



Agenda Item 1G

Auditor Reporting — Issues Paper Relating to Conforming Amendments to SAS *Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA*

Objective

To discuss proposed conforming amendments to the final balloted SAS *Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA* (ERISA SAS), to conform to the new auditor reporting standards that will be voted final at this meeting (see agenda items 1A-1D), and in particular, the effects on the new ERISA section 103(a)(3)(C) report.

EBP Task Force

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

- Darrel Schubert (Chair)
- Josie Hammond
- Tracy Harding
- Scot Philips (TIC representative)
- Marilyn Steffens
- Jerry Murray (resigned as of January 2018)
- Alice Wunderlich (retired as of May 2018)
- Michael Auerbach and Lynne McMennamin (DOL observers)

Background

At the July 2018 ASB meeting, the ASB voted to ballot as a final standard the proposed SAS, *Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA*. The ASB voted to ballot this SAS, pending further amendments to align the reporting and effective date with that of the Auditor Reporting project. The final ballot draft of this SAS is available for viewing on the AICPA's website at <https://www.aicpa.org/content/dam/aicpa/research/exposedrafts/accountingandauditing/downloadabledocuments/sas-13x-ballot-draft.pdf>

Issues for Discussion with the ASB

Issue 1: Conforming changes to the standard ERISA auditor's report

The ASB is asked to consider the following proposed changes to the standard auditor's report for an audit of ERISA plan financial statements (illustration 1 from the ERISA SAS) to reflect changes to conform to the January 2019 version of the auditor reporting standards (agenda item 1A in particular). See illustration 1 below marked to reflect proposed.

The following is a summary of the significant changes:

- The task force has moved the "Opinion" section first, followed by the "Basis for Opinion" section.
- The sections relating to management's responsibilities and the auditor's responsibilities have been conformed to the standard language in proposed SAS *Forming an Opinion and Reporting on Financial Statements*.
- The task force discussed the location of the other matter paragraph relating to the supplemental schedules required by ERISA. Some members of the task force believe it should be placed immediately after the "Basis for Opinion" section as illustrated in proposed SAS *Modifications to the Opinion in the Independent Auditor's Report*, for consistency with the standards. Other members of the task force believe that section should remain at the end of the report because of the nature of the opinion that is given on the ERISA supplemental schedules. Because this reporting is unique to ERISA plans, and provides an opinion on the form and content of the supplemental schedules in compliance with DOL rules and regulations, placing this paragraph at the end of the report (as illustrated below) helps to differentiate it from the report on the financial statements.

The task force notes that the changes proposed in this issues paper will need to be updated for any changes made to the auditor reporting standards as part of the ASB discussions and ballot process resulting from the January meeting.

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).
- Management is responsible for the preparation of the ~~The~~ financial statements ~~are prepared in~~ accordance with accounting principles generally accepted in the United States of America as promulgated by Financial Accounting Standards Board.
- The terms of the audit engagement reflect the description of management's responsibility for the financial statements in AU-C section 210.
- The auditor has concluded that ~~s report contains an unmodified (that is "clean")~~ opinion on the ERISA plan financial statements is appropriate based on the audit evidence obtained
- Based on the audit evidence obtained, the auditor has concluded that there are no conditions or events, considered in the aggregate, that raise substantial doubt about the ~~plan's~~ ability to continue as a going concern for a reasonable period of time in accordance with AU-C section 570.

- The auditor has not been engaged to communicate key audit matters.
- The report on the ERISA-required supplemental schedules is presented as an other-matter paragraph in accordance with paragraphs 130-131. 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]

[City and State]

Opinion

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.

In our opinion, the accompanying financial statements 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of ABC 401(k) Plan and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Management's Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of ~~the these~~ financial statements in accordance with accounting principles generally accepted in the United States of America, ~~and for the ; 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about ABC 401(k) Plan's ability to continue as a going concern.

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 Responsibilities for the Audit of the Financial Statements

~~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.~~

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users made on the basis of these financial statements.

In performing an audit in accordance with GAAS, we:

- Use professional judgment and exercise professional skepticism throughout the audit.
- Identify and assess 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, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of In making those risk assessments, the auditor considers internal control relevant to the audit 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 ABC 401(k) the pPlan's internal control. Accordingly, no such opinion is expressedwe express no such opinion.
- Evaluate 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.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about ABC 401(k) Plan's ability to continue as a going concern for a reasonable period of time

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters identified during our audit.

~~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 supplemental schedules and periods 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.

[*Signature of auditor's firm* Auditor's signature]

[City and state where *the auditor's* report is issued]

[Date of the auditor's report]

Action Requested of ASB:

1. Does the ASB agree with the proposed changes to the standard report for an audit of ERISA plan financial statements to conform to the proposed SAS *Forming an Opinion and Reporting on Financial Statements*, as shown above?
2. Recognizing that the new reporting standards do not prescribe the placement of other-matter paragraphs, does the ASB support illustrating the placement of the other-matter paragraph relating to the ERISA required supplemental schedules at the end of the report?

Issue 2: Proposed Changes to ERISA Section 103(a)(3)(C) Report

Because the ERISA SAS has created a new form of report when management elects to have an audit performed pursuant to ERISA Section 103(a)(3)(C), the task force discussed whether the ERISA section 103(a)(3)(C) report should be retained as originally developed or whether it should be conformed to the new auditor reporting standards.

The ASB is therefore asked to consider the following two options:

Option 1: Fully conform the ERISA section 103(a)(3)(C) report to the extent possible with the new auditor reporting standards

Option 2: Retain the final balloted version that was voted at the July 2018 ASB meeting.

The task force supports option 1, to fully conform the ERISA section 103(a)(3)(C) report to the new reporting standards and has illustrated their recommendations in Option 1. Option 2 contains a copy of Illustration 3 from the final balloted draft with one minor correction.

Option 1: Fully conform the ERISA Section 103(a)(3)(C) report with the new reporting standards

The ASB is asked to consider the following proposed changes to the ERISA section 103(a)(3)(C) report (illustration 3 from the ERISA SAS) marked to reflect changes to conform to the January 2019 version of the auditor reporting standards (agenda item 1A in particular).

The following is a summary of the significant changes:

- The task force has moved the “Opinion” section first. The task force believes the content in the “Nature of the ERISA Section 103(a)(3)(C) Audit” section is fundamental to the opinion and therefore the task force recommends that this section be included within the “Opinion” section.
- The ERISA task force has included a new “Basis for Opinion” section immediately following the “Opinion and Nature of the ERISA Section 103(a)(3)(C) Audit” section.
- The section relating to management’s responsibilities has been conformed to the standard language in proposed SAS *Forming an Opinion and Reporting on Financial Statements*.

- The section relating to the auditor’s responsibilities has been conformed to the standard language in proposed SAS *Forming an Opinion and Reporting on Financial Statements* except for the paragraph relating to the auditor’s objectives to obtain reasonable assurance. The lead in sentence to the first paragraph has been changed to say “Except as described in the “Opinion and Nature of the ERISA Section 103(a)(3)(C) Audit” section, our objectives are to obtain reasonable assurance...” (see proposed changes in the illustration).
- The task force discussed the location of the other matter paragraph relating to the supplemental schedules required by ERISA. Some members of the task force believe it should be placed immediately after the “Basis for Opinion” section as illustrated in proposed SAS *Modifications to the Opinion in the Independent Auditor’s Report*, for consistency with the standards. Other members of the task force believe it makes sense for that section to remain at the end of the report because of the nature of the opinion that is given in that section. Because this reporting is unique to the ERISA plans, and provides an opinion on the form and content of the information in the supplemental schedules that have not been certified and an opinion on the certified investment information, other members of the task force believe it would be better placed at the end of the report (as illustrated below) to differentiate it from the report on the financial statements.

The task force notes that the changes proposed in this issues paper will need to be updated for any changes made to the auditor reporting standards as part of the ASB discussions and ballot process resulting from the January meeting.

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

Circumstances include the following:

- Management elected an ERISA Section 103(a)(3)(C) audit, as permitted by Code of Federal Regulations (CFR), *Labor*, Title 29, Section 2520.103-8 of the Department of Labor’s Rules and Regulations for Reporting and Disclosure under ERISA.¹
- 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).
- Management is responsible for the preparation of the ~~The~~ financial statements ~~are prepared~~ in accordance with accounting principles generally accepted in the United States of America, as promulgated by Financial Accounting Standards Board.
- The terms of the audit engagement reflect the description of management’s responsibility for the financial statements in AU-C section 210.

¹ Although not as common, an 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.

- 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 auditor has concluded that the ERISA section 103(a)(3)(C) report is appropriate based on the audit evidence obtained.
- Based on the audit evidence obtained, the auditor has concluded that there are no conditions or events, considered in the aggregate, that raise substantial doubt about the plan's ability to continue as a going concern for a reasonable period of time in accordance with AU-C section 570.
- The auditor has not been engaged to communicate key audit matters.
- The report on the ERISA-required supplemental schedules is presented as an other-matter paragraph in accordance with paragraph 126. The auditor has concluded that the form and content of the supplemental schedules, other than the information in the supplemental schedules that agreed to or is derived from the certified investment information, is presented, in all material respects, in conformity with the Department of Labor's Rules and Regulations for Reporting and Disclosure under ERISA. The information in the supplemental schedules related to assets held by and certified to by a qualified institution agreed to or is derived from, in all material respects, the information prepared and certified by an institution that management determined meets the requirements of ERISA Section 103(a)(3)(C).

Independent Auditor's Report

[Appropriate Addressee]
[City and State]

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

We have performed audits 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.

Management, having determined it is permissible in the circumstances, has elected to have the audits 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), our audits need not extend to any statements or information related to assets held for investment of the plan (investment information) 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 from a qualified institution as of December 31, 20X2 and 20X1, and for the year ended December 31, 20X2, stating that the certified investment information, as described in Note X to the financial statements, is complete and accurate.²

In our opinion, based on our audits and on the procedures performed as described in the Auditor's Responsibilities for the Audit of the Financial Statements section

- the amounts and disclosures in the financial statements, other than those agreed to or derived from the certified investment information, are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America.
- the information in the financial statements related to assets held by³ and certified to by a qualified institution agrees to, or is derived from, in all material respects, the information prepared and certified by an institution that management determined meets the requirements of ERISA Section 103(a)(3)(C).

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of ABC 401(k) Plan and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. 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.

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

~~Management, having determined it is permissible in the circumstances, has elected to have the audits 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), our audits need not extend to any statements or information related to assets held for investment of the plan (investment information) 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).~~

² 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.

³ This sentence may need to be modified when the certification is provided by an insurance entity, which provides benefits under the plan or holds plan assets.

~~Management has obtained certifications from a qualified institution as of December 31, 20X2 and 20X1, and for the year ended December 31, 20X2, stating that the certified investment information, as described in Note X to the financial statements, is complete and accurate.²~~

Management's Responsibilities of Management y 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, and for the ; ~~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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about ABC 401(k) Plan's ability to continue as a going concern.

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 Responsibilities for the Audit of the Financial Statementsy

~~Our responsibility is to express an opinion on these financial statements based on our ERISA Section 103(a)(3)(C) 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.~~

Except as described in the Opinion and Nature of the ERISA Section 103(a)(3)(C) Audit section of our report, our ~~Our~~ objectives are to obtain reasonable assurance about whether the financial statements ~~as a whole~~ are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users made on the basis of these financial statements.

² ~~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.~~

In performing an audit in accordance with GAAS, we:

- Use professional judgment and exercise professional skepticism throughout the audit.
- Identify and assess ~~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, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.~~
- Obtain an understanding of ~~In making those risk assessments, the auditor considers internal control relevant to the audit 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 ABC 401(k) Plan's plan's internal control. Accordingly, we express no such opinion is expressed.~~
- Evaluate ~~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.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about ABC Company's ability to continue as a going concern for a reasonable period of time.

Our audits did not extend to the certified investment information, except for 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 to assess whether they are in accordance with the presentation and disclosure requirements of accounting principles generally accepted in the United States of America.

Accordingly, the objective of an ERISA Section 103(a)(3)(C) audit is not to express an opinion about 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.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters identified during our audit.

~~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.~~

Opinion

~~In our opinion, based on our audits and on the procedures performed as described in the Auditor's Responsibility section~~

- ~~• the amounts and disclosures in the financial statements, other than those agreed to or derived from the certified investment information, are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America.~~
- ~~• the information in the financial statements related to assets held by³ and certified to by a qualified institution agrees to, or is derived from, in all material respects, the information prepared and certified by an institution that management determined meets the requirements of ERISA Section 103(a)(3)(C).~~

Other Matter — Supplemental Schedules Required by ERISA

The supplemental schedules of [*identify the title of supplemental schedules and periods 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 agreed to or 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. For information included in the supplemental schedules that agreed to or is derived from the certified investment information, we compared such information to the related certified investment information.

In forming our opinion on the supplemental schedules, we evaluated whether the supplemental schedules, other than the information agreed to or 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 form and content of the supplemental schedules, other than the information in the supplemental schedules that agreed to or is derived from the certified investment information, are presented, in all material respects, in conformity with the Department of Labor's Rules and Regulations for Reporting and Disclosure under ERISA.

³ This sentence may need to be modified when the certification is provided by an insurance entity, which provides benefits under the plan or holds plan assets.

- the information in the supplemental schedules related to assets held by⁴ and certified to by a qualified institution ~~agrees to, agreed to~~ or is derived from, in all material respects, the information prepared and certified by an institution that management determined meets the requirements of ERISA Section 103(a)(3)(C).

[*Auditor's Signature of the Auditor's Firm*]

[*City and state where the auditor's report is issued*]

[*Date of the auditor's report*]

Action Requested of the ASB:

3. Does the ASB agree with conforming the ERISA section 103(a)(3)(C) report with the auditor reporting standards?
4. If so, does the ASB agree with the proposed changes as shown in the above illustration?
5. If not, does the ASB believe the original form of report should be retained (see option 2)?

Option 2: Retain the ERISA section 103(a)(3)(C) report as voted at the July 2018 ASB meeting

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

Circumstances include the following:

- Management elected an ERISA Section 103(a)(3)(C) audit, as permitted by Code of Federal Regulations (CFR), *Labor*, Title 29, Section 2520.103-8 of the Department of Labor's Rules and Regulations for Reporting and Disclosure under ERISA.¹
- 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 FASB.
- 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.

⁴ See footnote 3.

¹ Although not as common, an 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.

- The report on the ERISA-required supplemental schedules is presented as an other-matter paragraph in accordance with paragraph 126. The auditor has concluded that the form and content of the supplemental schedules, other than the information in the supplemental schedules that agreed to or is derived from the certified investment information, is presented, in all material respects, in conformity with the Department of Labor's Rules and Regulations for Reporting and Disclosure under ERISA. The information in the supplemental schedules related to assets held by and certified to by a qualified institution agreed to or is derived from, in all material respects, the information prepared and certified by an institution that management determined meets the requirements of ERISA Section 103(a)(3)(C).

Independent Auditor's Report

[Appropriate Addressee]

We have performed audits 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

Management, having determined it is permissible in the circumstances, has elected to have the audits 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), our audits need not extend to any statements or information related to assets held for investment of the plan (investment information) 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 from a qualified institution as of December 31, 20X2 and 20X1, and for the year ended December 31, 20X2, stating that the certified investment information, as described in Note X to the financial statements, is complete and accurate.²

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the

² 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 ERISA Section 103(a)(3)(C) 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.

Our audits did not extend to the certified investment information, except for 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 to assess whether they are in accordance with the presentation and disclosure requirements of accounting principles generally accepted in the United States of America.

Accordingly, the objective of an ERISA Section 103(a)(3)(C) audit is not to express an opinion about 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.

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.

Opinion

In our opinion, based on our audits and on the procedures performed as described in the Auditor's Responsibility section

- the amounts and disclosures in the financial statements, other than those agreed to or derived from the certified investment information, are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America.
- the information in the financial statements related to assets held by³ and certified to by a qualified institution agrees to, or is derived from, in all material respects, the information prepared and certified by an institution that management determined meets the requirements of ERISA Section 103(a)(3)(C).

Other Matter — Supplemental Schedules Required by ERISA

The supplemental schedules of [*identify the title of supplemental schedules and periods 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 agreed to or 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. For information included in the supplemental schedules that agreed to or is derived from the certified investment information, we compared such information to the related certified investment information.

In forming our opinion on the supplemental schedules, we evaluated whether the supplemental schedules, other than the information agreed to or 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 form and content of the supplemental schedules, other than the information in the supplemental schedules that agreed to or is derived from the certified investment information, are presented, in all material respects, in conformity with the Department of Labor's Rules and Regulations for Reporting and Disclosure under ERISA.
- the information in the supplemental schedules related to assets held by⁴ and certified to by a qualified institution ~~agrees to, agreed to~~ or is derived from, in all material respects, the information prepared and certified by an institution that management determined meets the requirements of ERISA Section 103(a)(3)(C).

~~³ This sentence may need to be modified when the certification is provided by an insurance entity, which provides benefits under the plan or holds plan assets.~~

⁴ See footnote 3.

[Auditor's signature]

[City and state where *the auditor's* report is issued]

[Date of the auditor's report]

Issue 3: Proposed Changes to ERISA SAS

Agenda Item 1H contains the ERISA SAS marked to reflect changes to align with the January 2019 version of the proposed SAS *Forming an Opinion and Reporting on Financial Statements*. Agenda Item 1H will not be discussed at the January ASB meeting, however the ERISA task force is asking the ASB for off-line feedback on the proposed changes to the entire ERISA SAS. The changes reflected in agenda item 1H align with fully conforming to with the reporting standards.

The task force notes that the changes proposed in the ERISA SAS will need to be updated for any changes made to the auditor reporting standards as part of the ASB discussions and ballot process resulting from the January meeting.

Action Requested of the ASB:

6. The ASB is asked to provide the ERISA task force with off-line comments on the proposed changes to the entire ERISA SAS to align with the new reporting standards.