



Agenda Item 1A

Reports on ERISA Audits — Illustrative Full Scope Auditor’s Report

Sample Full Scope Report

[Comparison of current report to task force proposal]

Unmodified Opinion—Defined Contribution Retirement Plans

CURRENT 401(k) PLAN – FULL SCOPE REPORT UNMODIFIED OPINION (EBP AAG PAR. 11.25)	TASK FORCE PROPOSED REVISIONS FULL SCOPE REPORT
<u>Independent Auditor’s Report</u>	<u>Independent Auditor’s Report</u>
<i>[Appropriate Addressee]</i>	To the Trustees, <u>Participants and Beneficiaries</u>
Report on the Financial Statements¹	Report on the Financial Statements

¹ The subtitle "Report on the Financial Statements" is unnecessary when the second subtitle, "Report on Other Legal and Regulatory Requirements," is not applicable. In this illustration, the heading "Report on the Financial Statements" has been included even though there is no report on other legal and regulatory requirements included in this report.

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<p>We have audited the accompanying financial statements of ABC 401(k) Plan, 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.</p>	<p>We have audited the accompanying financial statements of ABC 401(k) Plan, 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.</p>
<p><i>Management’s Responsibility for the Financial Statements</i></p>	<p><i>Management’s Responsibility for the Financial Statements</i></p>
<p>Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.</p>	<p>Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.</p>
	<p><u>Management is also responsible for:</u></p> <ul style="list-style-type: none"> • <u>maintaining records with respect to each of the employees sufficient to determine the benefits due or which may become due to such employees</u>
	<ul style="list-style-type: none"> • <u>the estimation methods and assumptions used in measuring investment information reported or disclosed at fair value²</u>

² 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 “management is responsible for determining that the appraisal appropriately reflects the fair value of the employer stock.”

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	<ul style="list-style-type: none"> • <u>administering the plan and determining whether the plan is in compliance with Department of Labor Rules and Regulations³</u>
<i>Auditor's Responsibility</i>	<i>Auditor's Responsibility</i>
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 responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. ⁴ Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used	An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity'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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and

³ [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.](#)

⁴ In circumstances when the auditor also has responsibility to express an opinion on the effectiveness of internal control in conjunction with the audit of the financial statements, this sentence would be worded as follows: "In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances." In addition, the next sentence, "Accordingly, we express no such opinion." would not be included.

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and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.	the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.	We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.
<i>Opinion</i>	<i>Opinion</i>
In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets available for benefits of the Plan as of December 31, 20X2 and 20X1, and the changes in net assets available for benefits for the year ended December 31, 20X2, in accordance with accounting principles generally accepted in the United States of America.	In our opinion, the financial statements referred to above, present fairly, in all material respects, the net assets available for benefits of the Plan as of December 31, 20X2 and 20X1, and the changes in net assets available for benefits for the year ended December 31, 20X2, in accordance with accounting principles generally accepted in the United States of America.
	<p><u><i>Emphasis of Matter</i></u></p> <p><u><i>[Include the following matters when they are appropriately disclosed in the notes to the financial statements:</i></u></p> <ul style="list-style-type: none"> • <u><i>Mergers, Spin-offs or terminations</i></u>⁵ • <u><i>For DB plans—Plans funding percentage (funding deficiency)</i></u>⁶

⁵ 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.

⁶ 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

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	<ul style="list-style-type: none"> • <u>For health and welfare plans — Excess obligations over plan assets⁷</u> <p><i>(Our opinion is not modified with respect to these matters)</i></p>
<p>Report on Supplementary Information⁸</p>	<p><u>Other Matter—Report on Supplementary Schedules Information and Form and Content in Compliance with Department of Labor’s Rules and Regulations</u></p>
<p>Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The supplemental schedules of [<i>identify title of schedules and period covered</i>] 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</p>	<p>Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The supplemental schedules of [<i>identify title of schedules and period covered</i>] 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</p>

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.

⁷ 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).

⁸ See footnote 3. Also see paragraphs 11.18–.24 for discussion when reporting on the supplemental schedules when performing a full-scope audit.

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<p>other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.</p>	<p>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.</p> <p>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.</p>
<p><i>[Auditor’s signature]</i> <i>[Auditor’s city and state]</i> <i>[Date of the auditor’s report]</i></p>	<p><i>[Firm’s manual signature]</i> <i>[Auditor Firm’s city and state]</i> <i>[Date of the auditor’s report]</i></p>