



Agenda Item 1

Reporting on ERISA Plan Financial Statements

Cover Letter and Issues Paper

Objective

To approve the proposed Statement on Auditing Standards (SAS), *Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA*, and related amendments to other standards, as final.

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)
- Marilyn Steffens
- Jerry Murray (resigned as of January 2018)
- Alice Wunderlich (retired as of May 2018)
- 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 public comment period on the proposed SAS was extended from the original August 21, 2017 deadline to September 29, 2017.

The ASB discussed the comment letter responses at the October 2017, January 2018 and May 2018 ASB meetings. At the May 2018 ASB meeting the ASB also discussed a revised draft of the proposed SAS and provided the task force with feedback on certain issues.

Agenda Items Presented

- Item 1 — Cover Letter and Issues Paper
- Item 1A — Proposed SAS, *Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA*, marked to reflect changes from the May 2018 ASB Meeting
- Item 1B — Proposed SAS, *Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA*, clean

Mr. Schubert will refer to the Agenda Items 1 and 1A in leading the discussion.

Issues for Discussion with the ASB

Issue 1: Engagement Acceptance

[Paragraphs 11-14 and A14-A16 of the proposed SAS in agenda item 1A]

Results of May 2018 ASB Meeting

At the May 2018 ASB meeting, the ASB discussed the need for the auditor to perform procedures to understand how management determined that the entity preparing and certifying the investment information is a qualified institution and asked the task force to revise the requirement in paragraph 12 of the proposed SAS to better reflect the auditor's responsibility for the precondition for the audit. The ASB acknowledged that the auditor may have to determine that the entity is a qualified institution as a precondition to the audit.

Task Force Discussion and Recommendations

Paragraph 11 of the proposed SAS discusses the preconditions for an audit of ERISA plan financial statements relating to management acknowledging and understanding its responsibilities relating to an ERISA audit, including the additional responsibilities for an ERISA section 103(a)(3)(C) audit. At the January 2018 ASB meeting, the ASB directed the task force to include, as a precondition for the audit, the auditor's responsibilities relating to whether the entity certifying the investment information is a qualified institution. At the May 2018 meeting, the ASB discussed the need to revise the proposed requirement because the ASB believes the auditor should do more than "inquiry." Accordingly, the task force has proposed revisions to the requirement in paragraph 12. The task force is also recommending a new requirement be included in the proposed SAS to address what the auditor should do when the auditor has concerns about whether the entity preparing and certifying the investment information is a qualified institution (see new paragraph 13 and related application material).

The ASB is asked to review the following changes to the proposed SAS:

Engagement Acceptance	Engagement Acceptance (Ref. par. 11)
<p>11. In addition to the requirements<u>preconditions for an audit</u> in AU-C section 210, the auditor should obtain the agreement of management that it acknowledges and understands its responsibility for <u>the following</u>: (Ref. par. A12<u>14</u>)</p> <ul style="list-style-type: none"> a. maintaining a current plan instrument including all plan amendments (Ref. par. A17<u>21</u>) b. administering the plan and determining that the plan’s transactions that are presented and disclosed in the ERISA plan 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 (Ref. par. A52<u>57</u>) a. When the<u>management elects to have an</u> ERISA section 103(a)(3)(C) audit is performed, <ul style="list-style-type: none"> i. Determining whether an ERISA section 103(a)(3)(C) audit is permissible under the circumstances ii. Evaluating<u>Determining</u> whether the investment information is prepared and certified by an appropriate<u>a</u> qualified institution iii. Evaluating<u>Determining</u> whether the certification meets the requirements in 29 CFR 2520-103<u>2520.103-5</u> iv. Determining whether the certified investment information is appropriately measured, presented, and disclosed in accordance with the applicable financial reporting framework. 	<p><u>A14.</u> A12. The concept of an independent audit requires that the auditor not assume management’s responsibility for the preparation and fair presentation of the financial statements. When the auditor assists in drafting the financial statements, in whole or in part, based on information provided by management during the performance of the audit, such assistance is considered a nonattest service under the “Nonattest Services” subtopic (AICPA, <i>Professional Standards</i>, ET sec 1.295) under the “Independence Rule” (AICPA, <i>Professional Standards</i>, ET sec. 1.200.001) of the AICPA Code of Professional Conduct. Before performing nonattest services, the auditor is required to establish and document in writing the auditor’s understanding with the client regarding the objectives of the engagement, services to be performed, client’s acceptance of its responsibilities, auditor’s responsibilities, and any limitations of the engagement.</p>

<p>12. In addition to the preconditions for an audit in AU-C section 210, in order for the auditor to establish whether the preconditions for an ERISA plan audit are present <u>when management elects to have an ERISA section 103(a)(3)(C) audit</u>, the auditor should also inquire of management about<u>perform procedures to understand</u> how management determined that the entity preparing and certifying the investment information is a qualified institution, as discussed in paragraph A66, and that the certified investment information is certified as complete and accurate.</p>	
<p>13. <u>If, as a result of the procedures performed in paragraph Error! Reference source not found., the auditor has concerns about whether the entity preparing and certifying the investment information is a qualified institution, the auditor should discuss their concerns with management. If management does not provide sufficient information that supports that the entity preparing and certifying the investment information is a qualified institution, then the auditor should determine whether the entity is a qualified institution. (Ref. par. A15–A16)</u></p>	<p><u>A15. When management does not provide sufficient information that supports that the entity preparing and certifying the investment information is a qualified institution and the auditor is required to determine whether the entity is a qualified institution, the auditor may want to communicate this matter to those charged with governance in accordance with AU-C section 260 because this is an issue arising from the audit that may be significant and relevant to those charged with governance regarding their responsibility to oversee the financial reporting process (see paragraph 20).</u></p> <p><u>A16. If it is determined that the entity is not a qualified institution then the ERISA section 103(a)(3)(C) audit is not permitted and the auditor will need to perform audit procedures on the information included in the certification.</u></p>
<p>14. 13.The auditor should also obtain the agreement of management or those charged with governance to provide a draft of the<u>to the auditor the version of the Form 5500 that the entity represents will be filed (hereinafter referred to as the final draft Form 5500)</u> prior to the <u>dating of the auditor's report</u>release date.</p>	

Action Requested of the ASB

1. Does the ASB agree with the changes made to the engagement acceptance section of the proposed SAS?

Issue 2: Required Procedures for the ERISA Section 103(a)(3)(C) Audit

[Paragraphs 27c and A47]

Results of May 2018 ASB Meeting

At the May 2018 ASB meeting, the ASB discussed the required ERISA section 103(a)(3)(C) audit procedures. In particular, the ASB discussed whether the proposed SAS should include a requirement for the auditor to perform procedures relating to the disclosures in the notes to the financial statements that are derived from the certified investment information. The ASB noted that often the certification does not provide for the financial statement disclosures and therefore management needs to determine those disclosures based on the certified investment information.

The ASB directed the task force to include a requirement for the auditor to perform procedures relating to such disclosures when the certification does not cover the presentation and disclosure assertion.

The ASB also asked the task force to include application material to clarify that the engagement should be performed based on materiality for the financial statements as a whole, and to consider better placement of “in all material respects” in the opinion section of the auditor’s report.

Task Force Discussion and Recommendations

Disclosures Derived From Certified Investment Information

As discussed in the AICPA Audit and Accounting Guide *Employee Benefit Plans* (January 1, 2018), the auditor’s responsibilities for the investments covered by the limited-scope exemption, includes a procedure for the auditor to determine whether the form and content of the financial statement disclosures related to the investment information prepared and certified by a qualifying institution are in accordance with GAAP and in compliance with DOL rules and regulations. The task force noted that while many comment letter respondents did not agree with this procedure, they did not recommend complete removal of this audit step. The task force believes that the auditor should read the disclosures derived from the certified investment information for consistency with the presentation and disclosure requirements of GAAP. Accordingly, the task force is recommending this procedure be included as paragraph 27c of the proposed SAS (see table that follows).

Further, the task force has included discussion about disclosures in paragraphs A12, A20, and 104 (see those paragraphs in agenda item 1A).

Materiality

The task force agreed that the materiality level for the ERISA section 103(a)(3)(C) audit should be based on the financial statements as a whole. Accordingly, the task force has included new application material (see paragraph A47 in table that follows) to address this. The task force has also included revised wording in the auditor’s opinion section of the report, which will be discussed in Issue 3 of this issues paper.

<p><u>27.</u> In addition to the audit procedures performed on the information not covered by the certification, the auditor should perform the following procedures on the certified investment information: (Ref. par. A41<u>47</u>)</p>	<p><u>A47.</u> <u>When planning and performing the audit procedures for an ERISA section 103(a)(3)(C) audit, the materiality considerations apply at the financial statement level as a whole.</u></p>
<p>a. obtain from management and read the certification as it relates to investment information prepared and certified by a qualified institution. (Ref. par. A42<u>48</u>–A43<u>49</u>)</p>	<p><u>A48.</u> A42.The qualified institution may certify all activity of the plan. As discussed in paragraph A8, the ERISA section 103(a)(3)(C) audit and corresponding required procedures in paragraph 22,27, extends only to investment information certified by the qualified institution. The auditor is required to perform audit procedures to obtain sufficient appropriate audit evidence on the noninvestment related information and the investment information not covered by the certification in order to form an opinion on the ERISA plan financial statements.</p> <p><u>A49.</u> A43.—The certification provides audit evidence as it relates to the accuracy and completeness of investment information <u>and may not cover all information required to be disclosed by the applicable financial reporting framework.</u> The certification and results of the procedures performed by the auditor in paragraphs 2227–2429 are considered part of audit evidence relating to the certified investment information when determining whether the form of opinion required by paragraphs 84–112<u>90–118</u> is appropriate.</p>
<p>b. compare the certified investment information with the related information presented and disclosed in the ERISA plan financial statements and <u>ERISA-required</u> supplemental schedules; (Ref. par. A44<u>50</u>)</p>	<p><u>A50.</u> A44.Comparing the certified investment information by agreeing and reconciling to the amounts included in the ERISA plan financial statements and related investment disclosures <u>as well as also includes</u> the investment information included in the <u>ERISA-required</u> supplemental schedules. <u>Comparing this information includes consideration of the presentation and disclosure</u></p>

	<p><u>requirements of the applicable financial reporting framework.</u> To the extent that the investment information in the ERISA plan financial statements and related disclosures and <u>ERISA-required</u> supplemental schedules cannot be agreed to or derived from the certified information, appropriate audit procedures would need to be performed on such information.</p>
<p><u>c. read the disclosures relating to the certified investment information for consistency with the presentation and disclosure requirements of the applicable financial reporting framework.</u></p>	

The entire section relating to procedures for an ERISA section 103(a)(3)(C) audit can be found in paragraphs 26-29, and A46-A55 of the proposed SAS in agenda item 1A.

Action Requested of the ASB

2. Does the ASB support the new requirement added to paragraph 27c for the auditor read the disclosures relating to the certified investment information for consistency with the presentation and disclosure requirements of the applicable financial reporting framework?
3. Does the proposed SAS adequately address the materiality considerations?

Issue 3: The Form and Content of the ERISA Section 103(a)(3)(C) Auditor’s Report

[Paragraphs 90-117 and A117-A124; Illustrations 3-6 of the proposed SAS in agenda Item 1A]

Results of May 2018 ASB Meeting

The ASB discussed the draft form of ERISA section 103(a)(3)(C) report and provided the task force with the following feedback:

- The ASB asked the task force to reverse the order of the paragraphs in “Nature of the ERISA Section 103(a)(3)(C) Audit” and provided the task force with offline suggestions for editorial revisions [*see marked changes in illustrative report below*]
- The ASB discussed “Management’s Responsibility for the Financial Statements” section and directed the task force to move certain of management’s responsibilities for the

certified investment information from the requirements to application material [*see discussion of “Certain Management Responsibilities” below*]

- The ASB asked the task force to include application material to clarify that the engagement should be performed based on materiality for the financial statements as a whole [*see paragraph A47 of the proposed SAS in issue 2 of this issues paper and in agenda item 1A*, and to consider better placement of “in all material respects” in the opinion section [*see paragraph 109 and illustrations 3-4 in agenda item 1A*]
- The ASB asked the task force to include in the circumstances to Illustration 4 that the reason for the qualification did not affect the supplemental schedules and therefore the auditor was able to provide an opinion on the supplemental schedules [*see illustration 4 in agenda item 1A*]
- The ASB supported the interplay between the proposed SAS and AU-C section 705

Task Force Discussion and Recommendations

The task force addressed the ASB’s comments and revised the ERISA section 103(a)(3)(C) report accordingly.

Certain Management Responsibilities

The task force removed from paragraph 98 of the proposed SAS the requirement to include in the auditor’s report certain of management’s responsibilities for the certified investment information. The task force discussed including application material to say the auditor may want to include such content in the auditor’s report, however, the task force believes that will cause more confusion and inconsistency in reporting and therefore recommends no mention of including additional management responsibilities in the auditor’s report be made. The task force noted that the proposed SAS still requires management to acknowledge and understand its responsibilities for the certified investment information in paragraph 11 and to provide the auditor with written representations in paragraph 30c.

Illustrative ERISA section 103(a)(3)(C) Report

The following reflects the ERISA section 103(a)(3)(C) report, marked to reflect proposed changes from the draft discussed at the May 2018 ASB Meeting (Illustration 3 in the proposed SAS in agenda item 1A).

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 elected the ERISA section 103(a)(3)(C) audit, as permitted 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~~
- The auditor performed an ERISA section 103(a)(3)(C) audit of a complete set of general purpose financial statements ~~of a 401(k) plan~~ for a 401(k) plan subject to ERISA (comparative statements of net assets available for benefits and a single year statement of changes in net assets available for benefits).
- The financial statements are prepared in accordance with U.S. GAAP accounting principles generally accepted in the United States of America, as promulgated by the Financial Accounting Standards Board
- There are no limitations on the scope of the audit and the auditor has not identified any material misstatements of the ERISA-plan financial statements
- The report on the ERISA-required supplemental schedules is presented as an other-matter paragraph in accordance with paragraph 123. The auditor has concluded that the investment information in the ERISA-required supplemental schedules that is related to assets held by and certified to by a qualified institution is derived from or agrees to, in all material respects based on the financial statements as a whole, the information certified as complete and accurate by a qualified institution and the form and content of the information included in the supplemental schedules, other than that derived from the information certified by a qualified institution are presented, in all material respects based on the financial statements as a whole, in conformity with the Department of Labor's Rules and Regulations for Reporting and Disclosure under ERISA.

Independent Auditor's Report

[Appropriate Addressee]

We have performed an audit of the accompanying financial statements of ABC 401(k) Plan, an employee benefit plan subject to the Employee Retirement Income Security Act of 1974 (ERISA), as permitted by ERISA 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.

Nature of the ERISA Section 103(a)(3)(C) Audit

~~As permitted by~~ Management has elected to have the audit of ABC 401(k) 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 permitted by ERISA section 103(a)(3)(C) ~~of ERISA~~, the audit need not extend to any ~~statement~~statements or information related to assets held for investment of the plan

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.

(investment information) prepared and certified by a bank or similar institution or insurance carrier ~~which~~that 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~~5 of the Department of Labor’s Rules and Regulations for Reporting and Disclosure under ERISA (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, 20X2 and 20X1, and for the year ended December 31, 20X2, stating that the investment information as described in Note X to the financial statements, is complete and accurate.²

Management’s Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error. Management’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 section 103(a)(3)(C) audit is permissible under the circumstances, including evaluating whether~~

- ~~the investment information is prepared and certified by a qualified institution~~
- ~~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

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~~may be included in the auditor’s report.

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~~plan's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the plan's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

With respect to the certified investment information our procedures were limited to ~~the following:~~(a) obtaining and reading the certification, and (b) comparing the certified investment information with the related information presented and disclosed in the financial statements, and reading the disclosures relating to the certified investment information for consistency with the presentation and disclosure requirements of accounting standards generally accepted in the United States of America.

Accordingly, the objective of the ERISA 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 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 certified investment information as described in the Auditor's Responsibility section:

- ~~The~~the information in the financial statements ~~that is subject to the certification corresponds to~~related to assets held by and certified to by a qualified institution, is derived from or agrees to, in all material respects based on the financial statements as a whole, the information certified as complete and accurate by an institution that management determined ~~qualified for~~meets the requirements of ERISA section 103(a)(3)(C) ~~audit~~

- ~~The~~the information in the financial statements, other than that derived from the certified investment 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 all material respects based on the financial statements as a whole, in accordance with accounting principles generally accepted in the United States of America.

Other Matter—Supplemental Schedules Required by ERISA

The supplemental schedules ~~comprise the~~of [*identify the 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. 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 included in the supplemental schedules, other than that derived from the certified investment information ~~certified by the trustee (or custodian)~~, has been subjected to auditing procedures applied in the ~~audit~~audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In forming our opinion on the supplemental schedules, we evaluated whether the supplemental schedules, other than that derived from the certified investment information, including their form and content, are presented in conformity with the Department of Labor's Rules and Regulations for Reporting and Disclosure under ERISA.

In our opinion, ~~in all material respects~~:

- the information in the supplemental schedules ~~that is subject to the certification corresponds to~~related to assets held by and certified to by a qualified institution, is derived from or agrees to, in all material respects based on the financial statements as a whole, the information certified as complete and accurate by an institution that management determined ~~qualified for~~meets the requirements of 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 certified investment information ~~certified by the trustee (or custodian)~~, are presented, in all material respects based on the financial statements as a whole, 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.~~

Action Requested of the ASB

4. Does the ASB agree with the ERISA section 103(a)(3)(C) form of report?
5. Does the ASB agree with the report illustrations 4-6 in the exhibit of the proposed SAS?

Issue 4: Audit Risk Assessment and Response

[Paragraphs 15-25 and A17-A45 of the proposed SAS in agenda item 1A]

Results of May 2018 ASB Meeting

At the May ASB meeting the proposed SAS included a new section entitled “Audit Risk Assessment and Response in an Audit of ERISA Plan Financial Statements” that presented a risk-based approach to address the auditor’s responsibilities for testing of plan provisions. This replaced the testing and reporting on plan provisions from the exposure draft.

The ASB provided the task force with the following feedback:

- The ASB generally supported the new risk-based approach to testing of plan provisions.
- The ASB directed the task force to move the application material relating to the testing of plan provisions in paragraph A22 into an appendix to the standard. [See appendix A of the proposed SAS in agenda item 1A]
- The ASB directed the task force to include a requirement relating to the plan tax status to correspond with the related application material in paragraphs A23-A26. [See paragraph 18 of the proposed SAS in agenda item 1A]
- The ASB directed the task force to include a requirement in the proposed SAS for the auditor to document and communicate to those charged with governance when the auditor has not tested plan provisions. [see new paragraph 23 in agenda item 1A]

Task Force Discussions and Recommendations

The task force revised this section of the proposed SAS to address the ASB’s comments. The task force asks the ASB to review paragraphs 15-25 (and related application material). In particular, the task force highlights the following subcategories for discussion:

1. ***Prohibited Transactions*** (paragraphs 19-21 and A31-34) – the task force believes that this area is often misunderstood by auditor’s and has revised this section to clarify the reporting implications when a prohibited transaction comes to the auditor’s attention.

<i>Prohibited Transactions</i>	<i>Prohibited Transactions (Ref. par. 17-19-21)</i>
<u>19.</u> 17. <u>ERISA requires that certain supplemental schedules accompany the ERISA plan financial statements (hereinafter</u>	<u>A31.</u> A27. A party in interest is defined in section 3(14) of ERISA. The AICPA Audit and Accounting Guide <i>Employee Benefit Plans</i>

<p><u>referred to as ERISA-required supplemental schedules), if applicable. Paragraphs 118–123 address the auditor’s responsibilities when reporting on the ERISA-required supplemental schedules. Paragraphs 19-21 relate specifically to prohibited transactions. The auditor should evaluate whether prohibited transactions identified by management or as part of the audit have been appropriately reported in the applicable ERISA-required supplemental schedules (see paragraph A5). (Ref. par. A2731-A2933)</u></p>	<p>contains common examples of parties that may be related parties, parties in interest, or both.</p>
	<p><u>A32. A28.</u> Certain plan transactions with parties in interest are prohibited under Sections 406 and 407 of ERISA (referred to as prohibited transactions) and are required, without regard to their materiality, to be disclosed to the DOL in the plan’s annual report Form 5500, if they occur.</p>
	<p><u>A33. A29.</u>—Evaluating whether identified prohibited transactions have been appropriately reported in the ERISA-required supplemental schedules as required by ERISA is often performed in conjunction with reading the <i>final draft Form 5500</i> and performing procedures on the ERISA -required supplementary information supplemental schedules as discussed in paragraphs 117<u>118–127</u>–118.;</p>
<p><u>20. 18.</u>—If the auditor concludes<u>becomes aware</u> 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<u>discuss the matter with management and propose appropriate revision of the ERISA-required supplemental schedules. If management does not revise the ERISA-required supplemental schedules, the auditor should modify the auditor’s opinion on the ERISA-required supplemental schedule (Ref. par. A30)</u><u>schedules when the effect of the transaction is material based on the financial statement materiality. If</u></p>	<p><u>A34. A30.</u> ERISA requires that all transactions with parties in interest (excluding any transactions exempted from prohibited transaction rules) be disclosed in the ERISA-required supplemental schedule, Schedule H, line 4j Schedule of Reportable Transactions<u>schedules</u> without regard to their materiality. <u>For example, information on all delinquent participant contributions are required to be reported on line 4a of either Schedule H or Schedule I of the Form 5500. Large plans with delinquent participant contributions are required to attach a schedule clearly labeled “Schedule H, line 4a—Schedule of Delinquent Participant Contributions.” All other prohibited</u></p>

the effect of the transaction is not material to the financial statements, then the auditor should include an additional communication in the auditor’s report on the ERISA-required supplemental schedules describing the circumstances. (Ref. par. A34)

transactions are reported on “Schedule G– Schedule of Nonexempt Transactions.”

21. 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 ERISA plan financial statements, the auditor should modify the auditor’s opinion on the financial statements in accordance with AU-C section ~~705~~.705 due to a departure from the applicable financial reporting framework..

Action Requested of the ASB

6. Does the ASB agree with the proposed changes to the prohibited transactions section?

2. ***Evaluation and Documentation*** (paragraphs 22-23 and A35-A36) – to address the ASB’s comments from the May meeting, the task force is proposing the following be added to the proposed SAS to explain that because of the nature of ERISA plan engagements, it would be rare for the auditor to determine not to test some relevant plan provisions and create a requirement for the auditor to document their considerations if they reached a conclusion that based upon the risk assessment no testing of plan provisions was necessary.

23. The auditor should prepare audit documentation in accordance with AU-C section 230, *Audit Documentation*. If the auditor has determined it is not necessary to test any relevant plan provisions as described in paragraph 17, the auditor should document the considerations in reaching such conclusion. Because of the nature of ERISA plan engagements, it would be rare for the auditor to determine not to test some relevant plan

A35. Paragraph 24 of this SAS requires the auditor to communicate to those charged with governance the reportable findings from the audit procedures performed relating to the plan provisions. AU-C section 230,⁸ requires the auditor to prepare audit documentation that is sufficient to enable an experienced auditor, having no previous connection with the audit, to understand

⁸ Paragraph .08 of AU-C section 230, *Audit Documentation*.

<p><u>provisions, based upon the risk assessment. (Ref. par. A35-A36)</u></p>	<p>a. <u>the nature, timing, and extent of the audit procedures performed to comply with GAAS and applicable legal and regulatory requirements;</u></p> <p>b. <u>the results of the audit procedures performed, and the audit evidence obtained; and</u></p> <p>c. <u>significant findings or issues arising during the audit, the conclusions reached thereon, and significant professional judgments made in reaching those conclusions.</u></p> <p><u>A36. Besides the potential financial consequences that reportable findings may have on the ERISA plan financial statements, the reportable findings may result in possible loss of tax exempt status to the plan if not corrected. For example, the use of an incorrect definition of eligible compensation can affect the employer or employee contribution amounts and could be indicative of a systemic problem that may have a material effect in the aggregate on the ERISA plan financial statements.</u></p>
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Action Requested of the ASB

7. Does the ASB agree with the proposed changes to the Evaluation and Documentation section of the proposed SAS?

3. **Communication with Those Charged With Governance** (paragraphs 24-25 and A37-A45) – the task force continues to believe the communication with those charged with governance should be required to be in writing. Therefore, the task force recognized a need to include a new requirement (paragraph 25) that says the auditor should not issue a written communication stating that no reportable findings were identified during the audit, to align with other AU-C sections.

<p><u>25. The auditor should not issue a written communication stating that no reportable findings were identified during the audit. (Ref. par. A45)</u></p>	<p><u>A45. Written communication indicating that no reportable findings were identified during the audit is precluded by paragraph 25 because such</u></p>
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[a communication has the potential to be misunderstood or misused.](#)

Action Requested of the ASB

8. Does the ASB continue to agree with requiring the communication to those charged with governance to be in writing?
9. Does the ASB agree with the proposed changes to the “Communication with Those Charged With Governance” section, including the new requirement in paragraph 25?

Issue 5: Considerations Relating to the Form 5500

[Paragraphs 41-53 and A69-A76 of the proposed SAS in agenda item 1A]

Results of May 2018 ASB Meeting

At the May ASB meeting the ASB discussed whether the auditor should be required to obtain a final form 5500 before issuing the auditor’s report. The ASB noted that the auditor’s report is attached to the Form 5500 when it is filed and therefore the auditor would be unable to review the final Form 5500 prior to issuance of the auditor’s report. Therefore, the ASB directed the task force to include a requirement for the auditor to obtain a final draft of the Form 5500 prior to dating the auditor’s report. DOL rules and regulations require the notes to the financial statements to include an explanation of differences, if any, between the information contained in the separate financial statements and the net assets, liabilities, income, expense, and changes in net assets as required to be reported on the Form 5500 Schedule H, *Financial Information*. The ASB noted that the auditor would be unable to date the auditor’s report until this reconciliation is completed.

Task Force Discussions and Recommendations

The task force has revised the considerations relating to the Form 5500 section of the proposed SAS accordingly. The ASB is asked to review the proposed changes to paragraphs 41—53 (and related application material) in agenda item 1A that requires the auditor to obtain and read a final draft Form 5500 prior to dating the auditor’s report.

Action Requested of the ASB

10. Does the ASB agree with the proposed changes to the “Considerations for the Form 5500” section of the proposed SAS (paragraphs 41-53 and related application material)?

Issue 6: Reporting on Supplemental Schedules

[Paragraphs 118-127 and A125-A132 of the proposed SAS in agenda item 1A]

Task Force Discussions and Recommendations

Subsequent to the May 2018 ASB meeting, the task force received comments from ASB members recommending ways to enhance this section of the proposed SAS and better align it with the auditor’s report for audits of ERISA plan financial statements other than for an ERISA section 103(a)(3)(C) audit. The task force considered these comments when proposing changes to this section.

When performing an ERISA section 103(a)(3)(C) audit, the auditor is not forming an opinion on the financial statements as a whole and therefore the auditor is not providing an opinion on whether the supplemental schedules are fairly stated, in relation to the financial statements as a whole in accordance with AU-C 725. The auditor therefore is not required to perform the AU-C section 725 procedures. Accordingly, the task force has added procedures in paragraph 122 of the proposed SAS, that the auditor should perform in order to report on the ERISA-required supplemental schedules when reporting under an ERISA section 103(a)(3)(C) audit.

The task force has also revised or included content in paragraphs 123-127 of the proposed SAS to better align the reporting for all audits of ERISA plans and to address how to report on the supplemental schedules when there are errors, omissions, or inconsistencies with the supplemental schedules. The task force has developed appendix B to help summarize the possible effects on the auditor’s opinion on the supplemental schedules.

The ASB is asked to review the proposed changes in paragraphs 118-127 (and related application material) and appendix B. In particular, the task force asks the ASB to review the proposed changes to paragraphs 122-127, as follows:

<p><u>Reporting on ERISA-Required Supplemental Schedules when Reporting under an ERISA Section 103(a)(3)(C) Audit</u></p>	
<p><u>122. In addition to the procedures performed during the audit of the financial statements, in order to report on the ERISA-required supplemental schedules when reporting under an ERISA section 103(a)(3)(C) audit, the auditor should perform the following procedures using the same materiality level used in the audit of the financial statements:</u></p>	
<p><u>a. Determine whether the form and content of the information included in the ERISA-required supplemental schedules, other than that derived from the certified investment information, are presented in conformity with the Department of Labor’s Rules and</u></p>	

<p><u>Regulations for Reporting and Disclosure under ERISA</u></p>	
<p><u>b. Compare and reconcile the information included in the ERISA-required supplemental schedules, other than that derived from the certified investment information, to the underlying accounting and other records used in preparing the financial statements or to the financial statements themselves.</u></p>	
<p><u>c. Obtain written representations from management</u></p>	
<p><u>i. That it acknowledges its responsibility for the presentation of the ERISA-required supplemental schedules in accordance with the Department of Labor’s Rules and Regulations for Reporting and Disclosure Under ERISA; and</u></p>	
<p><u>ii. That it believes the ERISA-required supplemental schedules, other than that derived from the certified investment information, including their form and content, is presented in conformity with the Department of Labor’s Rules and Regulations for Reporting and Disclosure under ERISA</u></p>	
<p><u>123. 116.—Because the DOL requires the auditor to offer an opinion on the ERISA-required supplemental schedules, when management elects to have an ERISA section 103(a)(3)(C) audit, the auditor should include an other-matter paragraph in the ERISA section 103(a)(3)(C) audit report that contains the following elements in the ERISA section 103(a)(3)(C) audit report:</u></p> <p><u>a. the title of the supplemental schedules and the periods covered</u></p>	

<p><u>b.</u> <u>a statement that the supplemental schedules 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 the Employee Retirement Income Security Act of 1974</u></p>	
<p><u>c.</u> <u>a statement that 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</u></p>	
<p><u>d.</u> a statement that the information included in the supplemental schedules, other than that derived from the <u>certified investment information</u> certified by the trustee (or custodian) has been subjected to auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves and other additional procedures, in accordance with auditing standards generally accepted in the United States of America</p>	
<p><u>e.</u> <u>a statement that in forming the opinion on the supplemental schedules, the auditor evaluated whether the supplemental schedules, other than that derived from the certified investment information, including their form and content, are presented in conformity with the Department of Labor’s Rules and Regulations for Reporting and</u></p>	

<p><u>Disclosure under the Employee Retirement Income Security Act of 1974</u></p>	
<p>f. a statement whether in the auditor’s opinion in all material respects:</p>	
<p>i. the information in the supplemental schedules <u>related to assets held by and certified to by a qualified institution, is derived from or agrees to, in all material respects based on the financial statements as a whole,</u> subject to the certification corresponds to the information certified as complete and accurate by an institution that management determined <u>meets the requirements of qualified</u> for the ERISA section 103(a)(3)(C).</p>	
<p>ii. the form and content of the information included in the supplemental schedules, other than that derived from the information <u>certified investment information by the trustee (or custodian)</u> are presented, <u>in all material respects based on the financial statements as whole,</u> in conformity with the U.S. Department of Labor’s Rules and Regulations for Reporting and Disclosure Under ERISA.</p>	
<p>g. <u>If the auditor issues a qualified ERISA section 103(a)(3)(C) opinion on the ERISA plan financial statements and the qualification has an effect on the ERISA-required supplemental schedules, a statement that, in the auditor’s opinion, except for the possible effects on the supplemental</u></p>	

schedules of (refer to the paragraph in the auditor’s report explaining the qualification):

- i. the information in the supplemental schedules related to assets held by and certified to by a qualified institution, is derived from or agrees to, in all material respects based on the financial statements as a whole, the information certified as complete and accurate by an institution that management determined meets the requirements of ERISA section 103(a)(3)(C)
- ii. the form and content of the information included in the supplemental schedules, other than that derived from the information certified by a qualified institution are presented, in all material respects based on the financial statements as a whole, in conformity with the Department of Labor’s Rules and Regulations for Reporting and Disclosure Under ERISA

h. If the auditor’s report on the ERISA plan financial statements subject to ERISA section 103(a)(3)(C) contains an adverse opinion or a disclaimer of opinion, the auditor is precluded from expressing an opinion on the supplemental schedules. When permitted by law or regulation, the auditor may withdraw from the engagement to report on the ERISA-required supplemental schedules. If the auditor does not withdraw, the auditor should do the following:

<p><u>i.</u> <u>If the auditor’s report contains an adverse opinion, a statement that the audit was conducted for the purpose of forming an opinion on the financial statements as a whole; or if the auditor’s report contains a disclaimer of opinion, a statement that the auditor was engaged for the purpose of forming an opinion on the financial statements as a whole.</u></p>	
<p><u>ii.</u> <u>a statement that the supplemental schedules are presented for the purposes of additional analysis and are not a required part of the financial statements but are supplementary information required by the Department of Labor’s Rules and Regulations for Reporting and Disclosure under ERISA.</u></p>	
<p><u>iii.</u> <u>a statement that because of the significance of the matter described above in [refer to the Basis for Adverse Opinion or Basis for Disclaimer of Opinion sections, as applicable], it is inappropriate to and the auditor does not express an opinion on the supplemental schedules.</u></p>	
<p><u>124.</u> <u>When the auditor concludes, on the basis of the procedures performed, that the information in the ERISA-required supplemental schedules derived from the certified investment information is materially inconsistent with the certified investment information, the auditor should discuss the matters with management and propose appropriate revision of the ERISA-required supplemental schedules. If management does not revise the ERISA-required supplemental</u></p>	

<p><u>schedules, the auditor should modify the auditor’s opinion regarding the ERISA-required supplemental schedules and describe the inconsistency in the auditor’s report.</u></p>	
<p><u>125. When the auditor concludes, on the basis of the procedures performed, that the information in the ERISA-required supplemental schedules is materially misstated in relation to the financial statements, the auditor should discuss the matters with management and propose appropriate revision of the ERISA-required supplemental schedules. If management does not revise the ERISA-required supplemental schedules, the auditor should modify the auditor’s opinion regarding the ERISA-required supplemental schedules and describe the misstatement in the auditor’s report.</u></p>	
<p><u>126. During the audit, the auditor may become aware of a departure from DOL requirements relating to the ERISA-required supplemental schedules that is not also a departure from the applicable financial reporting framework. In such circumstances, the auditor should do the following: (Ref. par. A132–A133)</u></p> <ul style="list-style-type: none"> <u>a. when the departure from the DOL requirements relates to the certified investment information include additional discussion in the other-matter paragraph relating to the ERISA-required supplemental schedules, that describes the departure from the DOL requirements</u> <u>b. when the departure from the DOL requirements relates to information that has not been certified, issue a qualified or adverse opinion regarding the ERISA-required supplemental schedules and describe the departure from the DOL requirements.</u> 	<p><u>A132. Departures from the DOL requirements relating to the ERISA-required supplemental schedules includes omitted required information, information that is inaccurate or inconsistent with the ERISA plan financial statements, or an omitted ERISA-required supplemental schedule.</u></p> <p><u>A133. Exhibit B illustrates different scenarios that may occur relating to the ERISA-required supplemental schedules and how the auditor’s opinion on the ERISA-required supplemental schedules is affected when the information in the ERISA-required supplemental schedules contains material misstatements, omissions, or inconsistencies.</u></p>

127. If a material party in interest³¹ 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 ERISA plan financial statements, the requirements in paragraph 21 apply.

Issue 7: Implementation Guidance

[Appendix C of the proposed SAS in agenda item 1A]

Many of the comment letters asked for implementation guidance for the first year in which this standard becomes effective as it relates to the ERISA section 103(a)(3)(C) report. ERISA requires certain comparative financial statements and therefore the task force was asked to provide guidance on what the auditor's report should look like for an ERISA section 103(a)(3)(C) audit when the auditor disclaimed an opinion on the prior year financial statements.

The task force discussed what the auditor's report should look like in the first year of implementation and concluded that issuing two separate reports would be the least confusing. Therefore, appendix C illustrates two separate reports for the first year of implementation.

Action Requested of the ASB

11. Does the ASB agree with the implementation guidance in appendix C of the proposed SAS?

Issue 8: Review Agenda Item 1A

The ASB is asked to review the entire proposed SAS in agenda item 1A. Mr. Schubert will walk through the proposed SAS in agenda item 1A to obtain feedback on the remaining areas of the proposed SAS that have not been specifically discussed in this issues paper.

³¹ Party in interest is defined in section 3(14) of ERISA.