



## Agenda Item 1B

### **Statement on Auditing Standards *Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA***

#### TABLE OF CONTENTS

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#### **Introduction**

Scope of This Statement on Auditing Standards .....	1–8
Effective Date .....	9

<b>Objectives</b> .....	10
-------------------------	----

#### **Requirements**

Engagement Acceptance .....	11–14
Audit Risk Assessment and Response in an Audit of ERISA Plan Financial Statements .....	15–23
Communication With Management or Those Charged With Governance .....	24–25
Procedures For an ERISA section 103(a)(3)(C) Audit .....	26–29
Written Representations .....	30
Forming an Opinion on the ERISA Plan Financial Statements .....	31–36
Form of Opinion .....	37–40
Considerations Relating to the Form 5500 Filing .....	41–53
Auditor’s Report on ERISA Plan Financial Statements (Other Than For an ERISA Section 103(a)(3)(C) Audit) .....	54–74
Auditor’s Report for Audits Conducted in Accordance with Both GAAS and Another Set of Auditing Standards.....	75–76
Comparative Financial Statements .....	77–88
Information Presented in the Financial Statements .....	89
Auditor’s Report For an ERISA Section 103(a)(3)(C) Audit .....	90–117
Reporting on ERISA-Required Supplemental Schedules .....	118–127

#### **Application and Other Explanatory Material**

Scope of This SAS .....	A1–A13
-------------------------	--------

Engagement Acceptance .....	A14–A16
Audit Risk Assessment and Response in an Audit of ERISA Plan Financial Statements .....	A17–A36
Communication With Management or Those Charged With Governance ..... below .....	A37–A45
Procedures For an ERISA Section 103(a)(3)(C) Audit .....	A46–A55
Written Representations .....	A56–A57
Forming an Opinion on the ERISA Plan Financial Statements .....	A58–A66
Form of Opinion .....	A67–A68
Considerations Relating to the Form 5500 Filing .....	A69–A76
Auditor’s Report on ERISA Plan Financial Statements (Other Than For an ERISA Section 103(a)(3)(C) Audit .....	A77–A101
Comparative Financial Statements .....	A102–A113
Information Presented in the Financial Statements .....	A114–A116
Auditor’s Report For an ERISA Section 103(a)(3)(C) Audit .....	A117–A124
Reporting on ERISA-Required Supplemental Schedules .....	A125–A133
<b>Appendix A— Examples of Plan Provisions by Audit Area .....</b>	<b>A134</b>
<b>Appendix B—Amendments to Statement on Auditing Standards (SAS) No. 119, <i>Supplementary Information in Relation to the Financial Statements as a Whole, as Amended (AICPA, Professional Standards, AU-C sec. 725), and SAS No. 132, <i>The Auditor’s Consideration of an Entity’s Ability to Continue as a Going Concern (AICPA, Professional Standards, AU-C sec. 570)</i>.....</i></b>	<b>A135</b>
<b>Appendix C—Amendments to Various Sections in SAS No. 122, <i>Statements on Auditing Standards: Clarification and Recodification, as Amended</i>.....</b>	<b>A136</b>
<b>Exhibit A—Illustrations of Auditor’s Reports on Financial Statements of Employee Benefit Plans Subject to ERISA.....</b>	<b>A137</b>
<b>Exhibit B—Reporting on the ERISA-Required Supplemental Schedules When the DOL Required Information Contains Errors, Inconsistencies, or Omissions.....</b>	<b>A138</b>
<b>Exhibit C—Implementation Guidance for ERISA Section 103(a)(3)(C) Audits .....</b>	<b>A139</b>

REQUIREMENTS	APPLICATION AND OTHER EXPLANATORY MATERIAL
<b>Introduction</b>	
<b>Scope of This Statement on Auditing Standards</b>	<b>Scope of This SAS (Ref. par. 1–8)</b>
<p>1. This Statement on Auditing Standards (SAS) addresses the auditor’s responsibility to form an opinion and report on the audit of financial statements of employee benefit plans (EBPs) subject to the Employee Retirement Income Security Act of 1974 (ERISA), hereinafter referred to as ERISA plans. It also addresses the form and content of the auditor’s report issued as a result of an audit of ERISA plan financial statements. The SAS applies to audits of single employer, multiple employer, and multiemployer plans subject to ERISA. This SAS should not be adapted for plans that are not subject to ERISA. (Ref. par. A1)</p>	<p>A1. The AICPA Audit and Accounting Guide <i>Employee Benefit Plans</i> provides interpretive guidance to apply this SAS, including example audit procedures for performing an audit of ERISA plan financial statements. AU-C section 200, <i>Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance With Generally Accepted Auditing Standards</i>, requires the auditor to consider applicable interpretive publications in planning and performing the audit.<sup>1</sup></p>
<p>2. The Department of Labor (DOL), Internal Revenue Service (IRS), and the Pension Benefit Guaranty Corporation (PBGC) jointly developed the <i>Form 5500 Series</i> so EBPs could use the <i>Form 5500 Series</i> forms to satisfy annual reporting requirements under Title I and Title IV of ERISA and under the Internal Revenue Code (IRC). The <i>Form 5500 Series</i> is part of ERISA’s overall reporting and disclosure framework, which is intended to assure that EBPs are operated and managed in accordance with certain prescribed standards and that participants and beneficiaries, as well as regulators, are provided or have access to sufficient information to protect the rights and benefits of participants and beneficiaries under EBPs. The <i>Form 5500 series</i> includes the Form 5500 and related schedules (hereinafter referred to as the Form 5500). (Ref. par. A2–A5)</p>	<p>A2. ERISA provides for federal government oversight of management’s operating and reporting practices for EBPs. In addition to establishing reporting requirements for covered plans, ERISA establishes minimum standards for participation, vesting, and funding for defined benefit and defined contribution plans sponsored by private entities. It also establishes standards of fiduciary conduct and imposes specific restrictions and responsibilities on fiduciaries.</p> <p>A3. The plan administrator is identified in the plan document as having responsibility for managing the day-to-day administration and decisions for the plan. This SAS uses the term <i>management</i> to include the plan administrator in the DOL’s Rules and Regulations for Reporting and Disclosure under ERISA as well as other members of management.</p>

<sup>1</sup> Paragraph .27 of AU-C section 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance With Generally Accepted Auditing Standards* (AICPA, *Professional Standards*).

<b>REQUIREMENTS</b>	<b>APPLICATION AND OTHER EXPLANATORY MATERIAL</b>
	<p>A4. Under ERISA, the DOL and IRS have the authority to issue regulations governing the administration of EBPs, including reporting and disclosure requirements to be included in an annual filing with the DOL. The DOL does not establish the financial reporting framework; for example, the DOL does not set generally accepted accounting principles for ERISA plan financial statements. The selection of an acceptable financial reporting framework is the responsibility of management. The PBGC guarantees participants in most private-sector defined benefit pension plans certain minimum pension benefits if the plan terminates without sufficient money to pay all benefits, and it administers terminated plans in certain circumstances. The IRS, DOL, and PBGC have consolidated their reporting and disclosure requirements into the Form 5500 to minimize the filing burden for plan management.</p>
	<p>A5. ERISA contains a requirement for annual audits of EBP financial statements by an independent qualified public accountant. Generally, plans with 100 or more participants (as defined in the Form 5500, <i>Annual Return/Report for Employee Benefit Plan</i>, instructions) are subject to the audit requirement. ERISA and DOL regulations require additional information to be disclosed in the financial statements or presented in the supplemental schedules. ERISA also contains a requirement for the auditor to report on whether certain supplemental schedules, as identified in ERISA section 103, are presented fairly, in all material respects, in relation to the financial statements as a whole.</p>
<p>3. The requirements in this SAS are specific to ERISA plan audit engagements and are intended to be performed as part of the audit of ERISA plan financial statements in accordance with generally accepted auditing standards (GAAS); however, the SAS does not contain all the requirements necessary to form</p>	

REQUIREMENTS	APPLICATION AND OTHER EXPLANATORY MATERIAL
an opinion and report on ERISA plan financial statements.	
<p>4. When performing an audit of ERISA plan financial statements, all the AU-C sections<sup>2</sup> apply except for the following AU-C sections or portions thereof that are not applicable to an audit of ERISA plan financial statements because the requirements and related application material are specifically covered in this SAS:</p> <ul style="list-style-type: none"> <li>a. AU-C section 700, <i>Forming an Opinion and Reporting on Financial Statements</i></li> <li>b. Paragraph .09 of AU-C section 725, <i>Supplementary Information in Relation to the Financial Statements as a Whole</i></li> </ul> <p>In addition, this SAS contains incremental requirements to AU-C section 210, <i>Terms of Engagement</i>, and AU-C section 580, <i>Written Representations</i>.</p>	
<p>5. This SAS also addresses the auditor’s responsibilities for forming an opinion and reporting on ERISA plan financial statements, including the form and content of the report when management elects to have an audit performed pursuant to ERISA section 103(a)(3)(C) (hereinafter referred to as ERISA section 103(a)(3)(C) audit).</p>	
<p>6. When management elects the ERISA-section 103(a)(3)(C) audit, as discussed in paragraph 5, the audit need not extend to any statements or information related to assets held for investment of the plan (hereinafter referred to as “investment information”) prepared and certified by a bank or similar institution or an insurance carrier that is regulated, supervised, and subject to periodic examination by a state</p>	<p>A6. A qualified institution is an organization as defined in accordance with 29 CFR 2520.103-5 and 29 CFR 2520.103-8 as a bank or similar institution or an insurance carrier that is regulated, supervised, and subject to periodic examination by a state or federal agency that prepares and certifies the investment information. Title 29 CFR Part 2520.103-1 outlines the DOL’s rules and regulations for reporting and disclosure under</p>

<sup>2</sup> All AU-C sections can be found in AICPA *Professional Standards*.

<b>REQUIREMENTS</b>	<b>APPLICATION AND OTHER EXPLANATORY MATERIAL</b>
<p>or federal agency, provided that the statements or information regarding assets so held are prepared and certified to by the bank or similar institution or insurance carrier in accordance with 29 U.S. Code of Federal Regulations (CFR) 2520.103-5 of the Department of Labor's Rules and Regulations for Reporting and Disclosure under ERISA (referred to as a qualified institution). Paragraph 27 contains required procedures when the ERISA section 103(a)(3)(C) audit is performed. (Ref. par. A6–A10)</p>	<p>ERISA. Investment companies and broker dealers are not considered qualified institutions as it relates to providing a certification.</p>
	<p>A7. The ERISA section 103(a)(3)(C) audit may be elected by management only when the qualified institution certifies both the accuracy and completeness of the investment information submitted to the plan administrator. Certifications that address only accuracy or only completeness, but not both, do not comply with the DOL's regulation and, therefore, are not adequate to allow plan management to elect the ERISA section 103(a)(3)(C) audit.</p>
	<p>A8. When performing an ERISA section 103(a)(3)(C) audit, although the audit need not extend to investment information, as discussed in paragraph 6, areas such as participant data, contributions, benefit payments, participant account balances including related earnings and other allocations to such account balances, or other information, may need to be audited regardless of whether such information is included in the certified statement or information.</p>
	<p>A9. The ERISA section 103(a)(3)(C) audit may relate to the audit of the plan's investment in an entity, as permitted by 29 CFR 2520.103-12 (a 103-12 investment entity), provided the 103-12 investment entity properly filed its report with the DOL. Accordingly, the guidance in this SAS is applicable whether the ERISA section 103(a)(3)(C) audit is being performed pursuant to 29 CFR 2520.103-8 or 29 CFR 2520.103-12.</p>

<b>REQUIREMENTS</b>	<b>APPLICATION AND OTHER EXPLANATORY MATERIAL</b>
	However, the wording in the auditor’s report may need to be revised to adapt to the circumstances of the engagement.
	A10. Sometimes, the plan’s recordkeeper certifies the investment information on behalf of the plan’s qualified institution as “agent for.” In this situation, such certification generally would be acceptable when there is a contractual arrangement between the qualified institution and the recordkeeper such that the recordkeeper is able to provide the certification on the qualified institution’s behalf.
7. Reference to ERISA plan <i>financial statements</i> in this SAS means a complete set of general purpose financial statements <sup>3</sup> for an EBP subject to ERISA, including the related notes. The related notes ordinarily comprise a summary of significant accounting policies and other explanatory information. The requirements of the applicable financial reporting framework determine the form and content of the financial statements and what constitutes a complete set of financial statements. (Ref. par. A11-A12)	A11. ERISA requires certain comparative financial statements to be presented.  A12. Paragraph 27 describes the auditor’s responsibilities with respect to auditing the disclosures in the financial statements related to the certified investment information.
8. AU-C section 705, <i>Modifications to the Opinion in the Independent Auditor’s Report</i> , and AU-C section 706, <i>Emphasis-of-Matter Paragraphs and Other-Matter Paragraphs in the Independent Auditor’s Report</i> , address how the form and content of the auditor’s report are affected when the auditor expresses a modified opinion (a qualified opinion, an adverse opinion, or a disclaimer of opinion) or includes an emphasis-of-matter paragraph or other-matter paragraph in the auditor’s report. (Ref. par. A13)	A13. As discussed in paragraph A46, an ERISA section 103(a)(3)(C) audit is unique to EBPs and is not considered a scope limitation as discussed in AU-C section 705. For an ERISA section 103(a)(3)(C) audit, paragraph 111 requires the auditor to apply the requirements in AU-C section 705, adapted as necessary in the circumstances of the engagement, and provides further guidance how AU-C section 705 should be adapted.
<b>Effective Date</b>	

<sup>3</sup> See AU-C Glossary, for a definition of *general purpose financial statements*.

<b>REQUIREMENTS</b>	<b>APPLICATION AND OTHER EXPLANATORY MATERIAL</b>
9. This SAS is effective for audits of ERISA plan financial statements for periods ending on or after December 15, 2019. Early implementation is not permitted.	
<b>Objectives</b>	
10. The objectives of the auditor are to	
a. Appropriately plan and perform the audit of ERISA plan financial statements, including the acceptance of an ERISA plan audit engagement (Ref. par. A5)	
b. Plan and perform procedures as required by this SAS on the certified investment information, when management elects an ERISA section 103(a)(3)(C) audit	
c. Form an opinion on the ERISA plan financial statements based on an evaluation of the audit evidence obtained, including evidence obtained about comparative financial statements <sup>4</sup>	
d. Express clearly an opinion on the ERISA plan financial statements through a written report that also describes the basis for that opinion	
e. Evaluate the presentation of the supplementary information in accordance with this SAS,	
f. Appropriately communicate to management and those charged with governance reportable findings that the auditor has identified during the audit of the ERISA plan financial statements.	
<b>Requirements</b>	

<sup>4</sup> See AU-C *Glossary of Terms*, for definition of *comparative financial statements*.

REQUIREMENTS	APPLICATION AND OTHER EXPLANATORY MATERIAL
<b>Engagement Acceptance</b>	<b>Engagement Acceptance (Ref. par. 11)</b>
<p>11. In addition to the preconditions for an audit in AU-C section 210, the auditor should obtain the agreement of management that it acknowledges and understands its responsibility for the following: (Ref. par. A14)</p>	<p>A14. 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>a. maintaining a current plan instrument including all plan amendments (Ref. par. A21)</p>	
<p>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. A57)</p>	
<p>c. When management elects to have an ERISA section 103(a)(3)(C) audit ,</p> <p style="padding-left: 40px;">i. Determining whether an ERISA section 103(a)(3)(C) audit is permissible under the circumstances</p>	

<b>REQUIREMENTS</b>	<b>APPLICATION AND OTHER EXPLANATORY MATERIAL</b>
<p>ii. Determining whether the investment information is prepared and certified by a qualified institution</p> <p>iii. Determining whether the certification meets the requirements in 29 CFR 2520.103-5</p> <p>iv. Determining whether the certified investment information is appropriately measured, presented, and disclosed in accordance with the applicable financial reporting framework.</p>	
<p>12. In order for the auditor to establish whether the preconditions for an ERISA plan audit are present when management elects to have an ERISA section 103(a)(3)(C) audit, the auditor should perform procedures to understand how management determined that the entity preparing and certifying the investment information is a qualified institution, as discussed in paragraph A6.</p>	
<p>13. If, as a result of the procedures performed in paragraph 12, 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)</p>	<p>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).</p> <p>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</p>

REQUIREMENTS	APPLICATION AND OTHER EXPLANATORY MATERIAL
	will need to perform audit procedures on the information included in the certification.
14. The auditor should also obtain the agreement of management or those charged with governance to provide to the auditor the version of the Form 5500 that the entity represents will be filed (hereinafter referred to as the <i>final draft Form 5500</i> ) prior to the dating of the auditor's report.	

Audit Risk Assessment and Response in an Audit of ERISA Plan Financial Statements	Audit Risk Assessment and Response in an Audit of ERISA Plan Financial Statements (Ref. par.15–17 )
15. AU-C section 315, <i>Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement</i> , addresses the auditor's responsibility to identify and assess the risks of material misstatement in the financial statements through understanding the entity and its environment, including the entity's internal control. The plan instrument is essential to understanding the plan and identifying and performing audit procedures that are responsive to assessed risks. (Ref. par. A17–A20)	A17. AU-C section 300, Planning an Audit, requires the auditor to establish an overall audit strategy that sets the scope, timing, and direction of the audit and that guides the development of the audit plan. <sup>5</sup> The audit plan should include a description of the nature and extent of planned risk assessment procedures as determined under AU-C section 315, the nature, timing, and extent of planned further audit procedures at the relevant assertion level as determined under AU-C section 330, and other planned audit procedures that are required to be carried out so that the engagement complies with GAAS. <sup>6</sup>
	A18. Obtaining an understanding of the plan and its environment, including its internal control, is a continuous, dynamic process of gathering, updating, and analyzing information throughout the audit. The understanding of the plan establishes a frame of reference within which the auditor plans the audit and exercises professional judgment throughout the audit when the auditor does the following:

<sup>5</sup> Paragraph .07 of AU-C section 300, *Planning an Audit* (AICPA, *Professional Standards*).

<sup>6</sup> Paragraph .09 of AU-C section 300.

ERISA Reporting SAS (clean)  
ASB Meeting, July 23-26, 2018

	<ul style="list-style-type: none"> <li>assesses the risks of material misstatement of the financial statements, including the related disclosures</li> </ul>
	<ul style="list-style-type: none"> <li>determines materiality in accordance with AU-C section 320</li> </ul>
	<ul style="list-style-type: none"> <li>considers the appropriateness of the selection and application of accounting policies and the adequacy of financial statement disclosures</li> </ul>
	<ul style="list-style-type: none"> <li>identifies areas for which special audit consideration may be necessary</li> </ul>
	<ul style="list-style-type: none"> <li>develops expectations for use when performing analytical procedures</li> </ul>
	<ul style="list-style-type: none"> <li>responds to the assessed risks of material misstatement, including designing and performing further audit procedures to obtain sufficient appropriate audit evidence</li> </ul>
	<ul style="list-style-type: none"> <li>evaluates the sufficiency and appropriateness of audit evidence obtained.</li> </ul>
	<p>A19. AU-C section 315 requires the auditor to perform risk assessment procedures to provide a basis for the identification and assessment of risks of material misstatement at the financial statement and relevant assertion levels.<sup>7</sup> Risks of material misstatement at the relevant assertion level for classes of transactions, account balances, and disclosures need to be considered because such consideration directly assists in determining the nature, timing, and extent of further audit procedures at the assertion level necessary to obtain sufficient appropriate audit evidence.</p>
	<p>A20. AU-C section 330 requires the auditor to design and perform further audit procedures whose nature, timing, and extent are based on, and are responsive to, the assessed risks of material</p>

<sup>7</sup> Paragraph .05 of AU-C section 315, *Understanding the Entity and Its Environment*

	<p>misstatement at the relevant assertion level. Further audit procedures consist of tests of the operating effectiveness of controls and substantive procedures. Additionally, AU-C section 330 requires the auditor to evaluate whether the overall presentation of the financial statements, including the related disclosures, is in accordance with the applicable financial reporting framework.</p>
<p>16. The auditor should obtain and read the most current plan instrument for the audit period, including effective amendments (hereinafter referred to as the plan instrument), as part of obtaining an understanding of the entity sufficient to perform risk assessment procedures. (Ref. par. A21–A23)</p>	<p>A21. ERISA section 402 requires EBPs be established and maintained pursuant to a written plan instrument. The Internal Revenue Code requires that the provisions in the plan document satisfy the requirements of the IRC and therefore the plan provisions are required to be followed. The plan instrument for defined benefit pension plans and defined contribution pension plans is generally referred to as a plan document. Such plans along with health and welfare plans may have multiple documents that comprise the plan instrument. Among other requirements, for a plan to be qualified, the plan instrument must be in writing and communicated to employees. The terms of the plan instrument generally deal with matters such as eligibility of participants, entitlement to benefits, funding, plan amendments, operation and administration of plan provisions, identification of the plan’s fiduciary, allocation of responsibilities among those who serve in a capacity as a fiduciary, and delegation of fiduciary duties in connection with the administration of the plan.</p>
	<p>A22. Management is responsible for determining that the plan’s transactions that are presented and disclosed in the ERISA plan financial statements are in accordance with the plan instrument. While some of the provisions of the plan instrument may not relate directly to accounts that are presented as financial statement account balances, they could affect matters such as disclosures, the tax qualified status of the plan, or the benefits that will be paid to participants when they become eligible for a distribution. For example, participant account balances are an accumulation of transactions and represent the amount the participant is entitled to receive as a</p>

	benefit payment. Overstated or understated participant account balances may result in errors in allocations or benefits paid to participants.
	A23. Participant data plays an important role in determining many of the account balances in the financial statements. The types of participant data that are tested in an ERISA plan audit will vary from plan to plan, depending upon the bases on which contributions, participant elections, participant allocations, and benefits are determined. In general, the data tested may include demographic data, such as birth date, marital status, date of hire, date of termination, and other demographic data that determines eligibility and vesting; payroll data, such as hours worked, earnings, and contributions to the plan; benefit data for participants receiving benefits; and participant elections for salary deferral percentage and investment elections. The procedures for testing payroll and participant data may be coordinated with those for plan contributions.
17. When designing and performing audit procedures the auditor should consider relevant plan provisions that affect the risk of material misstatement related to classes of transactions, account balances and disclosures. (Ref. par. A24–A30)	A24. Many of the financial statement amounts in ERISA plan financial statements are determined from provisions specified in the plan instrument. For example, conditions relating to participation and eligibility provisions need to be met for employees to participate in the plan and receive contributions. Participation and eligibility provisions may be tested as part of the auditor’s testing of contributions and individual participant accounts.
	A25. Other typical plan provisions include types of contributions and distributions, timing of the contributions, contribution limitations, investment of contributions, forms of distributions, benefit commencement dates, vesting and forfeitures, service requirements and credits, participant loans, transfers, and administration of plan.
	A26. Appendix A to this SAS provides examples of plan provisions by audit area.
<i>Plan Tax Status</i>	<i>Plan Tax Status</i>

<p>18. Because the plan’s tax status is fundamental to the operation of the plan, the auditor should consider whether the plan has performed and passed, corrected, or intends to correct failures of relevant IRC compliance tests, to fulfill the auditor’s responsibilities in accordance with AU-C section 250. (Ref. par. A27–A30)</p>	<p>A27. When plans are granted special tax status for the contributions and earnings on plan investments to be exempt from taxation (tax-exempt status), such plans are required to be designed and operated in accordance with IRC requirements in order to maintain their tax-exempt status.</p>
	<p>A28. To determine that a plan is operating within the specific guidelines established by the plan instrument in accordance with the IRC, the plan administrator is responsible for conducting certain nondiscrimination and other compliance tests which are required to be performed at least annually, unless otherwise provided by the IRC.</p>
	<p>A29. The auditor’s consideration of whether the plan has performed and passed, corrected, or intends to correct failures of relevant IRC compliance tests may include inquiry and inspection.</p>
	<p>A30. The AICPA Audit and Accounting Guide <i>Employee Benefit Plans</i>, discusses the tax status of employee benefit plans, including nondiscrimination and other operating tests for plan qualification.</p>
<p><b><i>Prohibited Transactions</i></b></p>	<p><b><i>Prohibited Transactions (Ref. par. 19–21)</i></b></p>
<p>19. ERISA requires that certain supplemental schedules accompany the ERISA plan financial statements (hereinafter 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. A31-A33)</p>	<p>A31. A <i>party in interest</i> is defined in section 3(14) of ERISA. The AICPA Audit and Accounting Guide <i>Employee Benefit Plans</i> contains common examples of parties that may be related parties, parties in interest, or both.</p>

	<p>A32. 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>A33. Evaluating whether identified prohibited transactions have been appropriately reported in the ERISA-required supplemental schedules is often performed in conjunction with reading the <i>final draft Form 5500</i> and performing procedures on the ERISA-required supplemental schedules as discussed in paragraphs 118–127–.</p>
<p>20. If the auditor becomes aware 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 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 schedules when the effect of the transaction is material based on the financial statement materiality. If 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)</p>	<p>A34. ERISA requires that all transactions with parties in interest (excluding any transactions exempted from prohibited transaction rules) be disclosed in the ERISA-required supplemental schedules without regard to their materiality. 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 transactions are reported on “Schedule G—Schedule of Nonexempt Transactions.”</p>
<p>21. 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 due to a departure from the applicable financial reporting framework.</p>	

<i>Evaluation and Documentation</i>	<i>Evaluation and Documentation (Ref. par. 22)</i>
<p>22. When the audit work performed results in the identification of 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 one or more of the following:</p> <ul style="list-style-type: none"> <li>(a) an identified instance of noncompliance or suspected noncompliance with laws or regulations in accordance with AU-C section 250, <i>Consideration of Laws and Regulations in an Audit of Financial Statements</i>;</li> <li>(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, <i>The Auditor’s Communication With Those Charged With Governance</i>; or</li> <li>(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, <i>Communicating Internal Control Related Matters Identified in an Audit</i></li> </ul> <p>(hereinafter collectively referred to as “reportable findings”).</p>	
<p>23. The auditor should prepare audit documentation in accordance with AU-C section 230, <i>Audit Documentation</i>. 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</p>	<p>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,<sup>8</sup> requires the auditor to prepare audit documentation that is sufficient to enable an experienced auditor, having</p>

<sup>8</sup> Paragraph .08 of AU-C section 230, *Audit Documentation*.

<p>determine not to test some relevant plan provisions, based upon the risk assessment. (Ref. par. A35-A36)</p>	<p>no previous connection with the audit, to understand</p> <ul style="list-style-type: none"> <li>a. the nature, timing, and extent of the audit procedures performed to comply with GAAS and applicable legal and regulatory requirements;</li> <li>b. the results of the audit procedures performed, and the audit evidence obtained; and</li> <li>c. significant findings or issues arising during the audit, the conclusions reached thereon, and significant professional judgments made in reaching those conclusions.</li> </ul>
	<p>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.</p>
<p><b>Communication With Management or Those Charged With Governance</b></p>	<p><b>Communication With Management or Those Charged With Governance (Ref. par. 24)</b></p>
<p>24. Based on the evaluation required by paragraph 22, 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 17. 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</p>	<p>A37. The requirements of AU-C section 250 are designed to assist the auditor in identifying material misstatement of the financial statements due to noncompliance with laws and regulations. AU-C section 250 requires the auditor to communicate with those charged with governance matters involving noncompliance with laws and regulations that come to the auditor's attention during the course of the audit, other than when the matters are clearly inconsequential, unless all those charged with governance are involved in management of the entity and aware of matters</p>

<p>deems appropriate. The written communication should include the following:</p> <ul style="list-style-type: none"> <li>a. a description of the reportable finding</li> <li>b. sufficient information to enable those charged with governance and management to understand the context of the communication</li> <li>c. an explanation of the potential effects of the reportable findings on the financial statements or to the plan</li> </ul> <p>(Ref. par. A37–A44)</p>	<p>involving identified or suspected noncompliance already communicated by the auditor.<sup>9</sup></p>
	<p>A38. AU-C section 260<sup>10</sup> requires the auditor to communicate with those charged with governance significant findings or issues from the audit. Such communication includes findings or issues arising from the audit that are, in the auditor’s professional judgment, significant and relevant to those charged with governance regarding their responsibility to oversee the financial reporting process. For an ERISA plan, this may include operational errors that have been identified by the auditor as part of the audit when testing to the plan provisions of the plan instrument.</p>
	<p>A39. As part of their fiduciary responsibilities, it is important for plan administrators to be informed about reportable findings identified during the audit so that they can decide whether to participate in the IRS or DOL self-correction programs, if applicable. The auditor may want to discuss their reportable findings with the plan administrator prior to the written communication so that the plan administrator can take corrective action timely.</p>
	<p>A40. AU-C section 260 defines <i>those charged with governance</i> as the person(s) or organization(s) (for example, a corporate trustee) with responsibility for overseeing the strategic direction of the entity and the obligations related to the accountability of the entity. AU-C section 260 requires the auditor to determine the appropriate person(s) within the entity’s</p>

<sup>9</sup> Paragraph .21 of AU-C section 250 *Consideration of Laws and Regulations in an Audit of Financial Statements*.

<sup>10</sup> Paragraph .12 of AU-C section 260.

	<p>governance structure with whom to communicate. When the appropriate person(s) with whom to communicate is not clearly identifiable, the auditor and the engaging party may need to discuss and agree on the relevant person(s) within the entity's governance structure with whom the auditor will communicate.</p>
	<p>A41. For an ERISA plan, the appropriate person(s) with whom to communicate may not be clearly identifiable from the engagement circumstances. Some plans have a formal board of trustees (or other formal governing body), and others do not. For a single employer employee benefit plan, the individual charged with governance may include the individual with the level of authority and responsibility equivalent to an audit committee, such as the named fiduciary, which is often the plan sponsor, or an officer thereof; the sponsor's board of directors or audit committee; or a committee overseeing the activities of the employee benefit plan, such as the employee benefit committee, employee benefit administrative committee, employee benefit investment committee, plan administrator, or other responsible party.</p>
	<p>A42. AU-C section 265, requires the auditor to communicate in writing to those charged with governance on a timely basis significant deficiencies and material weaknesses identified during the audit, including those that were remediated during the audit. The auditor is required to communicate to management at an appropriate level of responsibility, on a timely basis in writing or orally, other 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.</p>
	<p>A43. For an ERISA plan, when the auditor identifies instances in which the plan is not operating in accordance with the plan's provisions, this may be indicative of a deficiency in internal control at the plan. If this is the case, the auditor</p>

ERISA Reporting SAS (clean)  
ASB Meeting, July 23-26, 2018

	is required to communicate such deficiency in accordance with AU-C section 265 when, in the auditor’s professional judgment, the deficiency is of such importance to merit management’s attention.
	A44. The communication of reportable findings relating to audit work performed that involved the testing of plan provisions may describe the plan provision relating to the reportable finding and may provide more details, or an explanation, about the reportable finding and its effect on the financial statements, if any. When explaining the potential effect of the reportable finding the auditor need not quantify those effects.
25. The auditor should not issue a written communication stating that no reportable findings were identified during the audit.  (Ref. par. A45)	A45. Written communication indicating that no reportable findings were identified during the audit is precluded by paragraph 25 because such a communication has the potential to be misunderstood or misused.

<b>Procedures For an ERISA Section 103(a)(3)(C) Audit</b>	<b>Procedures For an ERISA Section 103(a)(3)(C) Audit (Ref. par. 26–29)</b>
26. When management elects to have an ERISA section 103(a)(3)(C) audit as discussed in paragraph 5, the auditor should perform audit procedures on the financial statement information, including the disclosures, not covered by the certification, as well as noninvestment-related information and investment information not covered by the certification, based on the assessed risk of material misstatement. Plans may hold investments, only a portion of which are covered by a certification by a qualified institution. In that case, the auditor should perform auditing procedures on the investment information that has not been certified. (Ref. par. A46)	A46. Performing an ERISA section 103(a)(3)(C) audit of ERISA plan financial statements does not eliminate the requirement for the auditor to plan and perform the audit in accordance with GAAS. 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. The ERISA section 103(a)(3)(C) audit is unique to EBPs and is not considered a scope limitation under AU-C section 705.
27. In addition to the audit procedures performed on the information not covered by the certification, the auditor should perform the	A47. When planning and performing the audit procedures for an ERISA section 103(a)(3)(C)

<p>following procedures on the certified investment information: (Ref. par. A47)</p>	<p>audit, the materiality considerations apply at the financial statement level as a whole.</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. A48–A49)</p>	<p>A48. 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 27, extends only to investment information certified by the qualified institution.</p>
	<p>A49. The certification provides audit evidence as it relates to the accuracy and completeness of investment information and may not cover all information required to be disclosed by the applicable financial reporting framework. The certification and results of the procedures performed by the auditor in paragraphs 27–29 are considered part of audit evidence relating to the certified investment information when determining whether the form of opinion required by paragraphs 90–118 is appropriate.</p>
<p>b. compare the certified investment information with the related information presented and disclosed in the ERISA plan financial statements and ERISA-required supplemental schedules; (Ref. par. A50)</p>	<p>A50. Comparing the certified investment information by agreeing and reconciling to the amounts included in the ERISA plan financial statements and related investment disclosures as well as the investment information included in the ERISA-required supplemental schedules. Comparing this information includes consideration of the presentation and disclosure requirements of the applicable financial reporting framework. To the extent that the investment information in the ERISA plan financial statements and related disclosures and ERISA-required 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>c. read the disclosures relating to the certified investment information for consistency with the presentation and disclosure requirements of the applicable financial reporting framework.</p>	

<p>28. If, as part of the audit procedures performed in paragraph 27, the auditor becomes aware that the certified investment information in the financial statements and related disclosures is incomplete, inaccurate, or otherwise unsatisfactory, the auditor should discuss the matter with management and, perform additional procedures to determine the appropriate course of action. (Ref. par. A51–A54)</p>	<p>A51. Additional procedures typically include further inquiry, which might result in additional testing. The auditor may want to consider the implications such additional procedures may have on the nature, timing, and extent of other audit procedures including consideration for revisions to the engagement letter and risk assessment. Depending upon how the matter is resolved, the additional procedures may result in a modification to the auditor’s opinion in accordance with AU-C section 705.</p>
	<p>A52. If the auditor becomes aware that management has not appropriately measured, presented or disclosed the certified investment information and, therefore, the financial statements may not be prepared in accordance with the applicable financial reporting framework, it is important for the auditor to communicate those findings to management. It is management’s responsibility to prepare the financial statements and disclosures in conformity with the applicable financial reporting framework and in conformity with DOL rules and regulations. Management may request the trustee or custodian to recertify or amend the certification to exclude investments that are not appropriately measured or to reflect the appropriate investment valuation.</p>
	<p>A53. If the trustee or custodian amends the certification to exclude such investments from the certification, management is responsible for valuing such investments as of the plan year-end and engaging the auditor to perform audit procedures on the investments excluded from the certification.</p>
	<p>A54. If the certified information is inaccurate, incomplete or otherwise unsatisfactory and the certification is not amended, management is still responsible for determining whether the financial statements and disclosures related to such investment information are prepared in accordance with the applicable financial reporting framework and in conformity with DOL rules and regulations</p>

	and engaging the auditor to perform audit procedures on such information.
29. For all audits of ERISA plan financial statements, including the ERISA section 103(a)(3)(C) audit, the auditor should perform the procedures necessary to become satisfied that received or disbursed amounts (for example, employer or employee contributions and benefit payments) reported by the trustee or custodian were determined in accordance with the plan provisions (also see paragraph 17). (Ref. par. A55)	A55. The requirement to perform audit procedures based on the assessed risk of material misstatement for noninvestment-related information (for example, benefit payments, employer or employee contributions, and accruals) and investment information not covered by the certification is the same for all ERISA plans, including the ERISA section 103(a)(3)(C) audit.
<b>Written Representations</b>	<b>Written Representations (Ref. par.30)</b>
30. In addition to the requirements in AU-C section 580, the auditor should request the following written representations from management in an audit of ERISA plan financial statements: (Ref. par. A56)	A56. The AICPA Audit and Accounting Guide <i>Employee Benefit Plans</i> provides interpretative guidance on representations that may be appropriate when auditing ERISA plan financial statements. AU-C section 725 requires specific written representations from management. <sup>11</sup>
a. That management has provided the auditor with the most current plan instrument for the audit period, including all plan amendments.	
b. Acknowledgement of its responsibility for 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.A57)	A57. Administering the plan is covered by ERISA sections 401-404, which establish responsibilities and imposes restrictions on plan fiduciaries. ERISA section 209 (29 USC 1027 <i>Retention of Records</i> ) requires the maintenance of records by employers relating to individual benefit reporting. ERISA section 107 (29 USC 1059 <i>Recordkeeping and Reporting Requirements</i> ) provides general record retention requirements for EBPs. ERISA requires that records be maintained in sufficient detail to permit the benefits to be properly calculated and paid when due.
c. When management elects to have an ERISA section 103(a)(3)(C) audit, acknowledgement that management's election of the ERISA section	

<sup>7</sup> Paragraph .07 of AU-C section 725.

<p>103(a)(3)(C) audit does not affect its responsibility for the financial statements, and for</p>	
<ul style="list-style-type: none"> <li>i. determining whether an ERISA section 103(a)(3)(C) audit is permissible under the circumstances</li> <li>ii. determining whether the investment information is prepared and certified by a qualified institution,</li> </ul>	
<ul style="list-style-type: none"> <li>iii. determining whether the certification meets the requirements in 29 CFR 2520.103-5, and</li> </ul>	
<ul style="list-style-type: none"> <li>iv. determining whether the certified investment information is appropriately measured, presented and disclosed in accordance with the applicable financial reporting framework</li> </ul>	

<b>Forming an Opinion on the ERISA Plan Financial Statements</b>	<b>Forming an Opinion on the ERISA Plan Financial Statements</b>
<p>31. The auditor should form an opinion on whether the ERISA plan financial statements are presented fairly, in all material respects, in accordance with the applicable financial reporting framework.</p>	
<p>32. In order to form that opinion, the auditor should conclude whether the auditor has obtained reasonable assurance about whether the ERISA plan financial statements as a whole are free from material misstatement, whether due to fraud or error. That conclusion should take into account the following:</p> <ul style="list-style-type: none"> <li>a. The auditor’s conclusion, in accordance with AU-C section 330, <i>Performing Audit Procedures in Response to Assessed Risks and Evaluating the Audit Evidence Obtained</i>, about whether</li> </ul>	

ERISA Reporting SAS (clean)  
ASB Meeting, July 23-26, 2018

<p>sufficient appropriate audit evidence has been obtained<sup>12</sup></p>	
<p>b. The auditor’s conclusion, in accordance with AU-C section 450, <i>Evaluation of Misstatements Identified During the Audit</i>, about whether uncorrected misstatements are material, individually or in aggregate<sup>13</sup></p>	
<p>c. The evaluations required by paragraphs 33–36 of this SAS</p>	
<p>33. The auditor should evaluate whether the ERISA plan financial statements are prepared, in all material respects, in accordance with the requirements of the applicable financial reporting framework. This evaluation should include consideration of the qualitative aspects of the plan’s accounting practices, including indicators of possible bias in management’s judgments. (Ref: par. A58–A60)</p>	<p><b><i>Qualitative Aspects of the Entity’s Accounting Practices (Ref. par. 33)</i></b></p> <p>A58. Management makes a number of judgments about the amounts and disclosures in the ERISA plan financial statements.</p>
	<p>A59. AU-C section 260, <i>The Auditor’s Communication With Those Charged With Governance</i>, contains a discussion of the qualitative aspects of accounting practices.<sup>14</sup> In considering the qualitative aspects of the plan’s accounting practices, the auditor may become aware of possible bias in management’s judgments. The auditor may conclude that the cumulative effect of a lack of neutrality, together with the effect of uncorrected misstatements, causes the financial statements as a whole to be materially misstated. Indicators of a lack of neutrality that may affect the auditor’s evaluation of whether the financial statements as a whole are materially misstated include the following:</p>

<sup>12</sup> Paragraph .28 of AU-C section 330, *Performing Audit Procedures in Response to Assessed Risks and Evaluating the Audit Evidence Obtained* (AICPA, *Professional Standards*).

<sup>13</sup> Paragraph .11 of AU-C section 450, *Evaluation of Misstatements Identified During the Audit* (AICPA, *Professional Standards*).

<sup>14</sup> The appendix, “Qualitative Aspects of Accounting Practices,” of AU-C section 260, *The Auditor’s Communication With Those Charged With Governance*.

	<ul style="list-style-type: none"> <li>a. The selective correction of misstatements brought to management’s attention during the audit</li> <li>b. Possible management bias in the making of accounting estimates</li> </ul>
	<p>A60. AU-C section 540, <i>Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures</i>, addresses possible management bias in making accounting estimates. Indicators of possible management bias, themselves, do not constitute misstatements for purposes of drawing conclusions on the reasonableness of individual accounting estimates. They may, however, affect the auditor’s evaluation of whether the financial statements as a whole are free from material misstatement.</p>
	<p style="text-align: center;"><b><i>Disclosure of the Effect of Material Transactions and Events on the Information Conveyed in the ERISA Plan Financial Statements (Ref. par. 34)</i></b></p>
<p>34. In particular, the auditor should evaluate whether, in view of the requirements of the applicable financial reporting framework</p> <ul style="list-style-type: none"> <li>a. the ERISA plan financial statements adequately disclose the significant accounting policies selected and applied;</li> </ul>	
<ul style="list-style-type: none"> <li>b. the accounting policies selected and applied are consistent with the applicable financial reporting framework and are appropriate;</li> </ul>	
<ul style="list-style-type: none"> <li>c. the accounting estimates made by management are reasonable;</li> </ul>	
<ul style="list-style-type: none"> <li>d. the information presented in the ERISA plan financial statements is relevant, reliable, comparable, and understandable;</li> </ul>	
<ul style="list-style-type: none"> <li>e. the ERISA plan financial statements provide adequate disclosures to enable</li> </ul>	<p>A61. It is common for ERISA plan financial statements prepared in accordance with a general</p>

<p>the intended users to understand the effect of material transactions and events on the information conveyed in the ERISA plan financial statements; and (Ref: par. A61)</p>	<p>purpose framework to present a plan’s net assets available for benefits and changes in net assets available for benefits. For defined benefit pension plans, the financial statements may also present accumulated plan benefits and changes in accumulated plan benefits. For defined benefit health and welfare plans, the financial statements may also present plan benefit obligations and changes in plan benefit obligations. In such circumstances, paragraph 34e requires the auditor to evaluate whether the financial statements provide adequate disclosures to enable the intended users to understand the effect of material transactions and events on the plan’s net assets available for benefits, changes in net assets available for benefits, and for defined benefit pension plans, accumulated plan benefits and changes in accumulated plan benefits, and for defined benefit health and welfare plans, plan benefit obligations and changes in plan benefit obligations.</p>
<p>f. the terminology used in the ERISA plan financial statements, including the title of each financial statement, is appropriate.</p>	
	<p style="text-align: center;"><b><i>Evaluation of Whether the ERISA Plan Financial Statements Achieve Fair Presentation (Ref. par. 35)</i></b></p>
<p>35. The auditor’s evaluation about whether the ERISA plan financial statements achieve fair presentation should also include consideration of the following:</p> <ul style="list-style-type: none"> <li>a. The overall presentation, structure, and content of the ERISA plan financial statements</li> <li>b. Whether the ERISA plan financial statements, including the related notes, represent the underlying transactions and events in a manner that achieves fair presentation (Ref: par. A62)</li> </ul>	<p>A62. As described in AU-C section 200, a <i>financial reporting framework</i> is a set of criteria used to determine measurement, recognition, presentation, and disclosure of all material items appearing in the financial statements. The auditor’s professional judgment concerning the fairness of the presentation of the financial statements is applied within the context of the financial reporting framework. Without that framework, the auditor would have no consistent standard for evaluating the presentation of the net assets available for benefits (and for accumulated plan benefits for defined benefit pension and for plan benefit obligations for defined benefit health and welfare plans), and changes in net assets available for benefits (and for accumulated plan</p>

	benefits for defined benefit pension and for plan benefit obligations for defined benefit health and welfare plans) in the financial statements.
	<b><i>Description of the Applicable Financial Reporting Framework (Ref. par. 36)</i></b>
36. The auditor should evaluate whether the ERISA plan financial statements adequately refer to or describe the applicable financial reporting framework. (Ref: par. A63–A66)	A63. As explained in AU-C section 200, the preparation and fair presentation of the financial statements by management and, when appropriate, those charged with governance requires the inclusion of an adequate description of the applicable financial reporting framework in the financial statements. <sup>15</sup> That description is important because it advises users of the financial statements of the framework on which the financial statements are based.
	A64. A description that the financial statements are prepared in accordance with a particular applicable financial reporting framework is appropriate only if the financial statements comply with all the requirements of that framework that are effective during the period covered by the financial statements.
	A65. A description of the applicable financial reporting framework that contains imprecise qualifying or limiting language (for example, “the financial statements are in substantial compliance with Accounting Standards Generally Accepted in the United States of America”) is not an adequate description of that framework because it may mislead users of the financial statements.
	A66. Financial statements that are prepared in accordance with one financial reporting framework and that contain a note or supplementary statement reconciling the results to those that would be shown under another framework are not prepared in accordance with that other framework. This is because the financial statements do not include all the information in the manner required by that other framework. The financial statements may, however, be prepared in

<sup>15</sup> Paragraphs .A2–.A3 of AU-C section 200.

	<p>accordance with one applicable financial reporting framework and, in addition, describe in the notes to the financial statements the extent to which the financial statements comply with another framework. Such information may not be required by the applicable financial reporting framework but may be presented as part of the basic financial statements. As discussed in paragraph 89, such information is considered an integral part of the financial statements if it cannot be clearly differentiated and, accordingly, is covered by the auditor's opinion.</p>
<b>Form of Opinion</b>	<b>Form of Opinion (Ref. par. 37–39)</b>
<i>Auditor's Opinion on ERISA Plan Financial Statements</i>	
<p>37. The auditor should express an unmodified opinion when the auditor concludes that the ERISA plan financial statements are presented fairly, in all material respects, in accordance with the applicable financial reporting framework.</p>	
<p>38. The auditor should modify the opinion in the auditor's report, in accordance with AU-C section 705, if the auditor</p> <ul style="list-style-type: none"> <li>a. concludes that, based on the audit evidence obtained, the ERISA plan financial statements as a whole are materially misstated or</li> <li>b. is unable to obtain sufficient appropriate audit evidence to conclude that the ERISA plan financial statements as a whole are free from material misstatement.</li> </ul>	
<i>Auditor's Opinion on ERISA Plan Financial Statements When Performing an ERISA section 103(a)(3)(C) Audit</i>	
<p>39. When management elects an ERISA section 103(a)(3)(C) audit, the auditor should</p>	

<p>follow the requirements in paragraphs 90–117 of this SAS. (Ref. par. A13)</p>	
<p><b><i>Fair Presentation</i></b></p>	<p><b><i>Fair Presentation (Ref. par. 40)</i></b></p>
<p>40. If the auditor concludes that the ERISA plan financial statements do not achieve fair presentation, the auditor should discuss the matter with management and, depending on how the matter is resolved, should determine whether it is necessary to modify the opinion in the auditor’s report in accordance with AU-C section 705. (Ref: par. A67–A68)</p>	<p>A67. There may be cases when the ERISA plan financial statements, although prepared in accordance with the requirements of a fair presentation framework, do not achieve fair presentation. When this is the case, it may be possible for management to include additional disclosures in the financial statements beyond those specifically required by the framework or, in unusual circumstances, to depart from a requirement in the framework in order to achieve fair presentation of the financial statements, which would be extremely rare.</p>
	<p>A68. The “Accounting Principles Rule” (ET sec. 1.320.001) of the AICPA Code of Professional Conduct states the following:</p> <p style="padding-left: 40px;">A member shall not (1) express an opinion or state affirmatively that the financial statements or other financial data of any entity are presented in conformity with generally accepted accounting principles or (2) state that he or she is not aware of any material modifications that should be made to such statements or data in order for them to be in conformity with generally accepted accounting principles, if such statements or data contain any departure from an accounting principle promulgated by bodies designated by Council to establish such principles that has a material effect on the statements or data taken as a whole. If, however, the statements or data contain such a departure and the member can demonstrate that due to unusual circumstances the financial statements or data would otherwise have been misleading, the member can comply with the rule by describing the departure, its approximate effects, if practicable, and the reasons why compliance with the principle would result in a misleading statement.</p>

<b>Considerations Relating to the Form 5500 Filing</b>	<b>Considerations Relating to the Form 5500 Filing</b>
<b><i>Reading the Form 5500</i></b>	<b><i>Reading the Form 5500 (Ref. par. 41–43)</i></b>
<p>41. The auditor should make appropriate arrangements with management to obtain the <i>final draft Form 5500</i>. The auditor should obtain and read the <i>final draft Form 5500</i> prior to dating the auditor’s report. (Ref. par. A69)</p>	<p>A69. Obtaining a <i>final draft Form 5500</i> prior to dating the auditor’s report enables the auditor to resolve possible material inconsistencies and apparent material misstatements of facts with management on a timely basis. An agreement with management regarding when the Form 5500 will be filed may be helpful. The auditor is required to delay dating the auditor’s report until management provides the <i>final draft Form 5500</i> to the auditor. <i>Misstatements of fact</i> are information contained in the Form 5500 that is unrelated to matters appearing in the audited ERISA plan financial statements that is incorrectly stated or presented. <i>Misstatements of fact</i> may be identified by the auditor upon reading the Form 5500 for the purpose of identifying material inconsistencies as discussed in paragraph 51.</p>
<p>42. The auditor should read the <i>final draft Form 5500</i> in order to identify material inconsistencies, if any, with the audited ERISA plan financial statements. (Ref. par. A70–A71)</p>	<p>A70. Information in the <i>final draft Form 5500</i> may be relevant to an independent audit or the continuing propriety of the auditor’s report. Information contained in the <i>final draft Form 5500</i> that conflicts with information contained in the audited ERISA plan financial statements is considered an inconsistency. A material inconsistency may raise doubt about the audit conclusions drawn from audit evidence previously obtained and, possibly, about the basis for the auditor’s opinion on the ERISA plan financial statements.</p>
	<p>A71. Certain differences exist between the Form 5500 Schedule H <i>Financial Information</i> and the financial statements. 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, <i>Financial Information</i>. There are some</p>

	<p>reconciling items that are not considered inconsistencies with the Form 5500. For example, differences resulting from accruals recorded in the financial statements that are not reported in the Form 5500 because the Form 5500 is on a cash basis; or benefits payable required to be reported on the Form 5500 but not recorded in the financial statements. In contrast, a difference in investment categories may be due to a misclassification that may require correction in either the financial statements or the Form 5500.</p>
<p>43. The auditor should communicate with those charged with governance the auditor’s responsibility with respect to the <i>final draft Form 5500</i>, procedures performed relating to the <i>final draft Form 5500</i>, and the results of those procedures.</p>	
<p><b><i>Material Inconsistencies with the Form 5500</i></b></p>	
<p>44. If, on reading the <i>final draft Form 5500</i>, the auditor identifies a material inconsistency, the auditor should determine whether the audited ERISA plan financial statements or the Form 5500 needs to be revised.</p>	
<p><b><i>Material Inconsistencies with the Form 5500 Identified Prior to the Date of the Auditor’s Report That Require Revision of the Audited ERISA Plan Financial Statements</i></b></p>	
<p>45. When the auditor identifies material inconsistencies between the <i>final draft Form 5500</i> and the ERISA plan financial statements prior to the date of the auditor’s report that requires revision of the audited ERISA plan financial statements and management refuses to make the revision, the auditor should modify the auditor’s opinion in accordance with AU-C section 705.</p>	
<p><b><i>Material Inconsistencies with the Form 5500 Identified After the Date of the Auditor’s Report But Prior to the Report Release Date That</i></b></p>	

<i>Require Revision of the Audited ERISA Plan Financial Statements</i>	
<p>46. When the auditor identifies a material inconsistency between the Form 5500 and the ERISA plan financial statements after the date of the auditor’s report but prior to the report release date that requires revision of the audited ERISA plan financial statements, the auditor should apply the relevant requirements in AU-C section 560, <i>Subsequent Events and Subsequently Discovered Facts</i>.</p>	
<i>Material Inconsistencies with the Form 5500 Identified Prior to the Report Release Date That Require Revision of the Form 5500</i>	<i>Material Inconsistencies with the Form 5500 Identified Prior to the Report Release Date That Require Revision of the Form 5500 (Ref. par. 47)</i>
<p>47. When the auditor identifies a material inconsistency prior to the report release date that requires revision of the information in the Form 5500 and management refuses to make the revision, the auditor should communicate this matter to those charged with governance and (Ref. par. A72)</p>	<p>A72. When management refuses to revise the information in the Form 5500, the auditor may base any decision on what further action to take on advice from the auditor’s legal counsel.</p>
<p>a. Include in the auditor’s report an other-matter paragraph describing the material inconsistency, in accordance with AU-C section 706;</p>	
<p>b. Withhold the auditor’s report; or</p>	
<p>c. When withdrawal is possible under applicable law or regulation, withdraw from the engagement.</p>	
<i>Material Inconsistencies Identified Subsequent to the Report Release Date</i>	<i>Material Inconsistencies Identified Subsequent to the Report Release Date (Ref. par.48–49)</i>
<p>48. When revision of the audited ERISA plan financial statements is necessary as a result of a material inconsistency with the information in the Form 5500 and the auditor’s report on the ERISA plan financial statements has already been released, the auditor should apply the relevant requirements in AU-C section 560.</p>	

<p>49. When revision of the Form 5500 is necessary after the report release date and management agrees to make the revision, the auditor should carry out the procedures necessary under the circumstances. (Ref. par. A73)</p>	<p>A73. When revision of the information in the Form 5500 is necessary after the report release date and management agrees to make the revision, the auditor’s procedures may include reviewing the steps taken by management to ensure that individuals in receipt of the previously issued ERISA plan financial statements, the auditor’s report thereon, and the Form 5500 are informed of the need for revision.</p>
<p>50. When revision of the Form 5500 is necessary after the report release date but management refuses to make the revision, the auditor should notify those charged with governance of the auditor’s concerns regarding the Form 5500 and take any further appropriate action. (Ref. par. A74 )</p>	<p>A74. When revision of information in the Form 5500 is necessary after the report release date but management refuses to make the revision, appropriate further actions by the auditor may include obtaining legal advice.</p>
<p><b><i>Material Misstatement of Fact</i></b></p>	<p><b><i>Material Misstatement of Fact (Ref. par. 51–53)</i></b></p>
<p>51. If, on reading the <i>final draft</i> Form 5500 for the purpose of identifying material inconsistencies between the Form 5500 and the ERISA plan financial statements, the auditor becomes aware of an apparent material <i>misstatement of fact in the Form 5500</i>, the auditor should discuss the matter with management. (Ref. par. A75)</p>	<p>A75. When discussing an apparent material <i>misstatement of fact in the Form 5500</i> with management, the auditor may not be able to evaluate the validity of some disclosures included within the Form 5500 and management’s responses to the auditor’s inquiries and may conclude that valid differences of judgment or opinion exist.</p>
<p>52. When, following such discussions as described in paragraph 51, the auditor still considers that there is an apparent material <i>misstatement of fact</i>, the auditor should request management to consult with a qualified third party, such as the entity’s legal counsel, and the auditor should consider the advice received by the entity in determining whether such matter is a material <i>misstatement of fact</i>.</p>	
<p>53. When the auditor concludes that there is a material <i>misstatement of fact</i> that management refuses to correct, the auditor should notify those charged with governance of the auditor’s concerns regarding the information in the Form 5500 and take any further appropriate action. (Ref. par. A76)</p>	<p>A76. When the auditor concludes that there is a material misstatement of fact that management refuses to correct, appropriate further actions by the auditor may include obtaining legal advice from the auditor’s legal counsel, withholding the auditor’s report if such report has not been released, or withdrawing from the engagement</p>

when withdrawal is possible under applicable law or regulation.

<p><b>Auditor’s Report on ERISA Plan Financial Statements (Other Than For an ERISA Section 103(a)(3)(C) Audit)</b> <b>(For ERISA section 103(a)(3)(C) audits paragraphs 90–117 apply instead of paragraphs 54–74)</b></p>	<p><b>Auditor’s Report on ERISA Plan Financial Statements (Ref. par. 54) (Other Than For an ERISA Section 103(a)(3)(C) Audit)</b></p>
<p>54. The auditor’s report should be in writing (Ref. par. A77–A78)</p>	<p>A77. A written report encompasses reports issued in hard copy format and those using an electronic medium.</p>
	<p>A78. The exhibit, “Illustrations of Auditor’s Reports on ERISA Plan Financial Statements,” contains illustrations of auditor’s reports on financial statements for ERISA plans.</p>
<p><b><i>Title</i></b></p>	<p><b><i>Title (Ref. par. 55 and 92)</i></b></p>
<p>55. The auditor’s report should have a title that includes the word <i>independent</i> to clearly indicate that it is the report of an independent auditor. (Ref. par. A79)</p>	<p>A79. A title indicating the report is the report of an independent auditor (for example, “Independent Auditor’s Report”) affirms that the auditor has met all of the relevant ethical requirements regarding independence and, therefore, distinguishes the independent auditor’s report from reports issued by others. AU-C section 200 provides guidance on reporting when the auditor is not independent.</p>
<p><b><i>Addressee</i></b></p>	<p><b><i>Addressee (Ref. par. 56 and 93)</i></b></p>
<p>56. The auditor’s report should be addressed as required by the circumstances of the engagement. (Ref. par. A80–A81)</p>	<p>A80. The auditor’s report is normally addressed to those for whom the report is prepared. The report may be addressed to the entity whose financial statements are being audited or to those charged with governance. Occasionally, an auditor may be retained to audit the financial statements of an entity that is not a client; in such a case, the report may be addressed to the client and not to those charged with governance of the entity whose financial statements are being audited.</p>

	<p>A81. For ERISA plans, the report may be addressed to the plan or trust whose ERISA plan financial statements are being audited, the plan administrator or board of trustees, or participants and beneficiaries.</p>
<p><b><i>Introductory Paragraph</i></b></p>	<p><b><i>Introductory Paragraph (Ref. par. 57 and 94)</i></b></p>
<p>57. The introductory paragraph in the auditor’s report should (Ref. par. A82–A83)</p> <ul style="list-style-type: none"> <li>a. Identify the entity whose financial statements have been audited,</li> <li>b. State that the financial statements have been audited, and the entity is an employee benefit plan subject to the Employee Retirement Income Security Act of 1974 (ERISA)</li> <li>c. Identify the title of each statement that the financial statements comprise, and</li> <li>d. Specify the date or period covered by each statement that the financial statements comprise</li> </ul>	<p>A82. The introductory paragraph states, for example, that the auditor has “audited the accompanying financial statements of ABC Plan, an employee benefit plan subject to the Employee Retirement Income Security Act of 1974 (ERISA), which comprise the statements of net assets available for benefits as of December 31, 20X1 and 20X2, 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.”</p>
	<p>A83. The auditor’s opinion covers the complete set of ERISA plan financial statements, as defined by the applicable financial reporting framework. For example, in the case of many general purpose frameworks, the ERISA plan financial statements include statements of net assets available for benefits, a statement of changes in net assets available for benefits, and for defined benefit pension plans may include a statement of accumulated plan benefits and a statement of changes in accumulated plan benefits and for a defined benefit health and welfare plan, a statement of benefit obligations and statement of changes in benefit obligations, including related notes. In some circumstances, additional or different statements, schedules, or information also might be considered to be an integral part of the ERISA plan financial statements.</p>

<i>Management’s Responsibility for the Financial Statements</i>	<i>Management’s Responsibility for the Financial Statements (Ref. par. 58–60 and 97–99)</i>
58. The auditor’s report should include a section with the heading “Management’s Responsibility for the Financial Statements.”	
59. The auditor’s report should describe management’s responsibility for the preparation and fair presentation of the financial statements. The description should include an explanation that management is responsible for the preparation and fair presentation of the financial statements in accordance with the applicable financial reporting framework; this responsibility 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. It should also state that management is responsible for (Ref. par. A84–A85)	A84. AU-C section 200 explains the premise relating to the responsibilities of management and, when appropriate, those charged with governance on which an audit in accordance with GAAS is conducted. <sup>16</sup> Management and, when appropriate, those charged with governance accept responsibility for the preparation of the financial statements in accordance with the applicable financial reporting framework, including their fair presentation. Management also accepts responsibility for 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. The description of management’s responsibilities in the auditor’s report includes reference to both responsibilities because it helps explain to users the premise on which an audit is conducted.
	A85. Management has additional responsibilities when arranging for an audit of ERISA plan financial statements due to the regulatory nature of such plans.
a. maintaining a current plan instrument, including all plan amendments,	
b. 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	

<sup>16</sup> Paragraphs .05 and .A2 of AU-C section 200.

<p>60. The description about management’s responsibility for the financial statements in the auditor’s report should not be referenced to a separate statement by management about such responsibilities if such a statement is included in a document containing the auditor’s report. (Ref. par. A86)</p>	<p>A86. In some instances, a document containing the auditor’s report may include a separate statement by management regarding its responsibility for the preparation of the financial statements. Any elaboration in the auditor’s report about management’s responsibilities regarding the preparation of the financial statements, or reference to a separate statement by management about such responsibilities if one is included in a document containing the auditor’s report, may lead users to erroneously believe that the auditor is providing assurances about representations made by management about their responsibility for financial reporting, internal control, and other matters that might be discussed in the statement by management in the document.</p>
<p><b><i>Auditor’s Responsibility</i></b></p>	<p><b><i>Auditor’s Responsibility (Ref. par. 61–65 and 100–107)</i></b></p>
<p>61. The auditor’s report should include a section with the heading “Auditor’s Responsibility.”</p>	
<p>62. The auditor’s report should state that the responsibility of the auditor is to express an opinion on the financial statements based on the audit. (Ref. par. A87)</p>	<p>A87. The auditor’s report states that the auditor’s responsibility is to express an opinion on the financial statements based on the audit in order to contrast it to management’s responsibility for the preparation of the financial statements.</p>
<p>63. The auditor’s report should state that the audit was conducted in accordance with generally accepted auditing standards and should identify the United States of America as the country of origin of those standards. The auditor’s report should also explain that those standards require that the auditor plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. (Ref. par. A88–A89)</p>	<p>A88. The reference to the standards used conveys to the users of the auditor’s report that the audit has been conducted in accordance with established standards. For example, the auditor’s report may refer to auditing standards generally accepted in the United States of America or U.S. generally accepted auditing standards.</p>
	<p>A89. In accordance with AU-C section 200, the auditor does not represent compliance with GAAS in the auditor’s report, unless the auditor has complied with the requirements of AU-C section</p>

	200 and all other AU-C sections relevant to the audit. <sup>17</sup>
<p>64. The auditor’s report should describe an audit by stating that</p> <p>a. an audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements.</p>	
<p>b. the procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the plan’s preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the plan’s internal control, and accordingly, no such opinion is expressed.</p>	
<p>c. an audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.</p> <p>In circumstances when the auditor also has a responsibility to express an opinion on the effectiveness of internal control in conjunction with the audit of the financial statements, the auditor should omit the phrase required in paragraph 64(b) that the auditor’s consideration of internal control is not for the purpose of expressing an opinion on the effectiveness of internal control, and accordingly, no such opinion is expressed.</p>	

<sup>17</sup> Paragraph .22 of AU-C section 200.

<p>65. The auditor’s report should state whether the auditor believes that the audit evidence the auditor has obtained is sufficient and appropriate to provide a basis for the auditor’s opinion.</p>	
<p><b><i>Auditor’s Opinion</i></b></p>	<p><b><i>Auditor’s Opinion (Ref. par. 66–68)</i></b></p>
<p>66. The auditor’s report should include a section with the heading “Opinion.”</p>	
	<p><i>Description of Information That the ERISA Plan Financial Statements Present</i></p>
<p>67. When expressing an unmodified opinion on ERISA plan financial statements, the auditor’s opinion should state that the financial statements present fairly, in all material respects, the [...] in accordance with [the applicable financial reporting framework.] (Ref. par. A90)</p>	<p>A90. <i>Description of information that the ERISA plan financial statements present.</i> The auditor’s opinion states that the financial statements present fairly, in all material respects, the information that the financial statements are designed to present. For example, in the case of ERISA plan financial statements prepared in accordance with U.S. GAAP, these matters are <i>the statements of net assets available for benefits [and of accumulated plan benefits] as of the end of the period and the statement of changes in net assets available for benefits [and of changes in accumulated plan benefits] for the period then ended.</i> For defined benefit pension plan, the accumulated plan benefits and changes in accumulated plan benefits may be presented in the notes to the financial statements. The notes to the financial statements are an integral part of the financial statements so the auditor’s opinion covers these amounts regardless of whether they are presented in separate statements or in the notes to the financial statements. Therefore, the auditor is not required to make specific reference to the benefit information in the opinion paragraph of the auditor’s report when the benefit information is presented in the notes to the financial statements.</p>
<p>68. The auditor’s opinion should identify the applicable financial reporting framework and its origin. (Ref. par. A91)</p>	<p>A91. <i>Description of the applicable financial reporting framework and how it may affect the auditor’s opinion.</i> The identification of the applicable financial reporting framework in the auditor’s opinion is intended to advise users of the</p>

	<p>auditor’s report of the context in which the auditor’s opinion is expressed; it is not intended to limit the evaluation required in paragraph 35. For example, the applicable financial reporting framework may be identified as accounting principles generally accepted in the United States of America or U.S. generally accepted accounting principles.</p>
<p><b><i>ERISA-Required Supplemental Schedules</i></b></p>	
<p>69. As discussed in paragraph 118, when auditing ERISA plan financial statements, the auditor is required to report on whether the ERISA-required supplemental schedules are fairly stated, in all material respects, in relation to the financial statements as a whole, in accordance with AU-C section 725 and paragraphs 120–121.</p>	
<p><b><i>Other Reporting Responsibilities</i></b></p>	<p><b><i>Other Reporting Responsibilities (Ref. par. 70–71)</i></b></p>
<p>70. If the auditor addresses other reporting responsibilities in the auditor’s report on the ERISA plan financial statements that are in addition to the auditor’s responsibility under GAAS to report on the financial statements, these other reporting responsibilities should be addressed in a separate section in the auditor’s report that should be subtitled “Report on Other Legal and Regulatory Requirements” or otherwise, as appropriate to the content of the section. (Ref. par. A92–A93)</p>	<p>A92. In some circumstances, the auditor may have additional responsibilities to report on other matters that are supplementary to the auditor’s responsibility under GAAS to report on the financial statements. The form and content of the “Other Reporting Responsibilities” section of the auditor’s report described in paragraph 70 will vary depending on the nature of the auditor’s other reporting responsibilities.</p>
	<p>A93. In some cases, the relevant law or regulation may require or permit the auditor to report on these other responsibilities within the auditor’s report on the financial statements. In other cases, the auditor may be required or permitted to report on them in a separate report.</p>
<p>71. If the auditor’s report contains a separate section on other reporting responsibilities, the headings, statements, and explanations referred to in paragraphs 57–68</p>	<p>A94. These other reporting responsibilities are addressed in a separate section of the auditor’s report in order to clearly distinguish them from the auditor’s responsibility under GAAS to report on</p>

<p>should be under the subtitle “Report on the Financial Statements.” The “Report on Other Legal and Regulatory Requirements” should follow the “Report on the Financial Statements.” (Ref. par. A94)</p>	<p>the financial statements. When relevant, this section may contain subheading(s) that describe(s) the content of the other reporting responsibility paragraph(s).</p>
<p><b><i>Signature of the Auditor</i></b></p>	<p><b><i>Signature of the Auditor (Ref. par. 72 and 115)</i></b></p>
<p>72. The auditor’s report should include the manual or printed signature of the auditor’s firm. (Ref. par. A95–A96)</p>	<p>A95. In certain situations, the auditor’s report may be required by law or regulation to include the personal name and signature of the auditor, in addition to the auditor’s firm. In addition to the auditor’s signature, in certain circumstances, the auditor may be required to declare in the auditor’s report the auditor’s professional accountancy designation or the fact that the auditor or firm, as appropriate, has been recognized by the appropriate licensing authority.</p>
	<p>A96. DOL Rules and Regulations for Reporting and Disclosure under ERISA contain requirements for how the accountant’s report is to be signed for filing with the DOL.</p>
<p><b><i>Auditor’s Address</i></b></p>	<p><b><i>Auditor’s Address (Ref. par. 73 and 116)</i></b></p>
<p>73. The auditor’s report should name the city and state where the auditor’s report is issued. (Ref. par. A97–A98)</p>	<p>A97. In the United States, the location of the issuing office is the city and state. In another country, it may be the city and country.</p>
	<p>A98. 29 CFR 2520.103-1(b)(5)(i)(C) of the DOL’s Rules and Regulations for Reporting and Disclosure under ERISA requires that the auditor’s report indicate the city and state where issued.</p>
<p><b><i>Date of the Auditor’s Report</i></b></p>	<p><b><i>Date of the Auditor’s Report (Ref. par. 74 and 117)</i></b></p>
<p>74. The auditor’s report should be dated no earlier than the date on which the auditor has obtained sufficient appropriate audit evidence on which to base the auditor’s opinion on the ERISA plan financial statements, including evidence that (Ref. par. A99–A101)</p> <p style="padding-left: 40px;">a. the audit documentation has been reviewed;</p>	<p>A99. The date of the auditor’s report informs the user of the auditor’s report that the auditor has considered the effect of events and transactions of which the auditor became aware and that occurred up to that date. The auditor’s responsibility for events and transactions after the date of the auditor’s report is addressed in AU-C section 560.</p>

<p>b. all the statements that the ERISA plan financial statements comprise, including the related notes, have been prepared;</p> <p>c. management has asserted that they have taken responsibility for those ERISA plan financial statements; and</p> <p>d. the final <i>draft Form 5500</i> has been obtained and read.</p>	
	<p>A100. AU-C section 220, <i>Quality Control for an Engagement Conducted in Accordance With Generally Accepted Auditing</i>, requires that on or before the date of the auditor’s report, the engagement partner, through a review of the audit documentation and discussion with the engagement team, be satisfied that sufficient appropriate audit evidence has been obtained to support the conclusions reached and for the auditor’s report to be issued.<sup>18</sup> When an engagement quality control review is performed, AU-C section 220 requires that the auditor’s report not be released prior to the completion of such engagement quality control review.<sup>19</sup></p>
	<p>A101. Because the auditor’s opinion is provided on the ERISA plan financial statements, and the financial statements are the responsibility of management, the auditor is not in a position to conclude that sufficient appropriate audit evidence has been obtained until evidence is obtained that all the statements that the financial statements comprise, including the related notes, have been prepared, and management has accepted responsibility for them.</p>
<p><b>Auditor’s Report for Audits Conducted in Accordance with Both GAAS and Another Set of Auditing Standards</b></p>	

<sup>18</sup> Paragraphs .19 and .A17 of AU-C section 220, *Quality Control for an Engagement Conducted in Accordance With Generally Accepted Auditing Standards* (AICPA, *Professional Standards*).

<sup>19</sup> Paragraph .21 of AU-C section 220.

75. Paragraph 63 requires that the auditor’s report state that the audit was conducted in accordance with GAAS and identify the United States of America as the country of origin of those standards. However, an auditor may indicate that the audit was also conducted in accordance with another set of auditing standards (for example, International Standards on Auditing [ISAs], the standards of the PCAOB, or Government Auditing Standards). The auditor should not refer to having conducted an audit in accordance with another set of auditing standards in addition to GAAS, unless the audit was conducted in accordance with both sets of standards in their entirety.

76. When the auditor’s report refers to both GAAS and another set of auditing standards, the auditor’s report should identify the other set of auditing standards, as well as their origin.

<b>Comparative Financial Statements</b>	<b>Comparative Financial Statements (Ref. par. 77)</b>
<p>77. Comparative financial statements may be required by the applicable financial reporting framework, or management may elect to provide such information. When comparative financial statements are presented, the auditor’s report should refer to each period for which financial statements are presented and on which an audit opinion is expressed. (Ref. par. A102–A104)</p>	<p>A102. The level of information included for the prior periods in comparative financial statements is comparable with that of the financial statements of the current period.</p>
	<p>A103. Because the auditor’s report on comparative financial statements applies to the financial statements for each of the periods presented, the auditor may express a qualified opinion or an adverse opinion, disclaim an opinion, use the ERISA section 103(a)(3)(C) audit report, or include an emphasis-of-matter paragraph with respect to one or more financial statements for one or more periods while expressing a</p>

	different auditor's opinion on one or more financial statements of another period presented.
	A104. ERISA requires a statement of assets and liabilities of the Plan to be displayed in comparative form. This may be achieved by presenting the statement of net assets available for benefits in comparative form.
	<b><i>Updating the Report (Ref. par. 78)</i></b>
78. When expressing an opinion on all periods presented, a continuing auditor should update the report on the financial statements of one or more prior periods presented on a comparative basis with those of the current period. The auditor's report on comparative financial statements should not be dated earlier than the date on which the auditor has obtained sufficient appropriate audit evidence on which to support the opinion for the most recent audit. (Ref. par. A105–A106)	A105. An updated report on prior period financial statements is distinguished from a reissuance of a previous report. <sup>20</sup> When issuing an updated report, the information considered by the continuing auditor is that which the auditor has become aware of during the audit of the current period financial statements. In addition, an updated report is issued in conjunction with the auditor's report on the current period financial statements.
	<b><i>Other Considerations Relating to Comparative Financial Statements</i></b>  A106. If one firm of independent auditors merges with another firm, and the new firm becomes the auditor of a former client of one of the two former firms, the new firm may accept responsibility and express an opinion on the financial statements for the prior period(s), as well as for those of the current period. In such circumstances, paragraphs 77–88 of this SAS apply. The new firm may indicate in the auditor's report or as part of the signature that a merger took place and may name the firm of independent auditors that was merged with it. If the new firm decides not to express an opinion on the prior period financial statements, the guidance for the reissuance of reports in AU-C section 560 would apply.
<b><i>Audit Procedures</i></b>	
79. The auditor should perform the procedures required by paragraphs 80–82 if	

<sup>20</sup> See AU-C section 560, *Subsequent Events and Subsequently Discovered Facts* (AICPA, Professional Standards).

<p>comparative financial statements are presented for the prior period(s).</p>	
<p>80. The auditor should determine whether the comparative financial statements have been presented in accordance with the relevant requirements, if any, of the applicable financial reporting framework.</p>	
<p>81. The auditor should evaluate whether</p>	
<p>a. the comparative financial statements agree with the amounts and other disclosures presented in the prior period or, when appropriate, has been restated for the correction of a material misstatement or adjusted for the retrospective application of an accounting principle, and</p>	
<p>b. the accounting policies reflected in the comparative financial statements are consistent with those applied in the current period or if there have been changes in accounting policies, whether those changes have been properly accounted for and adequately presented and disclosed.<sup>21</sup></p>	
<p>82. If the auditor becomes aware of a possible material misstatement in the comparative financial statements while performing the current period audit, the auditor should perform such additional audit procedures as are necessary in the circumstances to obtain sufficient appropriate audit evidence to determine whether a material misstatement exists. If the auditor audited the prior period's financial statements and becomes aware of a material misstatement in those financial statements, the auditor should also follow the relevant requirements of AU-C section 560. If the prior period financial statements are restated, the auditor should determine that the</p>	

<sup>21</sup> See AU-C section 708, *Consistency of Financial Statements* (AICPA, *Professional Standards*).

comparative financial statements agree with the restated financial statements.	
	<b><i>Written Representations (Ref. par. 83–84)</i></b>
83. As required by AU-C section 580, the auditor should request written representations for all periods referred to in the auditor’s opinion. The auditor also should obtain a specific written representation regarding any restatement made to correct a material misstatement in a prior period that affects the comparative financial statements. (Ref. par. A107)	A107. In the case of comparative financial statements, the written representations are requested for all periods referred to in the auditor’s opinion because management needs to reaffirm that the written representations it previously made with respect to the prior period remain appropriate.
84. When reporting on prior period financial statements in connection with the current period’s audit, if the auditor’s opinion on such prior period financial statements differs from the opinion the auditor previously expressed, the auditor should disclose the following matters in an emphasis-of-matter or other-matter paragraph, in accordance with AU-C section 706:	
a. The date of the auditor’s previous report	
b. The type of opinion previously expressed	
c. The substantive reasons for the different opinion	
d. That the auditor’s opinion on the amended financial statements is different from the auditor’s previous opinion (Ref. par. A108)	<p style="text-align: center;"><b><i>Opinion on Prior Period Financial Statements Different From Previous Opinion (Ref. par. 84)</i></b></p> <p>A108. When reporting on the prior period financial statements in connection with the current period’s audit, the opinion expressed on the prior period financial statements may be different from the opinion previously expressed if the auditor becomes aware of circumstances or events that materially affect the financial statements of a prior period during the course of the audit of the current period. In some circumstances, the auditor may have additional reporting responsibilities designed to prevent future reliance on the auditor’s</p>

	previously issued report on the prior period financial statements. <sup>22</sup>
<b><i>Prior Period Financial Statements Audited by a Predecessor Auditor</i></b>	<b><i>Prior Period Financial Statements Audited by a Predecessor Auditor (Ref. par. 86)</i></b>
85. If the financial statements of the prior period were audited by a predecessor auditor, and the predecessor auditor's report on the prior period's financial statements is not reissued, <sup>23</sup> in addition to expressing an opinion on the current period's financial statements, the auditor should state the following in an other-matter paragraph: <sup>24</sup>	
a. That the financial statements of the prior period were audited by a predecessor auditor	
b. The type of opinion expressed by the predecessor auditor and, if the opinion was modified, the reasons therefore	
c. The nature of an emphasis-of-matter paragraph or other-matter paragraph included in the predecessor auditor's report, if any	
d. The date of that report	
86. If the auditor concludes that a material misstatement exists that affects the prior period financial statements on which the predecessor auditor had previously reported without modification, the auditor should follow the communication requirements in AU-C section 510, <i>Opening Balances—Initial Audit Engagements, Including Reaudit Engagements</i> . <sup>25</sup> If the prior period financial statements are restated, and the predecessor	A109. The predecessor auditor may be unable or unwilling to reissue the auditor's report on the prior period financial statements that have been restated. In this situation, provided that the auditor has audited the adjustments to the prior period financial statements, the auditor may include an other-matter paragraph <sup>26</sup> in the auditor's report indicating that the predecessor auditor reported on the financial statements of the prior period before restatement. In addition, if the auditor is engaged

<sup>22</sup> See AU-C section 560.

<sup>23</sup> Paragraphs .19–.20 of AU-C section 560.

<sup>24</sup> See AU-C section 706, *Emphasis-of-Matter Paragraphs and Other-Matter Paragraphs in the Independent Auditor's Report* (AICPA, *Professional Standards*).

<sup>25</sup> Paragraphs .12–.13 of AU-C section 510, *Opening Balances—Initial Audit Engagements, Including Reaudit Engagements* (AICPA, *Professional Standards*).

<sup>26</sup> See AU-C section 706.

<p>auditor agrees to issue a new auditor’s report on the restated financial statements of the prior period, the auditor should express an opinion only on the current period. (Ref. par. A109)</p>	<p>to audit and obtains sufficient appropriate audit evidence to be satisfied about the appropriateness of the restatement, the auditor’s report may also include the following paragraph within the other-matter paragraph section:</p> <p style="padding-left: 40px;">As part of our audit of the 20X2 financial statements, we also audited the adjustments described in Note X that were applied to restate the 20X1 financial statements. In our opinion, such adjustments are appropriate and have been properly applied. We were not engaged to audit, review, or apply any procedures to the 20X1 financial statements of the Plan other than with respect to the adjustments and, accordingly, we do not express an opinion or any other form of assurance on the 20X1 financial statements as a whole.</p>
<p><b><i>Prior Period Financial Statements Not Audited</i></b></p>	<p><b><i>Prior Period Financial Statements Not Audited (Ref. par. 87–88)</i></b></p>
<p>87. When current period financial statements are audited and presented in comparative form with compiled or reviewed financial statements for the prior period, and the report on the prior period is not reissued, the auditor should include an other-matter paragraph<sup>27</sup> in the current period auditor’s report that includes the following: (Ref. par. A110)</p>	<p>A110. When the auditor is auditing a plan that previously was not subject to audit, AU-C section 510 applies.</p>
<p>a. The service performed in the prior period</p>	
<p>b. The date of the report on that service</p>	
<p>c. A description of any material modifications noted in that report</p>	
<p>d. A statement that the service was less in scope than an audit and does not provide the basis for the expression of an opinion on the financial statements (Ref. par. A111–A112)</p>	<p>A111. If the prior period financial statements were reviewed, the following is an example of an other-matter paragraph:</p> <p style="padding-left: 40px;">Other Matter</p>

<sup>27</sup> See AU-C section 706.

	<p>The 20X1 financial statements were reviewed by us (other accountants) and our (their) report thereon, dated March 1, 20X2, stated we (they) were not aware of any material modifications that should be made to those statements for them to be in conformity with accounting principles generally accepted in the United States of America. However, a review is substantially less in scope than an audit and does not provide a basis for the expression of an opinion on the financial statements.</p>
	<p>A112. If the prior period financial statements were compiled, the following is an example of an other-matter paragraph:</p> <p style="padding-left: 40px;">Other Matter</p> <p>The 20X1 financial statements were compiled by us (other accountants) and our (their) report thereon, dated March 1, 20X2, stated we (they) did not audit or review those financial statements and, accordingly, express no opinion or other form of assurance on them</p>
<p>88. If the prior period financial statements were not audited, reviewed, or compiled, the financial statements should be clearly marked to indicate their status, and the auditor's report should include an other-matter paragraph to indicate that the auditor has not audited, reviewed, or compiled the prior period financial statements and that the auditor assumes no responsibility for them. (Ref. par. A113)</p>	<p>A113. If the prior period financial statements were not audited, reviewed, or compiled, the following is an example of an other-matter paragraph:</p> <p style="padding-left: 40px;">Other Matter</p> <p>The accompanying statement of net assets available for benefits of X Plan as of December 31, 20X1, and the related statement of changes in net assets available for benefits for the year then ended were not audited, reviewed, or compiled by us and, accordingly, we do not express an opinion or any other form of assurance on them.</p>
<p><b>Information Presented in the Financial Statements</b></p>	<p><b>Information Presented in the Financial Statements (Ref. par. 89)</b></p>
<p>89. Information that is not required by the applicable financial reporting framework but is nevertheless presented as part of the basic financial statements should be covered by the</p>	<p>A114. In some circumstances, the plan may be required by law, regulation, or standards, or may voluntarily choose, to include in the basic financial statements information that is not required by the</p>

ERISA Reporting SAS (clean)  
ASB Meeting, July 23-26, 2018

<p>auditor’s opinion if it cannot be clearly differentiated. (Ref. par. A114–A116)</p>	<p>applicable financial reporting framework. The auditor’s opinion covers information that cannot be clearly differentiated from the financial statements because of its nature and how it is presented.</p>
	<p>A115. ERISA requires certain items to be disclosed in the notes to the financial statements that may not also be required to be disclosed by the applicable financial reporting framework. Appendix A of the AICPA Audit and Accounting Guide <i>Employee Benefit Plans</i> contains a list of the disclosure items require by ERISA.</p>
	<p>A116. If the information included in the basic financial statements is not required by the applicable financial reporting framework and is not necessary for fair presentation but is clearly differentiated, then such information may be identified as <i>unaudited</i> or as <i>not covered by the auditor’s report</i>.</p>

<p><b>Auditor’s Report For an ERISA Section 103(a)(3)(C) Audit</b></p>	<p><b>Auditor’s Report For an ERISA Section 103(a)(3)(C) Audit (Ref. par. 90–94)</b></p>
<p>90. The auditor’s report should be in writing.</p> <p>91. The auditor should apply the provisions in paragraphs 75–88, when applicable. (Ref. par.A117)</p>	<p>A117. ERISA requires certain comparative financial statements to be presented and, therefore, paragraphs 77–88 apply, even when performing an ERISA section 103(a)(3)(C) audit.</p>
<p><i>Title</i></p>	
<p>92. The auditor’s report should have a title that includes the word <i>independent</i> to clearly indicate that it is the report of an independent auditor. (Ref. par. A79)</p>	
<p><i>Addressee</i></p>	
<p>93. The auditor’s report should be addressed as required by the circumstances of the engagement. (Ref. par. A80–A81)</p>	

<b><i>Introductory Paragraph</i></b>	<b><i>Introductory Paragraph (Ref. par. 94)</i></b>
94. The introductory paragraph in the auditor’s report should (Ref. par. A82–A83)	
a. Identify the entity whose financial statements have been audited	
b. State that the auditor performed an audit of an employee benefit plan subject to the Employee Retirement Income Security Act of 1974 (ERISA), as permitted by ERISA section 103(a)(3)(C) (ERISA section 103(a)(3)(C) audit) . (Ref. par. A118)	A118. The introductory paragraph states, for example, that the auditor has “performed an audit of the accompanying financial statements of ABC Plan, an employee benefit plan subject to 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, 20X1 and 20X2, 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.”
c. Identify the title of each statement that the financial statements comprise, and	
d. Specify the date or period covered by each statement that the financial statements comprise	
<b><i>Nature of the ERISA Section 103(a)(3)(C) Audit</i></b>	<b><i>Nature of the ERISA Section 103(a)(3)(C) Audit (Ref. par. 95–96)</i></b>
95. The auditor’s report should include a section with the heading “ <i>Nature of the ERISA Section 103(a)(3)(C) Audit.</i> ”	
96. The auditor’s report should include <ul style="list-style-type: none"> <li>a. A statement that 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</li> </ul>	A119. Management may also elect to have an ERISA section 103(a)(3)(C) audit when management has elected to file its audited financial statements in accordance with 29 CFR 2520-103-12 of the Department of Labor’s Rules and Regulations for Reporting and Disclosure under ERISA. In such circumstances the report wording may need to be changed to reflect the circumstances of the engagement

<p>and Disclosure under ERISA. (Ref. par. A119)</p>	
<p>b. A statement that as permitted by ERISA section 103(a)(3)(C), the audit need not extend to any statements 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 that is regulated, supervised and subject to periodic examination by a State or Federal agency, provided that the statements or information regarding assets so held are prepared and certified to by the bank or similar institution or insurance carrier in accordance with 29 CFR 2520.103-5 of the Department of Labor’s Rules and Regulations for Reporting and Disclosure under ERISA.</p>	
<p>c. A statement that management has obtained a certification[s] as of [date] and for the period under audit [year end date] stating that the investment information as described in [insert note reference] to the financial statements is complete and accurate.</p>	
<p><b><i>Management’s Responsibility for Financial Statements</i></b></p>	
<p>97. The auditor’s report should include a section with the heading “Management’s Responsibility for the Financial Statements”.</p>	
<p>98. The auditor’s report should describe management’s responsibility for the preparation and fair presentation of the financial statements. The description should include an explanation that management is responsible for the preparation and fair presentation of the financial statements in accordance with the applicable financial reporting framework; this responsibility includes the design, implementation, and maintenance of internal control relevant to the preparation and fair</p>	

presentation of financial statements that are free from material misstatement, whether due to fraud or error. It should also state the following:

(a) management’s election of the ERISA section 103(a)(3)(C) audit does not affect management’s responsibility for the financial statements. (Ref. par. A84–A85)

(b) 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.

99. The description about management’s responsibility for the financial statements in the auditor’s report should not be referenced to a separate statement by management about such responsibilities if such a statement is included in a document containing the auditor’s report. (Ref. par.A86)

***Auditor’s Responsibility***

100. The auditor’s report should include a section with the heading “Auditor’s Responsibility.”

101. The auditor’s report should state that the responsibility of the auditor is to express an opinion on the financial statements based on the audit. (Ref par. A87)

102. The auditor’s report should state that the audit was conducted in accordance with generally accepted auditing standards and should identify the United States of America as the country of origin of those standards. The auditor’s report should also explain that those standards require that the auditor plan and

perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. (Ref. par. A88–A89)

103. The auditor’s report should describe an audit by stating that

a. an audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements.

b. the procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the plan’s preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the plan’s internal control, and accordingly, no such opinion is expressed.

c. an audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of significant accounting estimates made by management, as well as the overall presentation of the financial statements.

In circumstances when the auditor also has a responsibility to express an opinion on the effectiveness of internal control in conjunction with the audit of the financial statements, the auditor should omit the phrase required in paragraph 103(b) that the auditor’s consideration of internal control is not for the purpose of expressing an opinion on the effectiveness of internal control, and accordingly, no such opinion is expressed.

<p>104. The auditor’s report should state that, with respect to the certified investment information the auditor’s procedures were limited to</p> <p>obtaining and reading the certification,</p> <p>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 the applicable financial reporting framework.</p>	
<p>105. The auditor’s report should state that 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 the financial reporting framework.</p>	
<p>106. The auditor’s report should state that other than with respect to the certified investment information, the audit procedures were not limited for other amounts and disclosures in the financial statements.</p>	
<p>107. The auditor’s report should state whether the auditor believes that the audit evidence the auditor has obtained is sufficient and appropriate to provide a basis for the ERISA section 103(a)(3)(C) audit opinion on the financial statements.</p>	
<p><b><i>Auditor’s Opinion</i></b></p>	
<p>108. The auditor’s report should include a section with the heading “Auditor’s Opinion”</p>	
<p>109. The auditor’s report should include a statement that in the auditor’s opinion, based on the audit and the procedures performed with respect to the certified investment information</p>	

ERISA Reporting SAS (clean)  
ASB Meeting, July 23-26, 2018

as described in the auditor's responsibility section:	
a. the information in the financial statements 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)	
b. the information in the financial statements, other than that derived from the certified investment information is presented fairly, in all material respects based on the financial statements as a whole, in accordance with the applicable financial reporting framework.	
110. The auditor's opinion should identify the applicable financial reporting framework and its origin. (Ref. par. A91)	
<b><i>Modifications to the Opinion</i></b>	<b><i>Modifications to the Opinion</i></b>
111. AU-C section 705 addresses the auditor's responsibility to issue an appropriate report in circumstances when, in forming an opinion in accordance with this SAS the auditor concludes that a modification to the auditor's opinion on the ERISA plan financial statements is necessary. In the case of an ERISA section 103(a)(3)(C) audit, the auditor should apply the requirements in AU-C section 705, adapted as necessary in the circumstances of the engagement, including the following: (Ref. par. A120–A121)	A120. As discussed in paragraphs A13 and A46, an ERISA section 103(a)(3)(C) audit is unique to EBPs and is not considered a scope limitation as discussed in AU-C section 705.
	A121. When performing an ERISA section 103(a)(3)(C) audit, the auditor may encounter situations in which the financial statements are materially misstated or a limitation on the scope of the audit exists. For example, if the plan has not

	<p>maintained sufficient accounting records and supporting documents and the auditor is unable to apply certain auditing procedures the auditor may need to disclaim an opinion on the ERISA plan financial statements and ERISA-required supplemental schedules.</p>
<p>a. When the auditor expresses a qualified opinion due to a material misstatement of the financial statements, the auditor should amend the opinion section as required by paragraph 109, to state that, in the auditor’s opinion, except for the effects of the matters described in the basis for qualified opinion section, based on the audit and on the procedures performed with respect to the certified investment information as described in the auditor’s responsibility section:</p>	
<p>i. the information in the financial statements 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)</p>	
<p>ii. the information in the financial statements, other than that derived from the certified investment information 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.</p> <p>When the modification arises from an inability to obtain sufficient appropriate audit evidence, the auditor should use the</p>	

<p>corresponding phrase “except for the possible effects of the matter(s)...” for the modified opinion.</p>	
<p>b. When the auditor expresses an adverse opinion, the requirements in paragraph 109 do not apply and the auditor should state in the opinion paragraph that, in the auditor’s opinion, because of the significance of the matters described in the basis for adverse opinion section, the financial statements are not presented fairly, in all material respects, in accordance with the applicable financial reporting framework.</p>	
<p>c. When the auditor expresses a qualified or an adverse opinion, the auditor should amend the description of the auditor’s responsibility to state that the auditor believes that the audit evidence the auditor has obtained is sufficient and appropriate to provide a basis for the auditor’s modified ERISA section 103(a)(3)(C) audit opinion on the financial statements.</p>	
<p>d. When the auditor disclaims an opinion, the auditor should amend the introductory paragraph of the ERISA section 103(a)(3)(C) auditor’s report to state that the auditor was engaged to perform an audit of the financial statements. The auditor should also amend the description of the auditor’s responsibility and the description of the scope of the audit to state only the following: “Our responsibility is to express an opinion on the financial statements based on conducting the audit in accordance with auditing standards generally accepted in the United States of America. Because of the matters described in the basis for disclaimer of opinion paragraph, however, we were not able to obtain sufficient</p>	

<p>appropriate audit evidence to provide a basis for an audit opinion.”</p>	
<p>e. When the auditor disclaims an opinion due to an inability to obtain sufficient appropriate audit evidence, the requirements in paragraph 109 do not apply and the auditor should state in the opinion paragraph that</p> <ul style="list-style-type: none"> <li>i. Because of the significance of the matters described in the basis for disclaimer of opinion section, the auditor has not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion and</li> <li>ii. Accordingly, the auditor does not express an opinion on the financial statements.<sup>28</sup></li> </ul>	
<p><b><i>ERISA-Required Supplemental Schedules</i></b></p>	
<p>112. The auditor’s report should include an other-matter paragraph with the heading “Other Matter — ERISA-Required Supplemental Schedules”</p>	
<p>The auditor should report on ERISA-required supplemental schedules in accordance with paragraph 123 of this SAS.</p>	
<p><b><i>Other Reporting Responsibilities</i></b></p>	<p><b><i>Other Reporting Responsibilities (Ref. par. 113–114)</i></b></p>
<p>113. If the auditor addresses other reporting responsibilities in the auditor’s report on the ERISA plan financial statements that are in addition to the auditor’s responsibility under GAAS to report on the financial statements, these other reporting responsibilities should be addressed in a separate section in the auditor’s report that should be subtitled “Report on Other Legal and Regulatory Requirements” or</p>	<p>A122. In some circumstances, the auditor may have additional responsibilities to report on other matters that are supplementary to the auditor’s responsibility under GAAS to report on the financial statements. The form and content of the “Other Reporting Responsibilities” section of the auditor’s report described in paragraph 114 will vary depending on the nature of the auditor’s other reporting responsibilities.</p>

<sup>28</sup> Paragraph .26 of AU-C section 705.

<p>otherwise, as appropriate to the content of the section. (Ref. par. A122–A123)</p>	
	<p>A123. In some cases, the relevant law or regulation may require or permit the auditor to report on these other responsibilities within the auditor’s report on the financial statements. In other cases, the auditor may be required or permitted to report on them in a separate report.</p>
<p>114. If the auditor’s report contains a separate section on other reporting responsibilities, the headings, statements, and explanations referred to in paragraphs 94–110 should be under the subtitle “Report on the Financial Statements.” The “Report on Other Legal and Regulatory Requirements” should follow the “Report on the Financial Statements.” (Ref. par. A124)</p>	<p>A124. These other reporting responsibilities are addressed in a separate section of the auditor’s report in order to clearly distinguish them from the auditor’s responsibility under GAAS to report on the financial statements. When relevant, this section may contain subheading(s) that describe(s) the content of the other reporting responsibility paragraph(s).</p>
<p><b><i>Signature of the Auditor</i></b></p>	
<p>115. The auditor’s report should include the manual or printed signature of the auditor’s firm. (Ref. par. A95–A96)</p>	
<p><b><i>Auditor’s Address</i></b></p>	
<p>116. The auditor’s report should name the city and state where the auditor’s report is issued. (Ref. par. A97–A98)</p>	
<p><b><i>Date of the Auditor’s Report</i></b></p>	
<p>117. The auditor’s report should be dated no earlier than the date on which the auditor has obtained an appropriate certification and has obtained sufficient appropriate audit evidence on which to base the auditor’s opinion on the ERISA plan financial statements, including evidence that</p> <ul style="list-style-type: none"> <li>a. the audit documentation has been reviewed;</li> </ul>	
<ul style="list-style-type: none"> <li>b. all the statements that the ERISA plan financial statements comprise, including the related notes, have been</li> </ul>	

prepared;	
c. management has asserted that they have taken responsibility for those ERISA plan financial statements; and	
d. the final <i>draft Form 5500</i> has been obtained and read (Ref. par. A99–A101)	

Reporting on Supplemental Schedules	Reporting on Supplemental Schedules (Ref. par. 118–127)
<p>118. As discussed in paragraph 19, ERISA requires that certain supplemental schedules accompany the ERISA plan financial statements (referred to as ERISA-required supplemental schedules) if applicable. In addition, ERISA plan financial statements may have accompanying supplementary information that is not required by ERISA. Except as discussed in paragraph 123, when auditing ERISA plan financial statements, the auditor should report on whether the ERISA-required supplemental schedules are fairly stated, in all material respects, in relation to the financial statements as a whole, in accordance with AU-C section 725 and paragraphs 120-121 of this SAS. AU-C section 725 addresses the performance requirements as well as the form and content of the report on supplementary information in relation to the financial statements as a whole. AU-C section 725 requires the auditor to report on the supplementary information in either (a) an other-matter paragraph in accordance with AU-C section 706, or (b) in a separate report on the supplementary information. Paragraphs 19–21 address additional considerations related to reporting on the ERISA-required supplemental schedules when prohibited transactions with a party in interest exist. (Ref. par. A125–A126).</p>	<p>A125. According to 29 CFR 2520.103-10 the administrator of a plan filing an annual report pursuant to ERISA section 2520.103-1(a)(2) should, as provided in the instructions to the Form 5500 “Annual Return/Report of Employee Benefit Plan” include as part of the annual report certain separate financial schedules.</p>

	<p>A126. Such schedules are required to be attached to the Form 5500 filing.<sup>29</sup> These schedules are covered by the auditor’s report on whether such ERISA-required supplemental schedules are fairly stated, in all material respects, in relation to the financial statements as a whole, in accordance with AU-C section 725. The Form 5500 is updated annually and therefore the Form 5500 contains the most current information about the required schedules.</p>
<p>119. When the auditor is also engaged to report on supplementary information accompanying the ERISA plan financial statements that is not required by ERISA, AU-C section 725 applies. (Ref. par. A127)</p>	<p>A127. The requirements in paragraphs 119-120 only apply to the ERISA-required supplemental schedules. When supplementary information that is not required by ERISA accompanies the financial statements the auditor may also be engaged to report on whether the supplementary information not required by ERISA is fairly stated, in all material respects, in relation to the financial statements as a whole. In such circumstances, the auditor is required to follow the requirements in AU-C section 725 in its entirety and the requirements in paragraphs 114-116 of this SAS do not apply. This may result in the auditor’s report including an other-matter paragraph relating to the ERISA-required supplemental schedules in accordance with paragraphs 114-1167 of this SAS and a separate other-matter paragraph relating to the other supplementary information accompanying the ERISA plan financial statements presented in accordance with AU-C section 725.</p>
<p><i>ERISA-Required Supplemental Schedules</i></p>	
<p><i>Reporting on ERISA-Required Supplemental Schedules When Performing an Audit of ERISA Plan Financial Statements Not Subject to ERISA Section 103(a)(3)(C)</i></p> <p>120. When reporting on the ERISA-required supplemental schedules in accordance with AU-C section 725, the reporting elements discussed in paragraph .09 of AU-C section 725 should be</p>	

<sup>29</sup> Appendix A of the AICPA Audit and Accounting Guide *Employee Benefit Plans* provides a listing of the required ERISA schedules.

ERISA Reporting SAS (clean)  
ASB Meeting, July 23-26, 2018

<p>replaced with the following (see paragraph 123 when performing an ERISA section 103(a)(3)(C) audit ):</p>	
<p>a. A statement that the audit was conducted for the purpose of forming an opinion on the financial statements as a whole</p>	
<p>b. the title of the supplemental schedules and the periods covered</p>	
<p>c. 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</p>	
<p>d. 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</p>	
<p>e. A statement that the information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures, in accordance with auditing standards generally accepted in the United States of America.</p>	
<p>f. A statement that in forming the opinion on the supplemental schedules, the auditor evaluated whether the supplemental schedules, including their form and content, are presented in conformity with the Department of</p>	

<p>Labor’s Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974.</p>	
	<b><i>Errors, Omissions, or Inconsistency of ERISA-Required Supplemental Schedules</i></b>
<p>g. If the auditor issues an unmodified opinion on the ERISA plan financial statements and the auditor has concluded that the ERISA-required supplemental schedules are fairly stated, in all material respects, in relation to the financial statements as a whole, a statement that, in the auditor’s opinion, the information in the accompanying schedules is fairly stated, in all material respects, in relation to the financial statements as a whole, and the form and content are presented in conformity with the Department of Labor’s Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. (Ref. par. A128–A131)</p>	<p>A128. When the auditor concludes, on the basis of the procedures performed, that the ERISA-required supplemental schedules are materially misstated in relation to the financial statements as a whole, AU-C section 725 requires the auditor to 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 is required to modify the auditor’s opinion on the ERISA-required supplemental schedules and describe the misstatement in the auditor’s report. If a separate report is being issued on the ERISA-required supplemental schedules, the auditor is required to withhold the auditor’s report on the supplemental schedules.<sup>30</sup></p>
	<p>A129. 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 may consider including an additional discussion in the other-matter paragraph relating to the ERISA-required supplemental schedules that describes the error, omission, or inconsistency. When the departure relates to a prohibited transaction with a party in interest see paragraphs 19–21.</p>
	<p>A130. When the auditor concludes that the supplemental schedules do not contain all required information or contain information that is inaccurate or inconsistent with the ERISA plan financial statements, and the omission or</p>

<sup>30</sup> Paragraph .13 of AU-C section 725.

	<p>inconsistency is not considered a material misstatement, the auditor may decide to include a discussion in the other-matter paragraph relating to the ERISA-required supplemental schedules that describes the omission or inconsistency of the information.</p>
	<p>A131. 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 errors, omissions, or inconsistencies.</p>
<p>h. If the auditor issues a qualified 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 schedules of (refer to the paragraph in the auditor's report explaining the qualification), the information in the accompanying supplemental schedules is fairly stated, in all material respects, in relation to the financial statements as a whole, and the form and content are presented in conformity with the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974.</p>	
<p>121. If the auditor issues an adverse opinion or a disclaimer of opinion, the auditor is precluded from expressing an opinion on the ERISA-required 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 reporting elements in paragraph .11 of AU-C section 725 should be replaced with the following:</p>	

<p>a. If the auditor’s report contains an adverse opinion, a statement that the audit was conducted for the purpose of forming an opinion on the financial statements as a whole; or if the auditor’s report contains a disclaimer of opinion, a statement that the auditor was engaged for the purpose of forming an opinion on the financial statements as a whole.</p>	
<p>b. 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.</p>	
<p>c. a statement that because of the significance of the matter described above in [refer to the Basis for Adverse Opinion or Basis for Disclaimer of Opinion sections, as applicable], it is inappropriate to and the auditor does not express an opinion on the supplemental schedules.</p>	
<p><i>Reporting on ERISA-Required Supplemental Schedules when Reporting under an ERISA Section 103(a)(3)(C) Audit</i></p>	
<p>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:</p>	
<p>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</p>	

Regulations for Reporting and Disclosure under ERISA	
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.	
c. Obtain written representations from management	
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	
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	
123. 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:  a. the title of the supplemental schedules and the periods covered	

<p>b. 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</p>	
<p>c. 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</p>	
<p>d. a statement that the information included in the supplemental schedules, other than that derived from the certified investment information 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>e. 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 Disclosure under the Employee</p>	

<p>Retirement Income Security Act of 1974</p>	
<p>f. a statement whether in the auditor’s opinion: )</p>	
<p style="padding-left: 40px;">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).</p>	
<p style="padding-left: 40px;">ii. the form and content of the information included in the supplemental schedules, other than that derived from the certified investment information are presented, in all material respects based on the financial statements as whole, in conformity with the Department of Labor’s Rules and Regulations for Reporting and Disclosure Under ERISA.</p>	
<p>g. 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 schedules of (refer to the paragraph in the auditor’s report explaining the qualification):</p> <p style="padding-left: 40px;">i. the information in the supplemental schedules related</p>	

<p>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)</p> <p>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</p>	
<p>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>	
<p>i. 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</p>	

<p>disclaimer of opinion, a statement that the auditor was engaged for the purpose of forming an opinion on the financial statements as a whole.</p>	
<p>ii. 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</p>	
<p>iii. a statement that because of the significance of the matter described above in [<i>refer to the Basis for Adverse Opinion or Basis for Disclaimer of Opinion sections, as applicable</i>], it is inappropriate to and the auditor does not express an opinion on the supplemental schedules.</p>	
<p>124. 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 schedules, the auditor should modify the auditor’s opinion regarding the ERISA-required supplemental schedules and describe the inconsistency in the auditor’s report.</p>	
<p>125. When the auditor concludes, on the basis of the procedures performed, that the</p>	

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.

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)

- 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
- 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.

127. If a material party in interest<sup>31</sup> 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

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.

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.

<sup>31</sup> Party in interest is defined in section 3(14) of ERISA.

to the ERISA plan financial statements, the requirements in paragraph 21 apply.

A134.

## **Appendix A — Examples of Plan Provisions by Audit Area**

Paragraph 17 of this SAS requires the auditor to consider relevant plan provisions when designing and performing audit procedures. The relevant plan provisions will vary for each type of plan and the circumstances of each engagement. When designing audit procedures the testing of relevant plan provisions may be coordinated among various audit areas to which they relate.

The following are some examples of plan provisions by audit area (not all inclusive).

- *Individual Participant Accounts.* The plan instrument often includes the following plan provisions relating to individual participant accounts.
  - Participation and eligibility requirements
  - Types of contributions and distributions
  - Timing of contributions
  - Contribution limitations
  - Investment of contributions
  - Allocations to participant accounts
  - Forms of distributions
  - Benefit commencement dates
  - Vesting and forfeitures
  - Service requirements and credits
  - Participant loans
  - Transfers
  - Administration of the plan
- *Contributions and Contributions Receivable.* The plan instrument often includes the following plan provisions relating to contributions.
  - Participation and eligibility requirements
  - Types of contributions
  - Timing of contributions
  - Contribution limitations
  - Investment of contributions

- Use of forfeitures
- Service requirements and credits
- Allocations to participant accounts
  
- *Distributions and Related Obligations.* The plan instrument often includes the following plan provisions relating to distributions.
  - Eligibility requirements (distributable events)
  - Types of distributions
  - Forms of distribution
  - Benefit commencement dates
  - Determination of benefits
  - Vesting
  - Service requirements and credits
  - Allocations to participant accounts
  
- *Claims.* The plan instrument often includes the following plan provisions relating to claims in a health and welfare plan.
  - Eligibility requirements
  - Types of claims
  - Claims coverage
  - Determination of claims
  
- *Loans to Participants.* The plan instrument often includes the following provisions relating to loans to participants.
  - Eligibility requirements
  - Loan terms
  - Allocations to participant accounts
  
- *Investments and Investment Income.* The plan instrument often includes the following plan provisions relating to investments.
  - Investment of contributions
  - Administrative provisions
  - Direction of investments
  - Allocations to participant accounts

- *Expenses.* The plan instrument often includes the following plan provisions relating to expenses.
  - Administrative provisions
  - Allocations to participant accounts

A135.

**Appendix B—Amendments to Statement on Auditing Standards (SAS) No. 119, *Supplementary Information in Relation to the Financial Statements as a Whole*, as Amended (AICPA, *Professional Standards*, AU-C sec. 725), and SAS No. 132, *The Auditor’s Consideration of an Entity’s Ability to Continue as a Going Concern* (AICPA, *Professional Standards*, AU-C sec. 570)**

(*Boldface italics* denotes new language. Deleted text is in ~~strikethrough~~)

**Amendment to AU-C Section 570, *The Auditor’s Consideration of an Entity’s Ability to Continue as a Going Concern***

[No amendment to paragraphs .01–.A36.]

**.A37** In accordance with section 700, *Forming an Opinion and Reporting on Financial Statements*, or **section 703, *Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA***, the auditor is required to date the auditor’s report no earlier than the date on which the auditor has obtained sufficient appropriate audit evidence on which to base the auditor’s opinion on the financial statements.<sup>31</sup> Accordingly, the support letter or the written confirmation defines a specific date so as to cover the assessment period required by the applicable financial reporting framework. For example, for financial statements prepared in accordance with the FASB standards, the date would be a year and a day beyond the date that the financial statements are issued (or available to be issued, when applicable). Specifying a date in the support letter that is later than the expected date that the financial statements will be issued (or will be available to be issued, when applicable) may obviate the need to obtain updated information from the supporting parties. The period covered by the support letter may be shorter if there is another source of support that management intends to utilize in order to continue as a going concern through the assessment period. Such other support would be subjected to the same auditing procedures discussed in AU-C 570.

<sup>31</sup> Paragraph .41 of section 700, *Forming an Opinion and Reporting on Financial Statements*, or **paragraphs 74 of section 703, *Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA***.

[No amendment to paragraphs A39–.A58.]

Comparative Presentations

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**.A59** Substantial doubt about the entity's ability to continue as a going concern for a reasonable period of time that arose in the current period does not imply that a basis for such doubt existed in the prior period and, therefore, does not affect the auditor's report on the financial statements of the prior period that are presented on a comparative basis. AU-C section 700, *Forming an Opinion and Reporting on Financial Statements*, **and section 703, Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA**, provides guidance on reporting when financial statements of one or more prior periods are presented on a comparative basis with financial statements of the current period.

[No further amendment to AU-C section 570.]

1. This amendment is effective for audits of ERISA plan financial statements for periods ending on or after December 15, 2019.

## **Amendment to AU-C Section 725, *Supplementary Information in Relation to the Financial Statements as a Whole***

### **Introduction**

### **Scope of This Section**

.01 This section addresses the auditor's responsibility when engaged to report on whether supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole. The information covered by this section is presented outside the basic financial statements and is not considered necessary for the financial statements to be fairly presented in accordance with the applicable financial reporting framework. This section also may be applied, with the report wording adapted as necessary, when an auditor has been engaged to report on whether required supplementary information<sup>1</sup> is fairly stated, in all material respects, in relation to the financial statements as a whole. ***When the auditor is performing an audit of an employee benefit plan subject to the Employee Retirement Income Security Act of 1974 (ERISA), AU-C section 703, Forming an Opinion and Reporting on of Employee Benefit Plans Subject to ERISA, applies. Accordingly, the requirements in paragraph .09 of this section are replaced by the requirements in AU-C section 703, for such audits only.*** (Ref: par. .A1-.A6)

<sup>1</sup>[Footnote omitted for purposes of this SAS.]

[No further amendment to AU-C section 725.]

2. This amendment is effective for audits of ERISA plan financial statements for periods ending on or after December 15, 2019.

A136.

## **Appendix C—Amendments to Various Sections in SAS No. 122, *Statements on Auditing Standards: Clarification and Recodification,* as Amended**

*(Boldface italics denotes new language. Deleted text is in strikethrough)*

### **AU-C Section 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance With Generally Accepted Auditing Standards***

[No proposed amendment to paragraphs .01–.A48. Paragraph .A49 is provided for contextual information only.]

#### ***Inherent Limitations of an Audit***

**.A49** The auditor is not expected to, and cannot, reduce audit risk to zero and cannot, therefore, obtain absolute assurance that the financial statements are free from material misstatement due to fraud or error. This is because inherent limitations of an audit exist, which result in most of the audit evidence on which the auditor draws conclusions and bases the auditor’s opinion being persuasive rather than conclusive. The principal inherent limitations of an audit arise from

- the nature of financial reporting;
- the nature of audit procedures; and
- the need for the audit to be conducted within a reasonable period of time and so as to achieve a balance between benefit and cost.

#### ***The Nature of Financial Reporting***

**.A50** The preparation and fair presentation of financial statements involves judgment by management in applying the requirements of the entity’s applicable financial reporting framework to the facts and circumstances of the entity. In addition, many financial statement items involve subjective decisions or assessments or a degree of uncertainty, and a range exists of acceptable interpretations or judgments that may be made. Consequently, some financial statement items are subject to an inherent level of variability that cannot be eliminated by the application of additional auditing procedures. For example, this is often the case with respect to certain accounting estimates that are dependent on predictions of future events. Nevertheless, GAAS require the auditor to give specific consideration to whether accounting estimates are reasonable in the context of the applicable financial reporting framework and to related disclosures, and to the qualitative aspects of the entity’s accounting practices, including indicators of possible bias in management’s judgments.<sup>15</sup>

<sup>15</sup> See section 540, *Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures*, and section 700, *Forming an Opinion and Reporting on Financial Statements*, or **section 703, Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA.**

[No further amendment to section AU-C section 200.]

1. This amendment is effective for audits of ERISA plan financial statements for periods ending on or after December 15, 2019.

**AU-C Section 220, *Quality Control for an Engagement Conducted in Accordance With Generally Accepted Auditing Standards***

[No amendment to paragraphs .01–.A22. Paragraphs .A23–.A24 are provided for contextual information only.]

**Engagement Quality Control Review**

*Completion of the Engagement Quality Control Review Before Releasing the Auditor’s Report (Ref: par. .21c)*

**.A23** Conducting the engagement quality control review in a timely manner at appropriate stages during the engagement allows significant findings or issues to be promptly resolved to the engagement quality control reviewer’s satisfaction.

**.A24** *Completion of the engagement quality control review* means the completion by the engagement quality control reviewer of the requirements in paragraph .22 and, when applicable, compliance with paragraph .23. Documentation of the engagement quality control review may be completed after the report release date as part of the assembly of the final audit file. Section 230 establishes requirements and provides guidance in this regard.<sup>11</sup>

<sup>11</sup> [Footnote omitted for purposes of this proposed SAS.]

**.A25** When the engagement quality control review is completed after the auditor’s report is dated and identifies instances where additional procedures or additional evidence is necessary, the date of the report is changed to the date when the additional procedures have been satisfactorily completed or the additional evidence has been obtained, in accordance with section 700, *Forming an Opinion and Reporting on Financial Statements*, or **section 703, Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA.**

[No further amendments to AU-C section 220.]

2. This amendment is effective for audits of ERISA plan financial statements for periods ending on or after December 15, 2019.

**AU-C Section 240, *Consideration of Fraud in a Financial Statement Audit***

[No proposed amendments to paragraphs .01–.A58. Paragraphs .A59–.A60 and .A62 are provided for contextual information only.]

**Consideration of Identified Misstatements (Ref: par. .35–.37)**

**.A59** Because fraud involves incentive or pressure to commit fraud, a perceived opportunity to do so, or some rationalization of the act, an instance of fraud is unlikely to be an isolated occurrence. Accordingly, misstatements, such as numerous misstatements at a specific location even though the cumulative effect is not material, may be indicative of a risk of material misstatement due to fraud.

**.A60** The implications of identified fraud depend on the circumstances. For example, an otherwise insignificant fraud may be significant if it involves senior management. In such circumstances, the reliability of evidence previously obtained may be called into question because there may be doubts about the completeness and truthfulness of representations made and the genuineness of accounting records and documentation. There may also be a possibility of collusion involving employees, management, or third parties.

**.A61** Section 450, *Evaluation of Misstatements Identified During the Audit*, ~~and~~ section 700, *Forming an Opinion and Reporting on Financial Statements*, **and section 703, Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA**, address the evaluation and disposition of misstatements and the effect on the auditor’s opinion in the auditor’s report.

**.A62** Section 580, *Written Representations*, addresses obtaining appropriate representations from management in the audit. In addition to acknowledging its responsibility for the financial statements, it is important that, irrespective of the size of the entity, management acknowledges its responsibility for internal control designed, implemented, and maintained to prevent and detect fraud.

[No further proposed amendments to AU-C section 240.]

3. This amendment is effective for audits of ERISA plan financial statements for periods ending on or after December 15, 2019.

**AU-C Section 330, *Performing Audit Procedures in Response to Assessed Risks and Evaluating the Audit Evidence Obtained***

Introduction

### Scope of This Section

**.01** This section addresses the auditor's responsibility to design and implement responses to the risks of material misstatement identified and assessed by the auditor in accordance with section 315, *Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement*, and to evaluate the audit evidence obtained in an audit of financial statements. Section 700, *Forming an Opinion and Reporting on Financial Statements*, and **section 703, Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA**, addresses the auditor's responsibility to form an opinion on the financial statements based on the evaluation of the audit evidence obtained.

[No further amendment to AU-C section 330.]

4. This amendment is effective for audits of ERISA plan financial statements for periods ending on or after December 15, 2019.

## **AU-C Section 450, *Evaluation of Misstatements Identified During the Audit***

### Introduction

### Scope of This Section

**.01** This section addresses the auditor's responsibility to evaluate the effect of identified misstatements on the audit and the effect of uncorrected misstatements, if any, on the financial statements. Section 700, *Forming an Opinion and Reporting on Financial Statements*, and **section 703, Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA**, addresses the auditor's responsibility in forming an opinion on the financial statements based on the evaluation of the audit evidence obtained. The auditor's conclusion, required by section 700 *or section 703*, takes into account the auditor's evaluation of uncorrected misstatements, if any, on the financial statements, in accordance with this section. Section 320, *Materiality in Planning and Performing an Audit*, addresses the auditor's responsibility to appropriately apply the concept of materiality in planning and performing an audit of financial statements.

[No amendment to paragraphs .02–.06. Paragraphs .07–.09 are provided for contextual information only.]

### Communication and Correction of Misstatements

**.07** The auditor should communicate on a timely basis with the appropriate level of management all misstatements accumulated during the audit. The auditor should request management to correct those misstatements. (Ref: par. .A6–.A8)

**.08** If, at the auditor's request, management has examined a class of transactions, account balance, or disclosure and corrected misstatements that were detected, the auditor

should perform additional audit procedures to determine whether misstatements remain.  
(Ref: par. .A9–.A11)

**.09** If management refuses to correct some or all of the misstatements communicated by the auditor, the auditor should obtain an understanding of management’s reasons for not making the corrections and should take that understanding into account when evaluating whether the financial statements as a whole are free from material misstatement.<sup>2</sup> (Ref: par. .A12–.A15)

<sup>2</sup> Paragraph .14 of section 700, *Forming an Opinion and Reporting on Financial Statements*, or **paragraph .32 of section 703, Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA.**

[No amendment to paragraphs .10–.A5.]

Communication and Correction of Misstatements (Ref: par. .07–.09)

[No amendment to paragraphs .A6–.A11]

**.A12** Section 700 **and section 703** requires the auditor to evaluate whether the financial statements are presented fairly, in all material respects, in accordance with the requirements of the applicable financial reporting framework.<sup>9</sup> This evaluation includes consideration of the qualitative aspects of the entity’s accounting practices, including indicators of possible bias in management’s judgments, which may be affected by the auditor’s understanding of management’s reasons for not making the corrections (see section 700).<sup>10</sup>

<sup>9</sup> Paragraph .13 of section 700, **and paragraph .31 of section 703, as applicable.**

<sup>10</sup> Paragraph .15 of section 700, **and paragraph .33 of section 703, as applicable.**

[No further amendment to AU-C section 450.]

5. This amendment is effective for audits of ERISA plan financial statements for periods ending on or after December 15, 2019.

#### **AU-C Section 501, Audit Evidence—Specific Considerations for Selected Items**

[No amendment to paragraphs .01–.A45.]

#### **Communication With the Entity’s Legal Counsel (Ref: par. .18–.24)**

[No amendment to paragraphs .A46–.A52.]

**.A53** In accordance with section 700, *Forming an Opinion and Reporting on Financial Statements*, or **section 703, Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA**, the auditor is required to date the auditor’s report no earlier than the date on which the auditor has obtained sufficient appropriate audit evidence on which to base the auditor’s opinion on the financial statements.<sup>13</sup> Accordingly, it is preferable that the entity’s legal counsel’s response be as close to the date of the auditor’s report as is practicable in the circumstances. Specifying the effective date of the entity’s legal

counsel's response to reasonably approximate the expected date of the auditor's report may obviate the need to obtain updated information from the entity's legal counsel.

<sup>13</sup> Paragraph .41 of section 700, *Forming an Opinion and Reporting on Financial Statements, or paragraphs .74 and .117 of section 703, Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA.*

[No amendments to paragraphs .A54–.A64.]

*Evaluation of the Outcome of Litigation, Claims, or Assessment (Ref: par. .22d(ii))*

**.A65** Although paragraph 5 of the ABA statement states that the legal counsel “may in appropriate circumstances communicate to the auditor his view that an unfavorable outcome is ‘probable’ or ‘remote,’” the legal counsel is not required to use those terms in communicating the evaluation to the auditor. The auditor may find other wording sufficiently clear, as long as the terms can be used to classify the outcome of the uncertainty under one of the three probability classifications established in FASB ASC 450. Some examples of evaluations concerning litigation that may be considered to provide sufficient clarity that the likelihood of an unfavorable outcome is remote, even though they do not use that term, are the following:

- “We are of the opinion that this action will not result in any liability to the company.”
- “It is our opinion that the possible liability to the company in this proceeding is nominal in amount.”
- “We believe the company will be able to defend this action successfully.”
- “We believe that the plaintiff’s case against the company is without merit.”
- “Based on the facts known to us, after a full investigation, it is our opinion that no liability will be established against the company in these suits.”

Absent any contradictory information obtained by the auditor either in other parts of the legal counsel's letter or otherwise, the auditor need not obtain further clarification of evaluations such as the foregoing. Because of inherent uncertainties described in paragraph .A57 and the ABA statement, an evaluation furnished by the legal counsel may indicate significant uncertainties or stipulations about whether the client will prevail. The following are examples of the legal counsel's evaluations that are unclear about the likelihood of an unfavorable outcome:

- “This action involves unique characteristics wherein authoritative legal precedents do not seem to exist. We believe that the plaintiff will have serious problems establishing the company's liability under the act; nevertheless, if the plaintiff is successful, the award may be substantial.”

- “It is our opinion that the company will be able to assert meritorious defenses to this action.” (The term *meritorious defenses* indicates that the entity’s defenses will not be summarily dismissed by the court; it does not necessarily indicate the legal counsel’s opinion that the entity will prevail.)
- “We believe the action can be settled for less than the damages claimed.”
- “We are unable to express an opinion as to the merits of the litigation at this time. The company believes there is absolutely no merit to the litigation.” (If the entity’s legal counsel, with the benefit of all relevant information, is unable to conclude that the likelihood of an unfavorable outcome is remote, it is unlikely that management would be able to form a judgment to that effect.)
- “In our opinion, the company has a substantial chance of prevailing in this action.” (A *substantial chance*, a *reasonable opportunity*, and similar terms indicate more uncertainty than an opinion that the company will prevail.)

If the auditor is uncertain about the meaning of the legal counsel’s evaluation, clarification either in a follow-up letter or conference with the legal counsel and entity, appropriately documented, may be appropriate. If the legal counsel is still unable to give an unequivocal evaluation of the likelihood of an unfavorable outcome in writing or orally, the auditor is required by section 700, **or section 703**, to determine the effect, if any, of the legal counsel’s response on the auditor’s report.

[No further proposed amendments to AU-C section 501.]

6. This amendment is effective for audits of ERISA plan financial statements for periods ending on or after December 15, 2019.

### **AU-C Section 510, *Opening Balances—Initial Audit Engagements, Including Reaudit Engagements***

#### **Scope of This Section**

**.01** This section addresses the auditor’s responsibilities relating to opening balances in an initial audit engagement, including a reaudit engagement. In addition to financial statement amounts, opening balances include matters requiring disclosure that existed at the beginning of the period, such as contingencies and commitments. When comparative financial statements are presented, the relevant requirements and guidance for comparative financial statements in section 700, *Forming an Opinion and Reporting on Financial Statements*, **or section 703, Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA**, also apply. Section 300, *Planning an Audit*, includes additional requirements and guidance regarding activities prior to starting an initial audit. Section 708, *Consistency of Financial Statements*, also applies with respect to the auditor’s evaluation of the consistency of accounting principles between the periods presented and covered by the auditor’s opinion. Section 210, *Terms of Engagement*, includes requirements

and guidance with respect to communications with a predecessor auditor before accepting an initial audit engagement, including a reaudit engagement.

[No amendment to paragraphs .02–.A14.]

***Discovery of Possible Material Misstatements in Financial Statements Reported on by a Predecessor Auditor***

**.A15** Section 560 provides reporting guidance to the predecessor auditor who is requested to reissue a previously issued report on financial statements of a prior period when those financial statements are to be presented on a comparative basis with audited financial statements of a subsequent period.<sup>2</sup> Section 700 **and section 703, as applicable**, provides reporting guidance to the auditor reporting on comparative financial statements when the predecessor auditor is unable or unwilling to reissue the auditor’s report on prior period financial statements that have been restated.<sup>3</sup> (Ref: par. .12)

<sup>2</sup> [Footnote omitted for purposes of this SAS.]

<sup>3</sup> Paragraph .A57 of section 700, *Forming an Opinion and Reporting on Financial Statements, and paragraph .A109 of section 703, Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA.*

[No further amendment to AU-C section 510.]

7. This amendment is effective for audits of ERISA plan financial statements for periods ending on or after December 15, 2019.

***AU-C Section 540, Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures***

[No amendment to paragraphs .01–.A132.]

Indicators of Possible Management Bias (Ref: par. .21)

**.A133** During the audit, the auditor may become aware of judgments and decisions made by management that give rise to indicators of possible management bias (see paragraph .A9). Such indicators may affect the auditor’s conclusion about whether the auditor’s risk assessment and related responses remain appropriate, and the auditor may need to consider the implications for the rest of the audit. Further, they may affect the auditor’s evaluation of whether the financial statements as a whole are free from material misstatement, as discussed in section 700, *Forming an Opinion and Reporting on Financial Statements, and section 703, Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA, as applicable.*

[No further amendment to AU-C section 540.]

8. This amendment is effective for audits of ERISA plan financial statements for periods ending on or after December 15, 2019.

### **AU-C Section 550, *Related Parties***

Introduction

Scope of This Section

[No amendment to paragraph .01.]

**.02** Section 700, *Forming an Opinion and Reporting on Financial Statements*, **and section 703, Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA, as applicable**, requires the auditor to evaluate whether the financial statements achieve fair presentation.<sup>1</sup> Section 800, *Special Considerations—Audits of Financial Statements Prepared in Accordance With Special Purpose Frameworks*, requires that, in audits of special purpose financial statements that contain related party transactions, the auditor evaluate whether the financial statements include informative disclosures similar to those required by generally accepted accounting principles (GAAP). Section 800 also requires the auditor to evaluate whether additional disclosures beyond those specifically required by the framework and related to matters that are not specifically identified on the face of the financial statements or other disclosures may be necessary for the financial statements to achieve fair presentation. Thus, this section applies to all audits of financial statements. (Ref: par. .A1–.A3)

<sup>1</sup> Paragraph .17 of section 700, *Forming an Opinion and Reporting on Financial Statements*, **and paragraph .35 of section 703, Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA, as applicable**.

<sup>2</sup> [Footnote omitted for purposes of this proposed SAS.]

<sup>3</sup> [Footnote omitted for purposes of this proposed SAS.]

[No proposed amendments to paragraphs .03–.25.]

Evaluation of the Accounting for, and Disclosure of, Identified Related Party Relationships and Transactions

**.26** In forming an opinion on the financial statements, in accordance with section 700, **or section 703**, the auditor should evaluate the following: (Ref: par. .A50)

- a.* Whether the identified related party relationships and transactions have been appropriately accounted for and disclosed (Ref: par. .A51)

b. Whether the effects of the related party relationships and transactions prevent the financial statements from achieving fair presentation (Ref: par. .A3)

<sup>16</sup> Paragraphs .13–.18 of section 700, *or paragraphs .31–.36 of section 703, as applicable.*

[No further amendment to AU-C section 550.]

9. This amendment is effective for audits of ERISA plan financial statements for periods ending on or after December 15, 2019.

### **AU-C Section 560, *Subsequent Events and Subsequently Discovered Facts***

[No amendment to paragraph .01.]

Subsequent Events and Subsequently Discovered Facts

[No amendment to paragraph .02.]

**.03** Section 700, *Forming an Opinion and Reporting on Financial Statements*, *and section 703, Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA*, explains that the date of the auditor’s report informs the user of the auditor’s report that the auditor has considered the effect of events and transactions of which the auditor becomes aware and that occurred up to that date.<sup>1</sup> Accordingly, this section addresses the auditor’s responsibilities relating to subsequent events occurring between the date of the financial statements and the date of the auditor’s report that require adjustment of, or disclosure in, the financial statements. It also addresses the auditor’s responsibilities relating to subsequently discovered facts that become known to the auditor after the date of the auditor’s report.

<sup>1</sup> Paragraph .A38 of section 700, *Forming an Opinion and Reporting on Financial Statements*, *and paragraph .A99 of section 703, Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA*, *as applicable.*

[No amendment to paragraphs .04–.06.]

Definitions

**.07** For purposes of generally accepted auditing standards, the following terms have the meanings attributed as follows:

**Date of the auditor’s report.** The date that the auditor dates the report on the financial statements, in accordance with section 700 *or section 703.*<sup>2</sup> (Ref: par. .A14)

**Date of the financial statements.** The date of the end of the latest period covered by the financial statements.

**Subsequent events.** Events occurring between the date of the financial statements and the date of the auditor's report.

**Subsequently discovered facts.** Facts that become known to the auditor after the date of the auditor's report that, had they been known to the auditor at that date, may have caused the auditor to revise the auditor's report.

<sup>2</sup> Paragraph .41 of section 700, *or paragraphs .74 and .117 of section 703.*

[No amendment to paragraphs .08–.A8.]

### **Written Representations**

[No amendment to paragraph .A9.]

**.A10** The applicable financial reporting framework may require management to evaluate subsequent events through the date the financial statements are issued or available to be issued and to disclose the date through which subsequent events were evaluated in the financial statements. In most cases, this will result in the date that management discloses as the date through which management has evaluated subsequent events being the same date as the auditor's report. This is because section 700 *or section 703*, requires the auditor's report to be dated no earlier than the date on which the auditor has obtained sufficient appropriate audit evidence on which to base the auditor's opinion on the financial statements, including evidence that the audit documentation has been reviewed; that all the statements that comprise the financial statements, including related notes, have been prepared; and that management has asserted that they have taken responsibility for those financial statements.<sup>8</sup> Also, the auditor is concerned with subsequent events that require adjustment of, or disclosure in, the financial statements through the date of the auditor's report or as near as practicable thereto. Therefore, management's representations concerning events occurring subsequent to the date of the financial statements and for which the applicable financial reporting framework requires adjustment or disclosure are required to be made as of the date of the auditor's report on the financial statements.<sup>9</sup> To align the date disclosed by management in the financial statements, the representation letter date, and the auditor's report date, the auditor may discuss the dating requirements with management and may also include, in the terms of the audit engagement,<sup>10</sup> that management will not date the subsequent event disclosure earlier than the date of the representation letter (also the date of the auditor's report).

<sup>8</sup> Paragraph .41 of section 700, *or paragraphs .74 and .117 of section 703.*

<sup>9</sup> [Footnote omitted for purposes of this proposed SAS.]

<sup>10</sup>[Footnote omitted for purposes of this proposed SAS.]

Subsequently Discovered Facts That Become Known to the Auditor Before the Report Release Date (Ref: par. .12–.14)

**Dating the Auditor's Report on the Revised Financial Statements (Ref: par. .13)**

[No amendment to paragraphs .A11–.A13.]

**.A14** As discussed in paragraph .A10, section 700 *or section 703, as applicable*, requires the auditor’s report to be dated no earlier than the date on which the auditor has obtained sufficient appropriate audit evidence on which to base the auditor’s opinion on the financial statements.<sup>11</sup> When management revises the financial statements and the auditor reports on the revised financial statements, the new date (or the dual date) included in the auditor’s report cannot be earlier than the date on which the auditor carried out the audit procedures necessary in the circumstances on the revision, including that the documentation has been reviewed and management has prepared and asserted that they have taken responsibility for the revised financial statements.

<sup>11</sup> Paragraph .41 of section 700, *or paragraphs .74 and .117 of section 703*.

[No amendment to paragraphs .A15–.A28.]

### **Predecessor Auditor’s Report Reissued**

[No amendment to paragraph .A29.]

**.A30** Section 700 *and section 703, as applicable*, addresses the auditor’s responsibilities when the auditor is engaged to audit and report on a revision to prior period financial statements audited by the predecessor auditor.<sup>13</sup> It also addresses the auditor’s responsibilities when the predecessor auditor’s report will not be presented.<sup>14</sup>

<sup>13</sup> Paragraph .A57 of section 700, *and paragraph .A109 of section 703, as applicable*.

<sup>14</sup> Paragraph .55 of section 700, *and paragraph .85 of section 703, as applicable*.

[No further amendment to AU-C section 560.]

10. This amendment is effective for audits of ERISA plan financial statements for periods ending on or after December 15, 2019.

### **AU-C Section 580, *Written Representations***

[No amendment to paragraphs .01–.A37.]

#### **.A38**

#### **Exhibit D — List of AU-C Sections Containing Requirements for Written Representations**

This exhibit identifies paragraphs in other AU-C sections that require specific written representations that may not be required for every audit. The list is not a substitute for considering the requirements and related application and other explanatory material in AU-C sections:

- Paragraph .19 of section 560, *Subsequent Events and Subsequently Discovered Facts*
- Paragraph .53 of section 700, *Forming an Opinion and Reporting on Financial Statements, or paragraphs .83 and .122 of section 703, Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA, as applicable*
- Paragraph .07g of section 725, *Supplementary Information in Relation to the Financial Statements as a Whole*
- Paragraph .23 of section 935, *Compliance Audits*

In addition, certain AICPA Audit and Accounting Guides suggest written representations concerning matters that are unique to a particular industry.

[No further amendment to AU-C section 580.]

11. This amendment is effective for audits of ERISA plan financial statements for periods ending on or after December 15, 2019.

### **AU-C Section 700, *Forming an Opinion and Reporting on Financial Statements***

[Paragraphs .01–.02 are provided for contextual information only.]

#### **Scope of This Section**

**.01** This section addresses the auditor’s responsibility to form an opinion on the financial statements. It also addresses the form and content of the auditor’s report issued as a result of an audit of financial statements.

**.02** This section is written in the context of a complete set of general purpose financial statements.

**.03** *This section is not applicable when the auditor is forming an opinion and reporting on financial statements of employee benefit plans subject to the Employee Retirement Income Security Act of 1974 (ERISA). In such circumstances, section 703, Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA, applies.*

[Subsequent paragraphs renumbered. No further amendment to AU-C section 700.]

12. This amendment is effective for audits of ERISA plan financial statements for periods ending on or after December 15, 2019.

**AU-C Section 705, *Modifications to the Opinion in the Independent Auditor's Report***

**.01** This section addresses the auditor's responsibility to issue an appropriate report in circumstances when, in forming an opinion in accordance with section 700, *Forming an Opinion and Reporting on Financial Statements*, or section 703, **Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA**, the auditor concludes that a modification to the auditor's opinion on the financial statements is necessary.

[No amendment to paragraphs .02–.16.]

**.17** When the auditor modifies the opinion on the financial statements, the auditor should, in addition to the specific elements required by section 700 or section 703, include a paragraph in the auditor's report that provides a description of the matter giving rise to the modification. The auditor should place this paragraph immediately before the opinion paragraph in the auditor's report and use a heading that includes "Basis for Qualified Opinion," "Basis for Adverse Opinion," or "Basis for Disclaimer of Opinion," as appropriate. (Ref: par. .A20)

[No amendment to paragraphs .18–.A1.]

**.A2** Section 700 and section 703, as applicable, require the auditor, in order to form an opinion on the financial statements, to conclude whether reasonable assurance has been obtained about whether the financial statements as a whole are free from material misstatement.<sup>4</sup> This conclusion takes into account the auditor's evaluation of uncorrected misstatements, if any, on the financial statements, in accordance with section 450, *Evaluation of Misstatements Identified During the Audit*.

<sup>4</sup>Paragraph .14 of section 700, *Forming an Opinion and Reporting on Financial Statements or paragraph .32 of section 703, Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA*.

[No further amendment to AU-C section 705.]

13. This amendment is effective for audits of ERISA plan financial statements for periods ending on or after December 15, 2019.

**AU-C Section 706, *Emphasis-of-Matter Paragraphs and Other-Matter Paragraphs in the Independent Auditor's Report***

[No amendment to paragraphs .01–.A7.]

**.A8** An other-matter paragraph does not address circumstances when the auditor has other reporting responsibilities that are in addition to the auditor's responsibility under GAAS to report on the financial statements (see the "Other Reporting Responsibilities" section in section 700, *Forming an Opinion and Reporting on Financial Statements*, or section 703, **Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans**

**Subject to ERISA**) or when the auditor has been asked to perform and report on additional specified procedures or to express an opinion on specific matters.

[No amendment to paragraphs .A9–.A14.]

**.A15**

**Exhibit C — List of AU-C Sections Containing Requirements for Other-Matter Paragraphs (Ref: par. .02)**

This exhibit identifies paragraphs in other AU-C sections that require the auditor to include an other-matter paragraph in the auditor’s report in certain circumstances. The list is not a substitute for considering the requirements and related application and other explanatory material in AU-C sections.

- Paragraph .16c of section 560, *Subsequent Events and Subsequently Discovered Facts*
- Paragraphs .54–.55 and .57–.58 of section 700, *Forming an Opinion and Reporting on Financial Statements*
- **Paragraphs .47, .84-.85, .87–.88, .112, and 123 of section 703, Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA**
- Paragraph .12 of section 720, *Other Information in Documents Containing Audited Financial Statements*
- Paragraph .09 of section 725, *Supplementary Information in Relation to the Financial Statements as a Whole*
- Paragraph .07 of section 730, *Required Supplementary Information*
- Paragraph .20 of section 800, *Special Considerations—Audits of Financial Statements Prepared in Accordance With Special Purpose Frameworks*
- Paragraph .13 of section 806, *Reporting on Compliance With Aspects of Contractual Agreements or Regulatory Requirements in Connection With Audited Financial Statements*
- Paragraph .07 of section 905, *Alert That Restricts the Use of the Auditor’s Written Communication*

[No further amendment to AU-C section 706.]

14. This amendment is effective for audits of ERISA plan financial statements for periods ending on or after December 15, 2019.

**AU-C Section 708, *Consistency of Financial Statements***

[No amendment to paragraphs .01–.A6.]

**Reporting on Changes in Accounting Principles (Ref: par. .08–.11)**

[No amendment to paragraphs.A7–.A8.]

**.A9** If a change in accounting principle does not have a material effect on the financial statements in the current year but the change is expected to have a material effect in later years, the auditor is not required to recognize the change in the auditor’s report in the current year. The applicable financial reporting framework may include a requirement for the entity to disclose such situations in the notes to the financial statements. Section 700, *Forming an Opinion and Reporting on Financial Statements*, **section 703, Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA, as applicable**, and section 705 require the auditor to evaluate the appropriateness and adequacy of disclosures in connection with forming an opinion and reporting on the financial statements.<sup>3</sup>

<sup>3</sup> Paragraph .16 of section 700, *Forming an Opinion and Reporting on Financial Statements*, **paragraph .34 of section 703, Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA**, and paragraphs .07 and .A7 of section 705.

[No further amendment to AU-C section 708.]

15. This amendment is effective for audits of ERISA plan financial statements for periods ending on or after December 15, 2019.

**AU-C Section 800, *Special Considerations—Audits of Financial Statements Prepared in Accordance With Special Purpose Frameworks***

[No amendment to paragraphs .01–.13.]

**Forming an Opinion and Reporting Considerations**

**.14** When forming an opinion and reporting on special purpose financial statements, the auditor should apply the requirements in section 700, *Forming an Opinion and Reporting on Financial Statements*, **or section 703, Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA**. When, in forming an opinion, the auditor concludes that a modification to the auditor’s opinion on the financial statements is necessary, the auditor should apply the requirements in section 705, *Modifications to the Opinion in the Independent Auditor’s Report*. (Ref: par. .A16)

***Description of the Applicable Financial Reporting Framework (Ref: par. .A17–.A18)***

**.15** Section 700 *or section 703, as applicable*, requires the auditor to evaluate whether the financial statements adequately refer to or describe the applicable financial reporting framework.<sup>6</sup> In an audit of special purpose financial statements, the auditor should evaluate whether the financial statements are suitably titled, include a summary of significant accounting policies, and adequately describe how the special purpose framework differs from GAAP. The effects of these differences need not be quantified.

<sup>6</sup>Paragraph .18 of section 700, *Forming an Opinion and Reporting on Financial Statements, or paragraph .36 of section 703, Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA*.

[Paragraph .16 provided for contextual information only.]

**.16** In the case of special purpose financial statements prepared in accordance with a contractual basis of accounting, the auditor should also evaluate whether the financial statements adequately describe any significant interpretations of the contract on which the financial statements are based.

***Fair Presentation (Ref: par. .A19–.A23)***

**.17** Section 700 *or section 703*, requires the auditor to evaluate whether the financial statements achieve fair presentation.<sup>7</sup> In an audit of special purpose financial statements when the special purpose financial statements contain items that are the same as, or similar to, those in financial statements prepared in accordance with GAAP, the auditor should evaluate whether the financial statements include informative disclosures similar to those required by GAAP. The auditor should also evaluate whether additional disclosures, beyond those specifically required by the framework, related to matters that are not specifically identified on the face of the financial statements or other disclosures are necessary for the financial statements to achieve fair presentation.

<sup>7</sup>Paragraph .17 of section 700, *or paragraph .35 of section 703, Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA*.

***Auditor's Report***

**.18** Section 700 *or section 703*, addresses the form and content of the auditor's report. In the case of an auditor's report on special purpose financial statements, the

- a. explanation of management's responsibility for the financial statements should also make reference to its responsibility for determining that the applicable financial reporting framework is acceptable in the circumstances, when management has a

choice of financial reporting frameworks in the preparation of such financial statements.

- b. auditor's report should also describe the purpose for which the financial statements are prepared or refer to a note in the special purpose financial statements that contains that information, when the financial statements are prepared in accordance with
  - i. a regulatory or contractual basis of accounting or
  - ii. an other basis of accounting, and the auditor is required to restrict use of the auditor's report pursuant to paragraph .06a–b of section 905, *Alert That Restricts the Use of the Auditor's Written Communication*. (Ref: par. .A24)

[No amendment to paragraphs .19–.A10.]

***Achieving Fair Presentation (Ref: par. .11d)***

**.A11** In accordance with section 700, ***or section 703***, the auditor's evaluation of whether the financial statements achieve fair presentation in accordance with the applicable financial reporting framework requires consideration of<sup>14</sup>

- a. the overall presentation, structure and content of the financial statements and
- b. whether the financial statements, including the related notes, represent the underlying transactions and events in a manner that achieves fair presentation.

Also see paragraphs .A19–.A23 of this section.

<sup>14</sup>Paragraph .17 of section 700, ***or paragraph .35 of section 703, Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA.***

[No further amendment to AU-C section 800.]

16. This amendment is effective for audits of ERISA plan financial statements for periods ending on or after December 15, 2019.

A137.

## **Exhibit A—Illustrations of Auditor’s Reports on Financial Statements of Employee Benefit Plans Subject to ERISA**

Illustration 1—An Auditor’s Report on Financial Statements for a Defined Contribution Retirement Plan Subject to ERISA

Illustration 2—An Auditor’s Report on Financial Statements for a Defined Benefit Pension Plan Subject to ERISA

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

Illustration 4—An Auditor’s Report Containing a Qualified Opinion on Financial Statements of a Defined Contribution Retirement Plan Subject to ERISA When The Auditor Has Performed an ERISA Section 103(a)(3)(C) Audit

Illustration 5—An Auditor’s Report Containing an Adverse Opinion on Financial Statements of a Defined Contribution Retirement Plan Subject to ERISA When The Auditor Has Performed an ERISA Section 103(a)(3)(C) Audit

Illustration 6—An Auditor’s Report Containing a Disclaimer of Opinion, Due to the Auditor’s Inability to Obtain Sufficient Appropriate Audit Evidence Because the Plan Has Not Maintained Sufficient Accounting Records, on Financial Statements of a Defined Contribution Retirement Plan Subject to ERISA When The Auditor Has Performed an ERISA Section 103(a)(3)(C) Audit

## **Illustration 1—An Auditor’s Report on Financial Statements for a Defined Contribution Retirement Plan Subject to ERISA**

Circumstances include the following:

- Audit of a complete set of general purpose financial statements 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 accounting principles generally accepted in the United States of America as promulgated by the Financial Accounting Standards Board
- The auditor’s report contains an unmodified opinion on the ERISA plan financial statements
- The report on the ERISA-required supplemental schedules is presented as an other-matter paragraph in accordance with paragraphs 120–121. The auditor has concluded that the information in the ERISA-required supplemental schedules is fairly stated, in all material respects, in relation to the financial statements as a whole, and the form and content are presented in conformity with the Department of Labor’s Rules and Regulations for Reporting and Disclosure under ERISA.

### **Independent Auditor’s Report**

*[Appropriate Addressee]*

We have audited the accompanying financial statements of ABC 401(k) Plan, an employee benefit plan subject to the Employee Retirement Income Security Act of 1974 (ERISA), which comprise the statements of net assets available for benefits as of December 31, 20X2 and 20X1, and the related statement of changes in net assets available for benefits for the year ended December 31, 20X2, and the related notes to the financial statements.

#### ***Management’s Responsibility for the Financial Statements***

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

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

#### ***Auditor’s Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States

of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets available for benefits of ABC 401(k) Plan as of December 31, 20X2 and 20X1, and the changes in its net assets available for benefits for the year ended December 31, 20X2, in accordance with accounting principles generally accepted in the United States of America.

### ***Other Matter— Supplemental Schedules Required by ERISA***

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The supplemental schedules of [*identify title of schedules and period covered*] are presented for purposes of additional analysis and are not a required part of the financial statements but are supplementary information required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under ERISA. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements 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, 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, the information in the accompanying schedules is fairly stated, in all material respects, in relation to the financial statements as a whole, and the form and content are presented in conformity with the Department of Labor's Rules and Regulations for Reporting and Disclosure under ERISA.

*[Auditor's signature]*

*[City and state report is issued]*

*[Date of the auditor's report]*

## **Illustration 2—An Auditor’s Report on Financial Statements for a Defined Benefit Pension Plan Subject to ERISA**

Circumstances include the following:

- Audit of a complete set of general purpose financial statements for a defined benefit pension plan subject to ERISA (comparative statements of net assets available for benefits and accumulated plan benefits [end-of-year benefit information date] and a single year statement of changes in net assets available for benefits and changes in accumulated plan benefits)
- The information regarding the actuarial present value of accumulated plan benefits and changes therein is presented in separate statements within the financial statements (paragraph A90 provides guidance when the accumulated plan benefit information is presented in the notes to the financial statements)
- The financial statements are prepared in accordance with accounting principles generally accepted in the United States of America as promulgated by the Financial Accounting Standards Board
- The auditor’s report contains an unmodified opinion on the ERISA plan financial statements
- The report on the ERISA-required supplemental schedules is presented as an other-matter paragraph in accordance with paragraphs 120–121. The auditor has concluded that the information in the ERISA-required supplemental schedules is fairly stated, in all material respects, in relation to the financial statements as a whole, and the form and content are presented in conformity with the Department of Labor’s Rules and Regulations for Reporting and Disclosure under ERISA.

### **Independent Auditor’s Report**

*[Appropriate Addressee]*

We have audited the accompanying financial statements of XYZ Pension Plan, an employee benefit plan subject to the Employee Retirement Income Security Act of 1974 (ERISA), which comprise the statements of net assets available for benefits and of accumulated plan benefits as of December 31, 20X2 and 20X1, and the related statements of changes in net assets available for benefits and of changes in accumulated plan benefits for the year ended December 31, 20X2, and the related notes to the financial statements.

#### ***Management’s Responsibility for the Financial Statements***

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

Management is also responsible for maintaining a current plan instrument including all plan amendments, administering the plan and determining that the plan’s transactions that are presented and disclosed in the financial statements are in conformity with the plan’s provisions, including

maintaining sufficient records with respect to each of the participants, to determine the benefits due or which may become due to such participants.

### ***Auditor's Responsibility***

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

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets available for benefits and accumulated plan benefits of XYZ Pension Plan as of December 31, 20X2 and 20X1, and the changes in its net assets available for benefits and changes in accumulated plan benefits for the year ended December 31, 20X2, in accordance with accounting principles generally accepted in the United States of America.

### ***Other Matter—Supplemental Schedules Required by ERISA***

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The supplemental schedules of [*identify title of schedules and period covered*] are presented for purposes of additional analysis and are not a required part of the financial statements but are supplementary information required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under ERISA. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements 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, 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, the information in the accompanying schedules is fairly stated, in all material respects, in relation to the financial statements as a whole, and the form and content are presented in conformity with the Department of Labor's Rules and Regulations for Reporting and Disclosure under ERISA.

*[Auditor's signature]*

*[City and state report is issued]*

*[Date of the auditor's report]*

### **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.<sup>32</sup>
- The auditor performed an ERISA section 103(a)(3)(C) audit of a complete set of general purpose financial statements 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 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) (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***

<sup>32</sup> Although not as common, the ERISA section 103(a)(3)(C) audit may relate to the audit of 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.

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), the audit need not extend to any statements 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 that is regulated, supervised and subject to periodic examination by a State or Federal agency, provided that the statements or information regarding assets so held are prepared and certified to by the bank or similar institution or insurance carrier in accordance with 29 CFR 2520.103-5 of the Department of Labor's Rules and Regulations for Reporting and Disclosure under ERISA (qualified institution).

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.<sup>33</sup>

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

### ***Auditor's Responsibility***

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the plan's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the plan's internal control. Accordingly, we express no such

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<sup>33</sup> If the note to the financial statements does not identify the names of the qualified certifying institutions and periods covered then such information may be included in the auditor's report.

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 obtaining and reading the certification, 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, 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 information in the financial statements 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)
- the information in the financial statements, other than that derived from the certified investment information 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 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, 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. 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:

- 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)
- the form and content of the information included in the supplemental schedules, other than that derived from the certified investment information, 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.

*[Auditor's signature]*

*[City and state report is issued]*

*[Date of the auditor's report]*

## **Illustration 4—An Auditor’s Report Containing a Qualified Opinion 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,<sup>34</sup>
- The auditor performed an ERISA section 103(a)(3)(C) audit of a complete set of general purpose financial statements 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 accounting principles generally accepted in the United States of America, as promulgated by the Financial Accounting Standards Board.
- The financial statements have inadequate disclosures. The auditor has concluded that (a) it is not practicable to present the required information and (b) the effects are such that an adverse opinion is not appropriate. Accordingly, the auditor’s report contains a qualified ERISA section 103(a)(3)(C) audit opinion.
- There are no limitations on the scope of the audit.
- 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 qualification has an effect on the supplemental schedules as it is information also required by DOL regulations.

### **Independent Auditor’s Report**

[Appropriate Addressee]

We have performed an audit of the accompanying financial statements of ABC 401(k) Plan (the 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) (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***

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

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<sup>34</sup> Although not as common, the ERISA section 103(a)(3)(C) audit may relate to the audit of the 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.

Department of Labor's Rules and Regulations for Reporting and Disclosure under ERISA. As permitted by ERISA section 103(a)(3)(C), the audit need not extend to any statements 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 that is regulated, supervised and subject to periodic examination by a State or Federal agency, provided that the statements or information regarding assets so held are prepared and certified to by the bank or similar institution or insurance carrier in accordance with 29 CFR 2520.103-5 of the Department of Labor's Rules and Regulations for Reporting and Disclosure under ERISA (qualified institution).

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.<sup>35</sup>

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

### ***Auditor's Responsibility***

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

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

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<sup>35</sup> If the note to the financial statements does not identify the names of the qualified certifying institutions and periods covered then such information may be included in the auditor's report.

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 obtaining and reading the certification, 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 qualified ERISA section 103(a)(3)(C) audit opinion on the financial statements.

### ***Basis for Qualified Opinion***

The Plan's financial statements do not disclose [*describe the nature of the omitted information that is not practicable to present in the auditor's report*]. In our opinion, disclosure of this information is required by accounting principles generally accepted in the United States of America.

### ***Qualified Opinion***

In our opinion, except for the omission of the information described in the Basis for Qualified Opinion section, 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 information in the financial statements 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).
- the information in the financial statements, other than that derived from the certified investment information 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—ERISA-required Supplemental Schedules***

The supplemental schedules 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 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 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.

Schedule [*identify supplemental schedule*] that accompanies the Plan's financial statements does not disclose [*describe the nature of the omitted information*]. Disclosure of this information is required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under ERISA.

In our opinion, except for the omission of [*describe the nature of the omitted information*] from Schedule [*identify the schedule*]:

- 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).
- the form and content of the information included in the supplemental schedules, other than that derived from the certified investment information, 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.

[*Auditor's signature*]

[*City and state report is issued*]

[*Date of the auditor's report*]

## **Illustration 5—An Auditor’s Report Containing an Adverse Opinion 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,<sup>36</sup>
- The auditor performed an ERISA section 103(a)(3)(C) audit of a complete set of general purpose financial statements 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 accounting principles generally accepted in the United States of America, as promulgated by the Financial Accounting Standards Board.
- The financial statements are materially misstated. The material misstatement is deemed to be pervasive to the financial statements. Accordingly, the auditor’s report contains an adverse opinion. The effects of the misstatement on the financial statements have not been determined because it was not practicable to do so.
- There are no limitations on the scope of the audit.
- The report on the ERISA-required supplemental schedules is presented as an other-matter paragraph in accordance with paragraph 123. Because the auditor has issued an adverse ERISA section 103(a)(3)(C) audit opinion, the auditor is precluded from issuing an opinion on the supplemental schedules.

### **Independent Auditor’s Report**

[Appropriate Addressee]

We have performed an audit of the accompanying financial statements of ABC 401(k) Plan (the 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) (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***

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<sup>36</sup>Although not as common, the ERISA section 103(a)(3)(C) audit may relate to the audit of the 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.

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 permitted by ERISA section 103(a)(3)(C), the audit need not extend to any statements 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 that is regulated, supervised and subject to periodic examination by a State or Federal agency, provided that the statements or information regarding assets so held are prepared and certified to by the bank or similar institution or insurance carrier in accordance with 29 CFR 2520.103-5 of the Department of Labor's Rules and Regulations for Reporting and Disclosure under ERISA (qualified institution).

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.<sup>37</sup>

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

### ***Auditor's Responsibility***

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the plan's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the

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<sup>37</sup> If the note to the financial statements does not identify the names of the qualified certifying institutions and periods covered then such information may be included in the auditor's report.

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 obtaining and reading the certification, 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 adverse ERISA section 103(a)(3)(C) audit opinion on the financial statements.

#### ***Basis for Adverse Opinion***

As described in Note X, the Plan [*describe the material misstatement of the financial statements*]. Under accounting standards generally accepted in the United States of America [*describe how the matter should have been accounted for in accordance with accounting principles generally accepted in the United States of America*]. The effects on the financial statements have not been determined.

#### ***Adverse Opinion***

In our opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion section, the financial statements referred to above do not present fairly, in all material respects, the net assets available for benefits of the Plan as of December 31, 20X2 and 20X1, and the changes in net assets available for benefits for the year ended December 31, 20X2, in accordance with accounting principles generally accepted in the United States of America.

#### ***Other Matter—ERISA-required Supplemental Schedules***

The supplemental schedules 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. Because of the significance of the matter described above [*the auditor may describe the basis for the adverse*

*opinion*], it is inappropriate to and we do not express an opinion on the supplemental schedules referred to above.

*[Auditor's signature]*

*[City and state report is issued]*

*[Date of the auditor's report]*

**Illustration 6—An Auditor’s Report Containing a Disclaimer of Opinion, Due to the Auditor’s Inability to Obtain Sufficient Appropriate Audit Evidence Because the Plan Has Not Maintained Sufficient Accounting Records, on Financial Statements of 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.<sup>38</sup>
- The auditor was engaged to perform an ERISA section 103(a)(3)(C) audit of a complete set of general purpose financial statements 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 accounting principles generally accepted in the United States of America.
- There are no known material misstatements to the financial statements.
- The auditor was unable to obtain sufficient appropriate audit evidence for certain participant account balances that merged into the plan in 20XX. The possible effects of this inability to obtain sufficient appropriate audit evidence are deemed to be both material and pervasive to the financial statements. Accordingly, the auditor’s report contains a disclaimer of opinion.
- The report on the ERISA-required supplemental schedules is presented as an other-matter paragraph in accordance with paragraph 123. Because the auditor has disclaimed an opinion on the ERISA plan financial statements the auditor is precluded from issuing an opinion on the supplemental schedules.

**Independent Auditor’s Report**

*[Appropriate Addressee]*

We were engaged to perform an audit of the accompanying financial statements of ABC 401(k) Plan (the 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) (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.

<sup>38</sup>Although not as common, the ERISA section 103(a)(3)(C) audit may relate to the audit of the 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.

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

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 permitted by ERISA section 103(a)(3)(C), the audit need not extend to any statements 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 that is regulated, supervised and subject to periodic examination by a State or Federal agency, provided that the statements or information regarding assets so held are prepared and certified to by the bank or similar institution or insurance carrier in accordance with 29 CFR 2520.103-5 of the Department of Labor's Rules and Regulations for Reporting and Disclosure under ERISA (qualified institution).

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.<sup>39</sup>

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

***Auditor's Responsibility***

Our responsibility is to express an opinion on these financial statements based on conducting the audits in accordance with auditing standards generally accepted in the United States of America. Because of the significance of the matter described in the Basis for Disclaimer of Opinion paragraph, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

***Basis for Disclaimer of Opinion***

ABC 401(k) plan does not have sufficient accounting records and supporting documents relating to certain participant account balances that merged into ABC 401(k) plan in 20XX.

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<sup>39</sup> If the note to the financial statements does not identify the names of the qualified certifying institutions and periods covered then such information may be included in the auditor's report.

Accordingly, we were unable to apply auditing procedures sufficient to determine the extent to which the accompanying financial statements may have been affected by these conditions.

***Disclaimer of Opinion***

Because of the significance of the matter described in the Basis for Disclaimer of Opinion paragraph, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on these financial statements.

***Other -Matter ERISA-required Supplemental Schedules***

The supplemental schedules 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. Because of the significance of the matter described above [*the auditor may describe the basis for the disclaimer of opinion*], it is inappropriate to and we do not express an opinion on the supplemental schedules referred to above.

[*Auditor's signature*]

[*City and state report is issued*]

[*Date of the auditor's report*]

A138.

## **Exhibit B—Reporting on the ERISA-Required Supplemental Schedules When the DOL Required Information Contains Errors, Inconsistencies, or Omissions**

The following tables illustrate 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 errors, omissions, or inconsistencies, in accordance with paragraphs 118–127. The scenarios listed in the following table may affect the auditor’s opinion on the ERISA-required supplemental schedules but do not affect the auditor’s opinion on the financial statements.

When the auditor issues an adverse opinion or a disclaimer of opinion on the financial statements the auditor is precluded from expressing an opinion on the ERISA-required supplemental schedules in accordance with paragraphs 121 and 123h of this SAS.

### **Auditor’s Report on ERISA Plan Financial Statements (Other Than an ERISA Section 103(a)(3)(C) Audit) When The Auditor Reports on the ERISA-Required Supplemental Schedules in an Other-Matter Paragraph in the Auditor’s Report**

<i>Error, Omission, or Inconsistency</i>	<i>Effect on Other-Matter Paragraph Relating to the ERISA-Required Supplemental Schedules</i>
Required information is omitted from the ERISA-required supplemental schedule (for example, historical cost information for nonparticipant-directed transactions), and the omission is not considered a material misstatement (not a departure from GAAP) (paragraph A129)	Include additional discussion in the other-matter paragraph relating to the ERISA-required supplemental schedules to describe the omitted information
An ERISA-required supplemental schedule is omitted (for example, Form 5500, Schedule H, line 4j—Schedule of Reportable Transactions is not included), and the omission is not considered a material misstatement (paragraph A129)	Include additional discussion in the other-matter paragraph relating to the ERISA-required supplemental schedules to disclose the omission
An ERISA-required supplemental schedule is materially misstated in relation to the financial	Modify the auditor’s opinion on the ERISA-required supplemental schedules and describe the misstatement

<b><i>Error, Omission, or Inconsistency</i></b>	<b><i>Effect on Other-Matter Paragraph Relating to the ERISA-Required Supplemental Schedules</i></b>
statements as a whole and management does not revise the schedule (paragraph A128)	

**ERISA Section 103(a)(3)(C) Audit**

<b><i>Error, Omission, or Inconsistency</i></b>	<b><i>Effect on Other-Matter Paragraph Relating to the ERISA-Required Supplemental Schedules</i></b>	
	<b><i>ERISA Section 103(a)(3)(C) Audit</i></b>	
	<b><i>Exception in Certified Investment Information</i></b>	<b><i>Exception in Information Not Certified by Qualified Institution</i></b>
DOL-required information is omitted from supplemental schedule (for example, historical cost information for nonparticipant-directed transactions) that is not a departure from GAAP. (paragraph 126)	Include additional discussion in the other-matter paragraph relating to the ERISA-required supplemental schedules that describes the omitted information	Qualified or adverse opinion regarding the ERISA-required supplemental schedules and describe the omitted information
An ERISA-required supplemental schedule is omitted (for example, Form 5500, Schedule H, line 4j—Schedule of Reportable Transactions is not included), and the omission is not considered a material misstatement (paragraph 126)	Include additional discussion in the other-matter paragraph relating to the ERISA-required supplemental schedules that describes the omission	Qualified or adverse opinion regarding ERISA-required supplemental schedules and describe the omission
The required schedule is materially inconsistent with the certified investment information and management does not revise	Modify the opinion on the ERISA-required supplemental schedules and describe the	N/A

ERISA Reporting SAS (clean)  
ASB Meeting, July 23-26, 2018

the ERISA-required schedules (paragraph 124)	inconsistency in the auditor's report	
The information in the ERISA-required supplemental schedule is material misstated in relation to the financial statements and management does not revise the supplemental schedule (paragraph 125)	Modify the opinion on the ERISA-required supplemental schedules and describe the misstatement in the auditor's report	Modify the opinion on the ERISA-required supplemental schedules and describe the misstatement in the auditor's report

A139.

### **Exhibit C—Implementation Guidance for ERISA Section 103(a)(3)(C) Audits**

ERISA requires a statement of assets and liabilities of the Plan to be displayed in comparative form. Typically, a plan will present comparative statements of net assets available for benefits and a single year statement of changes in net assets available for benefits (see paragraph A83 for typical plan financial statements by type of plan). Accordingly, when this SAS is first adopted the auditor may be asked to perform an ERISA section 103(a)(3)(C) audit for the current year and the auditor performed a limited-scope audit in the prior year (and issued the standard limited-scope auditor's report).

Paragraphs A103-A105 explain that because the auditor's report on comparative financial statements applies to the financial statements for each of the periods presented, the auditor may express a qualified opinion or an adverse opinion, disclaim an opinion, use the ERISA section 103(a)(3)(C) audit report, or include an emphasis-of-matter paragraph with respect to one or more financial statements for one or more periods while expressing a different auditor's opinion on one or more financial statements of another period presented. Further, when issuing an updated report, the information considered by the continuing auditor is that which the auditor has become aware of during the audit of the current period financial statements. In addition, an updated report is issued in conjunction with the auditor's report on the current period financial statements.

The following illustration contains an example report for when the auditor has adopted this SAS for the first time and is performing an ERISA section 103(a)(3)(C) audit for the current year and updating their limited-scope audit from the prior year.

#### **Illustration C-1—Auditor's Reports on Financial Statements for a Defined Contribution Retirement Plan Subject to ERISA When Management Elects the ERISA Section 103(a)(3)(C) Audit in the Current Year and the Auditor Performed a Limited-Scope Audit in the Prior Year**

Circumstances include the following:

- Management elected the ERISA section 103(a)(3)(C) audit for the 20X2 plan financial statements, as permitted by 29 CFR 2520.103-8 of the DOL's Rules and Regulations for Reporting and Disclosure under ERISA.<sup>40</sup>
- The audit is for a complete set of general purpose financial statements for a 401(k) plan subject to ERISA that is presenting comparative statements of net assets available for benefits and a single year statement of changes in net assets available for benefits
- The auditor performed an ERISA section 103(a)(3)(C) audit as of and for the year ended December 31, 20X2

<sup>40</sup> Although not as common, the ERISA section 103(a)(3)(C) audit may relate to the audit of the 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.

- The auditor performed a limited scope audit for the year ended December 31, 20X1.
- The auditor is issuing two separate reports.
- The financial statements are prepared in accordance with 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 for the year ended December 31, 20X2.

### **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) (ERISA section 103(a)(3)(C) audit). The financial statements comprise the statement of net assets available for benefits as of December 31, 20X2, and the related statement of changes in net assets available for benefits for the year then ended, and the related notes to the financial statements.

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

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), the audit need not extend to any statements 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 that is regulated, supervised and subject to periodic examination by a State or Federal agency, provided that the statements or information regarding assets so held are prepared and certified to by the bank or similar institution or insurance carrier in accordance with 29 CFR 2520.103-5 of the Department of Labor's Rules and Regulations for Reporting and Disclosure under ERISA (qualified institution).

Management has obtained a certification as of 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.<sup>41</sup>

#### ***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

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<sup>41</sup> If the note to the financial statements does not identify the names of the qualified certifying institutions and periods covered then such information may be included in the auditor's report.

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 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

With respect to the certified investment information our procedures were limited to obtaining and reading the certification, 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, 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 information in the financial statements, 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)
- the information in the financial statements, other than that derived from the certified investment information 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 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 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. In forming our opinion on the supplemental schedules, we evaluated whether the supplemental schedules, 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:

- the information in the supplemental schedules related to assets held by and certified to by a qualified institution, is derived from and 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)
- the form and content of the information included in the supplemental schedules, other than that derived from the certified investment information, 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.

[*Auditor's signature*]

[*City and state report is issued*]

[*Date of the auditor's report*]

## **Independent Auditor's Report**

*[Appropriate Addressee]*

We were engaged to audit the accompanying statement of net assets available for benefits of ABC 401(k) Plan, as of December 31, 20X1, and the related notes to the financial statement.

### ***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.

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on the 20X1 financial statement based on conducting the audit in accordance with auditing standards generally accepted in the United States of America. Because of the matter described in the Basis for Disclaimer of Opinion paragraph, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

### ***Basis for Disclaimer of Opinion***

As permitted by 29 CFR 2520.103-8 of the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974, the plan administrator instructed us not to perform, and we did not perform, any auditing procedures with respect to the information summarized in Note X, which was certified by ABC Bank, the trustee of the Plan, except for comparing such information with the related information included in the financial statement. We have been informed by the plan administrator that the trustee (or custodian) holds the Plan's investment assets and executes investment transactions. The plan administrator has obtained a certification from the trustee (or custodian) as of December 31, 20X1 that the information provided to the plan administrator by the trustee (or custodian) is complete and accurate.

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***Disclaimer of Opinion***

Because of the significance of the matter described in the Basis for Disclaimer of Opinion paragraph, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the 20X1 financial statement. Accordingly, we do not express an opinion on the 20X1 financial statement.

**Report on Form and Content in Compliance With DOL Rules and Regulations for 20X1 Financial Statement**

The form and content of the information included in the 20X1 financial statement, other than that derived from the information certified by the trustee 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 compliance with the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974.

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*[Auditor's signature]*

*[City and state report is issued]*

*[Date of the auditor's report]*