are not in accordance with the criteria specified (for example, not in accordance with the plan instrument) and the auditor evaluates such items as matters to be reported under AU-C sections 250, 260, or 265, then the auditor has a reportable finding. The task force has therefore removed the definition of “findings” from paragraph 11 of the ED to avoid confusion with the use of the word ‘findings’ in other AU-C sections.

The task force has included application material to remind auditors about the requirements in AU-C section 230, *Audit Documentation*. See paragraph 20 and related application material in paragraphs A31-A32 of the proposed SAS in agenda item 2A.

Evaluation and Documentation

20. When the audit work performed results in items that are not in accordance with the criteria specified (for example, not in accordance with the plan instrument) the auditor should evaluate whether the matters are (a) an identified instance of noncompliance with laws or regulations in accordance with AU-C section 250, *Consideration of Laws and Regulations in an Audit of Financial Statements*; (b) a finding arising from the audit that is in the auditor’s professional judgment, significant and relevant to those charged with governance regarding their responsibility to oversee the financial reporting process in accordance with AU-C section 260, *The Auditor’s Communication With Those Charged With Governance*; or (c) indicative of deficiencies in internal control identified during the audit that have not been communicated to management by other parties and that, in the auditor’s professional judgment are of sufficient importance to merit management’s attention in accordance with AU-C section 265, *Communicating Internal Control Related Matters Identified in an Audit* (hereinafter referred to as “reportable findings”).

Action Requested of the ASB

The ASB is asked to review paragraph 20 (and related application material in paragraphs A31-A32) of the proposed SAS in agenda item 2A and provide the task force with feedback for including requirements relating to evaluating and documenting reportable findings.

9. Does the ASB agree with the requirement in paragraph 20 to evaluate reportable findings?

Communication With Management and Those Charged With Governance

As discussed previously, the ASB directed the task force to explore a model in which the auditor communicates findings from the testing of plan provisions with those charged with governance. The task force also linked such communication with those communications already existing in GAAS, namely communications under AU-C sections 250, 260, and 265.

The task force included the following requirement for auditors to communicate their “reportable findings” with those charged with governance. See paragraph 21 and related application material in paragraph A33-A40 of the proposed SAS in Agenda item 2A.

Communication With Management or Those Charged With Governance

21. Based on the evaluation required by paragraph 20, the auditor should communicate in writing to those charged with governance, on a timely basis, reportable findings from the audit procedures performed relating to the matters included in paragraph 16. Such communication should be included with the required communication with those charged with governance in accordance with AU-C section 250, AU-C section 260, or AU-C section 265, as appropriate, either in a separate section or placed in such communications as the auditor deems appropriate. The communication should include the following:

- a. a description of the reportable finding
- b. sufficient information to enable those charged with governance and management to understand the context of the communication
- c. an explanation of the potential effects of the reportable findings

Action Requested of the ASB

The ASB is asked to review paragraph 21 and related application material in paragraphs A33-A40 of the proposed SAS and provide the task force with feedback.

10. Does the ASB support the task force’s model for reporting the “reportable findings” to those charged with governance within the existing GAAS communications in AU-C sections 250, 260, and 265?
11. Does the ASB support the overall model for testing plan provisions and reporting as described above relating to paragraphs 14-21 and A13-A40 of the proposed SAS?

Issue 4: Review Agenda Item 2A

The ASB is asked to review the entire proposed SAS in agenda item 2A. Mr. Schubert will walk through the proposed SAS in agenda item 2A to obtain feedback on the remaining areas of the proposed SAS that have not been specifically discussed in this issues paper.