Agenda Item 1

Reports on ERISA Audits — Cover Letter and Issues Paper

Objective

To discuss the development of auditor's reports specific for employee benefit plans.

Task Force

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

- Darrel Schubert (Chair)
- Josie Hammond
- Jerry Murray
- Scot Philips (TIC representative)
- Alice Wunderlich
- Michael Auerbach (DOL)

Agenda Items Presented

Item 1 – Cover Letter and Issues Paper

Item 1A – ERISA Full Scope Auditor's Report (comparison of current full scope report to task force proposal)

Item 1B – ERISA Limited Scope Auditor's Report (Disclaimer of Opinion – comparison of current standard limited scope report to task force proposal and illustrations in the professional standards)

Item 1C – ERISA Limited Scope Auditor's Report (Qualified Opinion – comparison of task force proposal for the disclaimer of opinion to task force proposal for qualified opinion and the AICPA professional standards)

Issues Paper

Background

In January 2015 a special task force of the ASB was formed to consider a proposal to improve the quality of employee benefit plan (EBP) audits by strengthening the EBP auditor's report. The Employee Benefits Security Administration (EBSA) of the Department of Labor (DOL) asked us to rethink the EBP auditor's report to help auditors better understand their responsibilities and to provide users with more information about what auditors do, especially in the case of the limited scope audit, as permitted by the DOL's rules and regulations for reporting and disclosure under the Employee Retirement Income Security Act of 1974 (ERISA). The DOL provided specific suggestions on ways to improve auditor reporting for plans.

The EBP Auditor Reporting Task Force (EBP task force) met on February 25-26, 2015 in Washington DC and then held four conference calls to consider the DOL's proposed revisions to the auditor's report and brainstorm other ways to improve EBP auditor reporting.

Employee Benefit Plans – Differences from Private Companies and Public Business Entities

The EBP task force believes the specialized characteristics of plans, provides a foundation for developing an auditor's report that is specific to employee benefit plans. See the appendix of this paper a further discussion about the specialized characteristics of employee benefit plans.

AITF discussion

At the April 9, 2015 AITF meeting, Darrel Schubert provided the AITF with an update of this project and asked for their initial feedback. Overall the AITF supported the EBP task force continuing to move forward with this project. The AITF questioned the timing of this project and whether this project should align with the ASB's overall auditor reporting project. The AITF also provided feedback on certain of the proposed changes. The AITF's feedback was considered by the EBP task force.

DOL Audit Quality Study

In May 2015, the EBSA issued a report, *Assessing the Quality of Employee Benefit Plan Audits*, which found deficiencies in the quality of audit work performed by independent CPAs with respect to financial statement audits of ERISA employee benefit plans for the 2011 plan year.

EBSA's assessment of audit quality included a statistical review of 400 plan audits performed by 232 CPA firms. EBSA found that 61% of the audits fully complied with professional auditing standards or had minor deficiencies. EBSA found that 39% of the audits had one or more major deficiencies with respect to one or more relevant GAAS requirements which would lead to a rejection of the Form 5500 filing. EBSA also found that 17% of the auditor's reports reviewed in their study failed to comply with one or more of ERISA's reporting and disclosure requirements.

EBSA found a clear link between the number of EBP audits performed by a CPA and the quality of the work performed, EBP-specific training contributed to better audit work, and EBPAQC firm members tended to produce audits with fewer deficiencies. EBSA also found that CPAs failed to comply with professional standards either because they were not adequately informed about EBP audits, or failed to properly utilize the technical materials in their possession. The audit areas with more frequent deficiencies were in areas unique to EBP auditing, including testing contributions, benefit payments, participant data, and party-in-interest/prohibited transactions.

EBSA's report contained 11 recommendations focused on enforcement, changes to DOL regulations and amendments to ERISA, and outreach. These recommendations include, among other actions, EBSA revising its case targeting to focus on CPAs with smaller EBP audit practices that audit plans with large amounts of plan assets; working with the National Association of State Boards of Accountancy (NASBA) and the AICPA to improve the investigation and sanctioning process for CPAs performing significantly deficient work, and working with the AICPA's Peer Review staff to streamline the peer review process and make it more responsive in helping to improve EBP audit quality. EBSA plans to correspond with plan administrators and provide information about how to select a qualified plan auditor, as well as reach out to CPA firms, state boards of accountancy, and state CPA societies.

May 2015 ASB Meeting

Agenda Item 4 from the May 2015 ASB meeting was postponed until the July meeting and was intended to discuss issues about this topic. Subsequent to the May 2015 ASB meeting, the EBP Task Force held three conference calls and further developed their proposals for changes to the auditor’s report for EBP audits, therefore these materials supersede the May 2015 materials.

Development of a New Auditing Standard

The task force believes there is merit in developing a new auditing standard to address the form and content of the auditor’s report issued as a result of an audit of financial statements that are subject to the financial reporting requirements of ERISA. This is supported by the specialized characteristics of employee benefit plans that make them different from both private and public companies, as discussed in the appendix to this issue paper. The initial discussions with the AITF also supported exploring the development of a new auditor reporting standard for EBP audits rather than attempting to fit changes throughout the standards. Accordingly, the task force discussions have been centered on ways in which the auditor’s report can be improved to enhance audit quality through the development of a new auditor reporting standard.

The issues discussed in this issue paper are for the purpose of asking the ASB for direction in developing such a new auditing standard that would address the form and content of the auditor’s report for both full scope and limited scope employee benefit plan audits.

Action Requested of the ASB

Does the ASB agree with developing a new auditing standard to address the form and content of the auditor's report for employee benefit plans?

Issues for ASB discussion

Proposed Revisions for All EBP Auditor's Reports

Issue 1 — Addressee

The DOL proposed addressing the auditor's report to the primary users of the financial statements that is, the trustee, participants and their beneficiaries, and the U.S. Department of Labor. Currently, EBP auditor reports are typically addressed to the plan committee or plan administrator (the parties who engaged the auditor).

ERISA section 103(a)(3)(A) requires the plan administrator to engage, on behalf of all plan participants, an independent qualified public accountant, who shall conduct such an examination of any financial statements of the plan, as the accountant may deem necessary to enable the accountant to form an opinion as to whether the financial statements and schedules required to be included in the annual reports are presented fairly, in conformity with generally accepted accounting principles.

Paragraph .24 of AU-C 700 *Forming an Opinion and Reporting on Financial Statements* requires the auditor's report to be addressed as required by the circumstances of the engagement. 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. A report on the financial statements of an unincorporated entity may be addressed as circumstances dictate (for example, to the partners, general partner, or proprietor). 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 those charged with governance of the entity whose financial statements are being audited.

Task Force Recommendations

The EBP task force recommends expanding the addressee to include the participants and their beneficiaries because ERISA requires the plan administrator to engage an auditor, on behalf of all plan participants. The EBP task force does not believe the report should be addressed to the DOL and notes that auditor's reports for SEC filers are not addressed to the SEC. In addition, governmental reports are not addressed to the OIG or federal agencies. The EBP task force will investigate privity issues related to whom the report may be addressed.

Action Requested of the ASB

Does the ASB support expanding the addressee to include participants and their beneficiaries?

Issue 2 — Emphasis-of-Matter Paragraphs

The DOL recommended that the auditor's report include additional information about the financial statements and the audit through the use of emphasis-of-matter (EOM) paragraphs. The DOL provided a list of topics to be included, many of which do not have related financial statement disclosures under generally accepted accounting principles (GAAP).

The EBP task force discussed requiring an EOM paragraph to be included in the auditor's report related to certain issues, when such topics are disclosed in the notes to the financial statements. At the April 9, 2015 AITF meeting, the AITF expressed a view that EOM paragraphs could be required when GAAP requires the matter to be disclosed in the notes to the financial statements, and in the auditor's professional judgment it is of such importance that it is fundamental to users' understanding of the financial statements.

The EBP task force also discussed the possibility of including key audit matters (KAM), as described in ISA 701 *Communicating Key Audit Matters in the Independent Auditor's Report* because some of the items the DOL would like to include in the auditor's report could fall under the KAM criteria. Overall, the task force was not in favor of including KAM in the auditor's report for employee benefit plans and expressed concerns with considering KAM for EBP auditor reporting before the ASB has discussed the issue for all audits.

The DOL request for matters to be included in EOM paragraphs included items such as:

- For health and welfare plans, address excess obligations over plan assets (what are managements plans to make the plan whole?).
- For mergers and terminations, address if there will be any significant effect on the participants.
- Address hard to value asset considerations, including ESOPs
- For limited scope audits, discuss those assets that were audited (not covered by the certification), that is, what the auditor audited.
- For limited scope audits, discuss what the auditor did to audit the valuation of investments certified as complete and accurate, but not certified as to fair value.
- For DB plans, address pertinent information regarding any funding deficiency issues (is it in danger or in critical status).

- Alert participants to any transfer of benefit obligations to non ERISA covered status (benefit defeasance issues)
- For multiemployer plans, address and discuss any pertinent funding issues at the individual employer level, overall funding issues or considerations and the collective bargaining agreements

Task Force Recommendations

The task force notes that many of the items proposed by the DOL to be included in an EOM paragraph are not required to be disclosed in the notes to the financial statements under GAAP and therefore the task force does not believe it would be appropriate to include an EOM paragraph for those items.

The task force recommends that the following items be required to be included in an EOM paragraph in the auditor's report when they are appropriately disclosed in the notes to the financial statements because these items are specific to employee benefit plan engagements, GAAP requires disclosure of these items and it would be important to the users understanding of the financial statements.

- Mergers, Spin-offs or terminations

  Plans are required to disclose significant plan amendments. H&W plans are required to disclose significant changes in the nature of the plan (for example, plan merger or spin-off) and changes in actuarial assumptions. Further, when plans use the liquidation basis of accounting, FASB ASC 205-30 requires specific disclosures to be made in the notes to the financial statements

- For DB plans—Plans funding percentage (funding deficiency)

  The Pension Protection Act of 2006 (PPA) affected many aspects of plan design, administration, and funding. For DB plans, the PPA focuses on the funded percentage as a trigger point to activate additional funding requirements and benefit limitations. Each year the actuary is required to certify to the plan's funded percentage. Plans with a funding percentage below 80 percent will be required to implement certain benefit limitations. Further limitations will be required when the adjusted funding target attainment percentage (AFTAP) falls below 60 percent. If the AFTAP falls below 60 percent, the plan must freeze the accrual of all future benefits until such time as the percentage increases to over 60 percent. The plan will also not be allowed to make any accelerated payments. FASB ASC 960-205-50-1 requires a DB plan to disclose the funding policy and any changes in such policy during the plan year.

- For health and welfare plans — Excess obligations over plan assets

Health and welfare plans are required to disclose the funding policy and any changes made to the funding policy during the plan year. If the benefit obligations exceed the net assets of the plan, disclosure is required about the method of funding this deficit, as provided for in the plan agreements or collective bargaining agreement (AAG par. 7.129(c) and FASB ASC 965-205-50-1).

Action Requested of the ASB

Does the ASB support requiring the addition of EOM paragraphs in the EBP auditor's report, as specified above, because those items are required to be disclosed in the notes to the financial statements?

Does the ASB believe the task force should consider including KAM in the EBP Auditor's Report before the ASB has deliberated whether KAM should be permitted for all entities?

Proposed Revisions for ERISA Full Scope Auditor's Report

See Agenda Item 1A-*Reports on ERISA Audits — Illustrative Full Scope Auditor's Report* to view a comparison of the current full scope report to the task force's proposed changes)

Issue 3 — Expanded Management's Responsibilities

The task force discussed management's responsibilities as they relate to an EBP audit and believe that there is merit for expanding the management's responsibilities section of the auditor's report to include areas that are often overlooked by management because they are more specific to an employee benefit plan engagement.

Task Force Recommendations

The task force recommends that the following be added to the "Management's Responsibility for the Financial Statements" section of the auditor's report, for a full scope audit.

Management is also responsible for:

- maintaining records with respect to each of the employees sufficient to determine the benefits due or which may become due to such employees
- the estimation methods and assumptions used in measuring investment information reported or disclosed at fair value[1]

[1] The auditor may revise this responsibility to reflect the nature and concentration of the investments held by the plan. For example, for privately held ESOPs it may be more appropriate for management's responsibilities to say

- administering the plan and determining whether the plan is in compliance with Department of Labor Rules and Regulations[2]

Action Requested of the ASB

Does the ASB support the inclusion of additional management responsibilities to be included in the auditor's report?

Issue 4 — Reporting on Supplemental Schedules and Expansion to Include Form and Content

Besides the financial statements and related disclosures, which conform to the requirements of Financial Accounting Standards Board (FASB) *Accounting Standards Codification* (ASC) 960, *Plan Accounting—Defined Benefit Pension Plans*; 962, *Plan Accounting—Defined Contribution Pension Plans*; and 965, *Plan Accounting—Health and Welfare Benefit Plans*, ERISA and DOL regulations require additional information to be disclosed in the financial statements or presented in the supplemental schedules. Some of this information is required to be covered by the auditor's report.

When performing a full-scope audit of an employee benefit plan, the auditor is typically engaged to report on whether the supplemental schedules that are required to be covered by the auditor's report are fairly presented in relation to the financial statements as a whole; therefore, AU-C section 725, *Supplementary Information in Relation to the Financial Statements as a Whole* (AICPA, *Professional Standards*), applies. When the plan presents the supplemental schedules with the financial statements, the auditor typically reports on the supplementary information in an other-matter paragraph, included in the auditor's report.

The DOL requested that the full scope auditor's report also include a report on form and content of the supplemental schedules because such an opinion is included in the limited scope auditor's report and the DOL believes the opinion is useful and would better align the two reports. The DOL also requested that the form and content opinion be expanded to include an opinion on the records supporting the benefits due or which may become due to each participant or beneficiary.

The task force discussed the work effort required to provide the report on form and content and noted that in a full scope audit the auditor would have performed more audit work on the amounts that are included in the supplemental schedules and therefore the task force believes that reporting on form and content of the supplemental schedules in the full scope auditor's report has merit. The task force also considered PCAOB Auditing Standard (AS) 17 *Auditing Supplemental Information*

"management is responsible for determining that the appraisal appropriately reflects the fair value of the employer stock."

[2] This is intended to cover the various compliance aspects of the plan, such as the timely remittance of employee deferrals, prohibited transactions, and hardship withdrawals.

Accompanying Audited Financial Statements that includes language in the auditor's report that seemed on point to what the DOL is requesting.

Paragraph 13 of PCAOB AS 17 provides the following illustrative paragraph to be included in the auditor's report. The highlighting has been added to show the language included in the AS 17 report that the task force believes could be included in the auditor's report for EBP audits.

> The [identify supplemental information] has been subjected to audit procedures performed in conjunction with the audit of [Company's] financial statements. The [supplemental information] is the responsibility of the Company's management. Our audit procedures included determining whether the [supplemental information] reconciles to the financial statements or the underlying accounting and other records, as applicable, and performing procedures to test the completeness and accuracy of the information presented in the [supplemental information]. In forming our opinion on the [supplemental information], we evaluated whether the [supplemental information], including its form and content, is presented in conformity with [specify the relevant regulatory requirement or other criteria, if any]. In our opinion, the [identify supplemental information] is fairly stated, in all material respects, in relation to the financial statements as a whole.

The task force understands that the AITF will be discussing AS 17 at a future AITF meeting to determine whether any changes need to be made to AU-C 725 to eliminate differences between PCAOB standards and GAAS.

Task Force Recommendations

The task force recommends that the other-matter paragraph that is included in the full scope auditor's report for an employee benefit plan audit, be expanded to include certain language from AS 17 as well as include a report on the form and content of the supplemental schedules.

The task force notes that the standard limited scope auditor's report illustrated in paragraph 11.64 in the AICPA Audit and Accounting Guide *Employee Benefit Plans* includes a "Report on Form and Content in Compliance with DOL Rules and Regulations" and treats that report as if it is a "Report on Other Legal and Regulatory Requirements." The task force believes that the report on form and content is better communicated as part of the other-matter paragraph in the full scope auditor's report and therefore is also recommending that the limited scope auditor's report align to this form of reporting (see Issue No. 12 in this issues paper).

The following illustrates the changes proposed by the task force.

> ***Other Matter—Report on Supplemental~~ry~~ Schedules ~~Information~~ and Form and Content in Compliance with Department of Labor's Rules and Regulations***
>
> 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 the purpose 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. Such information is the responsibility of the Plan's 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, performing procedures to test the completeness and accuracy of the information presented in the supplemental schedules, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In forming our opinion on the supplemental schedules, we evaluated whether the supplemental information, including its form and content, is presented in conformity with the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974.

In our opinion, the information in the accompanying schedules is fairly stated in all material respects in relation to the financial statements as a whole and is in compliance with the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974.

Action Requested of the ASB

Does the ASB support the inclusion of the additional language in the other-matter paragraph on the supplemental schedules, including an opinion on the form and content of the supplemental schedules in compliance with DOL rules and regulations?

Proposed Revisions for ERISA Limited Scope Auditor's Report

ERISA Limited Scope Auditor's Report

The task force discussed ideas to improve the standard limited scope auditor's report. The task force understands that there is much confusion around the ERISA limited scope audit and the DOL has asked that the auditor's report do a better job of explaining what an ERISA limited scope audit involves. In discussing their ideas, the task force had difficulty fitting the ERISA limited scope auditor's report into the current reporting standards because of the specialized nature of such an audit.

The task force believes that there is merit in exploring the development of a new form of standard limited scope auditor's report that would better explain this special type of engagement that is permitted by the DOL. In a limited scope audit the auditor performs certain limited audit procedures[3] on the amounts that have been certified by a qualifying institution and also performs full audit procedures on the material amounts in the financial statements. Accordingly, the task force recommends that the ASB include a new standard auditor's report specific to an ERISA limited scope audit in the new auditing standard to be developed for ERISA audits.

In discussing what this report may look like, the task force explored both disclaimers of opinion and qualified opinions as a basis for this report.

Agenda Item 1B includes the proposed revisions to the auditor's report when a disclaimer of opinion is used as a base.

Agenda Item 1C includes an auditor's report using a qualified opinion as a base.

Disclaimer of Opinion

The following areas are highlighted for the ASB's consideration when basing the report on a disclaimer of opinion.

See Agenda Item 1B-*Reports on ERISA Audits — Illustrative Limited Scope Auditor's Report (Disclaimer of Opinion)* to view the task force's proposals.

Issue 5 — Revised Introductory Paragraph (Disclaimer of Opinion)

The task force discussed the need for the auditor's report to better explain what a limited scope audit involves.

[3] See paragraphs 8.167-8.174 of the AICPA Audit and Accounting Guide *Employee Benefit Plans* for description of the limited scope auditing procedures.

Task Force Recommendations

When using the disclaimer of opinion as a basis for the report, the task force recommends that additional information be included in the introductory paragraph to explain the limited scope audit as follows:

> We were engaged to audit the accompanying financial statements of XYZ 401(k) Plan; however we did not perform auditing procedures with respect to certain certified information, 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, except as described in the Other Matter—Summary of Significant Accounts and Disclosures, and Certified Information paragraph. The financial statements ~~which~~ comprise the statements of net assets available for benefits as of December 31, 20X2 and 20X1, and the related statement of changes in net assets available for benefits for the year ended December 31, 20X2, and the related notes to the financial statements.

Action Requested of the ASB

Does the ASB support revision to the introductory paragraph to better explain the ERISA limited scope audit?

Issue 6 — Expanded Management's Responsibilities

In addition to the management responsibilities recommended to be added in issue 3 previously, the task force recommends the following be added to the limited scope report:

Management is also responsible for:

- determining whether the entity issuing the certification is a qualifying institution under section 2520.103-5 of the Department of Labor's Rules and Regulations
- for investments required to be presented at their fair value, determining whether the certification from the qualifying institution includes the fair value of such investments at the reporting date, in accordance with accounting principles generally accepted in the United States of America

Action Requested of the ASB

Does the ASB support the inclusion of additional management responsibilities to be included in the limited scope auditor's report?

Issue 7 — Revised Auditor's Responsibilities (Disclaimer of Opinion)

The task force discussed the need for the ERISA limited scope auditor's report to better explain the auditor's responsibilities because the auditor performs audit procedures on the material balances not certified.

Task Force Recommendations

The task force recommends that the auditor's responsibilities section be revised to better reflect what the auditor does in an ERISA limited scope audit. See the illustrative report in Agenda Item 1B for the task force's proposed wording (second column of table).

Action Requested of the ASB

Does the ASB support revisions to the auditor's responsibilities section of the ERISA limited scope auditor's report as illustrated in Agenda Item 1B?

Issue 8 — New Section "Report on the Significant Accounts and Disclosures and Certified Information" (Disclaimer of Opinion)

The DOL requested a new section be added to the auditor's report that would discuss significant plan accounts and disclosures and provide an opinion on those significant accounts to better describe the amount of audit work that is actually performed on a limited-scope audit despite the disclaimer of opinion.

The task force discussed the DOLs proposal and believes that providing an opinion on such accounts (possible through AU-C 805 *Special Considerations—Audits of Single Financial Statements and Specific Elements, Accounts, or Items of a Financial Statement*) would not be appropriate and suggested as an alternative to include an other-matter paragraph in the auditor's report that would identify which accounts and disclosures were considered material and were subject to audit.

Task Force Recommendations

The task force recommends a new section be included in the auditor's report, as an other-matter paragraph, to explain that, except for the certified information, as part of the audit the auditor subjected the material accounts and disclosures to audit procedures, and to identify the material accounts. The task force also recommends that the other-matter paragraph include information about the procedures the auditor performed on the certified investment information. See the illustrative report in Agenda Item 1B for the task force's proposed wording (second column of table).

Action Requested of the ASB

Does the ASB support the task force's recommendation to consider including an other-matter paragraph in a limited scope auditor's report, to provide users with information about the accounts that were considered material by the auditor and therefore subjected to audit procedures, and to explain what procedures the auditor performed on the certified information?

Issue 9 — Other Matter — Report on Form and Content (Disclaimer of Opinion)

The standard limited scope auditor's report includes an opinion on the form and content of the information included in the financial statements and supplemental schedules as being in compliance with DOL Rules and Regulations under ERISA. The task force discussed the need for such an opinion to remain in the report and concluded that the auditor's report should continue to include such an opinion because this form of reporting was developed to meet the needs of the DOL rules and regulations.

Task Force Recommendation

As noted in Issue 4 previously, the task force believes that the form and content opinion that is provided in the limited scope auditor's report should be considered an other-matter paragraph, rather than treated as a report on other legal and regulatory requirements, and include similar changes as to what was proposed in Issue 4. See the illustrative report in Agenda Item 1B for the task force's proposed wording (second column of table).

Action Requested of the ASB

Does the ASB support the task force's recommendation to include the form and content opinion in an other-matter paragraph as illustrated in Agenda Item 1B?

Qualified Opinion

The following areas are highlighted for the ASB's consideration when basing the report on a qualified opinion.

See Agenda Item 1C-*Reports on ERISA Audits — Illustrative Limited Scope Auditor's Report (Qualified Opinion)* to view the task force's proposals.

The task force discussed whether the standard ERISA limited scope auditor's report should be based on a qualified opinion because when performing a limited scope audit, although the auditor is told not to perform full scope audit procedures on certain certified information, the auditor has obtained a certification from a qualifying institution[4] and the auditor performs certain audit work

[4] A qualifying institution includes a bank or similar institution or insurance carrier regulated and supervised and subject to periodic examination by a State or Federal agency.

around the amounts that have been certified. In addition, the auditor performs full audit procedures on the other material amounts in the financial statements.

Issue 10 — Revised Auditor's Responsibilities (Qualified Opinion)

As noted in issue 7 previously, the task force discussed the need for the ERISA limited scope auditor's report to better explain the auditor's responsibilities in light of the form and content opinion that is provided and because the auditor performs audit procedures on the balances not certified.

Task Force Recommendations

The task force recommends that the auditor's responsibilities section include the standard language from the full scope auditor's report, revised to reflect what the auditor does in a limited scope audit. See the illustrative auditor's report in Agenda Item 1C for the task force's proposed wording (second column of table).

Action Requested of the ASB

Does the ASB support the task force's recommendation to revise the auditor's responsibilities in the ERISA limited scope auditor's report as illustrated in Agenda Item 1C?

Issue 11 — New Section on Certified Information (Qualified Opinion)

As noted in issue 8 previously, the task force discussed the need for the auditor's report to include information about the audit procedures performed on the information certified by a qualifying institution.

Task Force Recommendation

The task force recommends that an other-matter paragraph be included in the auditor's report to explain the auditor's responsibilities relating to the certified information. See the illustrative report in Agenda Item 1C for the task force's proposed wording (second column of table).

Action Requested of the ASB

Does the ASB support the task force's recommendation to include an other-matter paragraph in the auditor's report to explain the audit work performed on the certified information, as illustrated in Agenda Item 1C?

Issue 12 — Reporting on Supplemental Schedules and Expansion to Include Form and Content (Qualified Opinion)

As noted in issue 4 previously, the task force discussed the need for the auditor's report to include the form and content opinion. The task force noted that by basing the auditor's report on a qualified opinion then AU-C 725 would apply (the same as in a full scope audit) and therefore the task force recommends that the same section as being proposed to be included in the full scope auditor's report (see issue 4) be included in the qualified opinion report. See the illustrative report in Agenda Item 1C for the task force's proposed wording (second column of table).

Action Requested of the ASB

Does the ASB support the inclusion of the additional language in the other-matter paragraph on the supplemental schedules, including an opinion on the form and content of the supplemental schedules in compliance with DOL rules and regulations, as illustrated in Agenda Item 1C?

Action Requested of the ASB

Does the ASB have a preference of whether the limited scope auditor's report should be based on a disclaimer of opinion (as illustrated in agenda item 1B) or a qualified opinion (as illustrated in agenda item 1C)?

Next Steps

Issue 13 — Next Steps

In addition to the recommendations discussed in this issues paper, the DOL requested that we consider including a report on internal control and a report on compliance, similar to the reporting in governmental audits. The follow sections discuss those areas and the task force's initial thoughts.

Internal Control Over Financial Reporting

The DOL requested a new section be added to the auditor's report that would provide the DOL with information the auditor gathered from AU-C section 265 *Communicating Internal Control Related Matters Identified in an Audit* including items identified as a material weakness and those identified as a significant deficiency.

The task force discussed including a section to explain the auditor's responsibilities related to internal control over financial reporting including that the auditor is required to communicate material weaknesses and significant deficiencies to management and those charged with governance. The details of that communication would not be included in the auditor's report. This approach would not require any engagement performance changes.

The proposed changes relating to internal control over financial reporting will be brought to the ASB at a future meeting.

Report on Compliance

The DOL requested a new section be added to the auditor's report that would address the tests the auditor performs, in connection with the audit, of the plan's compliance with certain provisions of laws, regulations, plan documents, and other agreements.

The task force believes that this form of reporting could be helpful to include in the auditor's report because there are many compliance aspects to an ERISA audit when forming an opinion on the financial statements. The task force recognizes however, that such form of reporting would require an identification of which compliance tests are considered within the scope of the audit of the financial statements. The proposed changes relating to reporting on compliance will be brought to the ASB at a future meeting.

Appendix

Employee Benefit Plans – Differences from Private Companies and Public Business Entities

The EBP task force believes that the conclusions reached by the Financial Accounting Standards Board (FASB) that says employee benefit plans should not be treated as private companies or public business entities when setting accounting standards, due to their unique characteristics and related specialized accounting, supports the ASB's project to consider an auditor's report specific to employee benefit plans.

The FASB concluded in FASB Accounting Standards Update No. 2013-12, *Definition of a Public Business Entity*, that employee benefit plans have unique characteristics that differ from both private companies and public companies. The needs of users of employee benefit plan financial statements are specific and more focused when compared with the needs of financial statement users of both public companies and private companies. Employee benefit plans follow accounting guidance that often is tailored to the unique nature of the plans.

After considering those factors, the FASB decided that employee benefit plans should not be included in the definition of public business entity for financial reporting purposes and should not be included in the scope of the Guide, *Private Company Decision-Making Framework: A Guide for Evaluating Financial Accounting and Reporting for Private Companies*.[5] Instead, the FASB will consider, on a standard-by-standard basis, whether all, none, or some employee benefit plans should be permitted to apply financial accounting and reporting alternatives under U.S. GAAP, using factors such as user needs and resources.

Further, in an EBP Expert Panel discussion memorandum "Observations About Current Employee Benefit Plan Accounting" submitted in October 2013 to the FASB, the EBP Expert Panel included relevant information relating to employee benefit plans to highlight how employee benefit plans differ from both private and public companies.

[5] On December 23, 2013, the Financial Accounting Standards Board (FASB) and the Private Company Council (PCC) issued the *Private Company Decision-Making Framework: A Guide for Evaluating Financial Accounting and Reporting for Private Companies* (the Guide). The primary purpose of this Guide is to assist the FASB and the PCC in determining whether and in what circumstances to provide alternative recognition, measurement, disclosure, display, effective date, and transition guidance for private companies reporting under U.S. GAAP. This Guide provides considerations for the PCC and the Board in making user-relevance and cost-benefit evaluations for private companies under the existing conceptual framework. The Guide is intended to be one of the tools to help the FASB and the PCC identify differential information needs of users of public company financial statements and users of private company financial statements and to identify opportunities to reduce the complexity and costs of preparing financial statements in accordance with U.S. GAAP. The Board's decisions about the types of business entities that would not be included in the scope of this Guide and the basis for conclusions for those decisions are provided in FASB Accounting Standards Update No. 2013-12, *Definition of a Public Business Entity—An Addition to the Master Glossary*.

The following is a summary of how employee benefit plans have specialized characteristics, as provided in the discussion memorandum "Observations About Current Employee Benefit Plan Accounting" submitted in October 2013 to the FASB by the EBP Expert Panel,.

1. The users of a plan's financial statements include the Department of Labor (DOL), IRS, Pension Benefit Guaranty Corporation (PBGC), the Securities and Exchange Commission (SEC) (for Form 11-K filers), as well as plan sponsors, trustees, and plan participants. All Form 5500s are filed electronically with the audited financial statements, when applicable, and are available on the DOL website via the EFAST2 system.

2. Plan financial statements that are filed with the Form 5500 are due 7 months after year end and can be extended an additional 2 ½ months. ERISA plans that file with the SEC using the ERISA format are due 180 days after their year-end (if filing under the SEC format, plan financial statements are due 90 days after year end). Because of the timing of the issuance of these financial statements, plan participants in defined contribution plans are not able to use them to make investment decisions. Similarly, plan sponsors of defined benefit pension plans do not use plan financial statements to make investment or funding decisions due to the timing of the financial statements.

3. Information related to employee benefit plans is available to plan participants in timelier ways other than the financial statements, such as through the provider websites, periodic participant statements, summary annual report, or prospectuses. Much of the reporting is driven by ERISA regulations.

4. Employee benefit plans do not have investees in the traditional sense of the term because the participant does not purchase a unit of ownership of the plan; rather, it is the collection of investments intended to provide benefits at a future date. Employee benefit plans are designed with a long-term perspective in mind. For example, in participant-directed defined contribution plans, participants need to determine their asset allocations that will take them to retirement, based on risk tolerance and how many years they have left before retirement. This information is typically obtained from provider websites, information brochures, and prospectuses.

5. Employee benefit plans are tax-exempt entities that are established for a different purpose than either a private company or a public company. The objective of the plan financial statements is to provide information that is useful in assessing the plans' present and future ability to pay benefits. In addition, in a defined contribution plan environment, the amount invested in the plan is generally at the discretion of the participant, based on their level of participation and their own retirement planning.

6. Employee benefit plans are often managed by human resources personnel, rather than personnel who are skilled in finance or accounting. In addition, because of their specialized characteristics, plan sponsor management frequently lack the specialized financial reporting knowledge needed for plans. Many are hands-off, relying heavily on third-party

administrators for satisfying reporting requirements. When an audit is not required by regulations, financial statements are rarely prepared.

7. Employee benefit plans are similar to private companies in that most preparers of plan financial statements learn about new financial accounting and reporting guidance from their public accountants and that those educational updates generally coincide with planning procedures of the audit of the plan's year-end financial statements.