



Agenda Item 1B

Reports on ERISA Audits – Illustrative Limited Scope Auditor’s Report (Disclaimer of Opinion)

Sample Limited Scope Auditor’s Report (Disclaimer of Opinion)

[Comparison of current limited scope disclaimer of opinion to task force proposal, and illustrations from the AICPA Professional Standards]

CURRENT LIMITED SCOPE REPORT (AAG par. 11.64)	TASK FORCE PROPOSED REVISIONS (as of July 7, 2015)	AU-C 705.A32 (Illustration #5) DISCLAIMER DUE TO SCOPE LIMITATION - SINGLE ELEMENT	AU-C 705.A32 (Illustration #6) DISCLAIMER DUE TO SCOPE LIMITATION —MULTIPLE ELEMENTS
Sample Limited Scope Auditor’s Report (Disclaimer)	Sample Limited Scope Auditor’s Report (Disclaimer)	Sample FULL DISCLAIMER Auditor’s Report	Sample FULL DISCLAIMER Auditor’s Report
Independent Auditor’s Report	Independent Auditor’s Report	Independent Auditor’s Report	Independent Auditor’s Report
[Appropriate Addressee] (typically it is addressed to the Trustees),	To the Trustees, Participants and Beneficiaries	Appropriate Addressee	Appropriate Addressee
Report on the Financial Statements	Report on the Financial Statements	Report on the Financial Statements	Report on the Financial Statements
We were engaged to audit the accompanying financial statements of XYZ 401(k) Plan which comprise the	We were engaged to audit the accompanying financial statements of XYZ 401(k) Plan; however we did not	We were engaged to audit the accompanying financial statements of ABC, which comprise the statements of	We were engaged to audit the accompanying financial statements of ABC, which comprise the statements of

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<p>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><u>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</u> 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>[identify statements], and the related notes to the financial statements.</p>	<p>[identify statements], 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><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</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</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</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</p>

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material misstatement, whether due to fraud or error.	material misstatement, whether due to fraud or error.	material misstatement, whether due to fraud or error.	material misstatement, whether due to fraud or error.
	<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 value¹</u> 		
	<ul style="list-style-type: none"> • <u>administering the plan and determining whether the plan is in compliance with Department of Labor Rules and Regulations²</u> 		
	<ul style="list-style-type: none"> • <u>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</u> 		
	<ul style="list-style-type: none"> • <u>for investments required to be presented at their fair value, determining whether the</u> 		

¹ The auditor may revise the 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."

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.

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	<u>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</u>		
<i>Auditor's Responsibility</i>	<i>Auditor's Responsibility</i>	<i>Auditor's Responsibility</i>	<i>Auditor's Responsibility</i>
Our responsibility is to express an opinion on these financial statements based on conducting the audits in accordance with auditing standards generally accepted in the United States of America. Because of the matter described in the Basis for Disclaimer of Opinion paragraph, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.	Our responsibility is to express an opinion on these financial statements based on conducting the audits in accordance with auditing standards generally accepted in the United States of America. Because of the matter described in the Basis for Disclaimer of Opinion paragraph, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. <u>An ERISA limited scope audit, 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, involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements, other than for the certified information described in Note X to the financial statements. The procedures selected depend on the auditor's</u>	Our responsibility is to express an opinion on these financial statements based on conducting the audits in accordance with auditing standards generally accepted in the United States of America. Because of the matters described in the Basis for Disclaimer of Opinion paragraph, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.	Our responsibility is to express an opinion on these financial statements based on conducting the audits in accordance with auditing standards generally accepted in the United States of America. Because of the matters described in the Basis for Disclaimer of Opinion paragraph, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

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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, except for internal control over the investments held and investment transactions executed for the plan by the certifying institution, 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 the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

Because of the matter described in the Basis for Disclaimer of Opinion paragraph, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

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<i>Basis for Disclaimer of Opinion</i>	<i>Basis for Disclaimer of Opinion</i>	<i>Basis for Disclaimer of Opinion</i> [Include the reasons for the inability to obtain sufficient appropriate evidence, per AUC 705, for example:]	<i>Basis for Disclaimer of Opinion</i> [Include the reasons for the inability to obtain sufficient appropriate evidence, per AUC 705, for example:]
<p>As permitted by 29 CFR 2520.103-8 of the Department of Labor’s Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974, the plan administrator instructed us not to perform, and we did not perform, any auditing procedures with respect to the information summarized in Note X, which was certified by ABC Bank, the trustee (or custodian) of the Plan, except for comparing such information with the related information included in the financial statements. We have been informed by the plan administrator that the trustee (or custodian) holds the Plan’s investment assets and executes investment transactions. The plan administrator has obtained a certification from the trustee (or custodian) as of December 31, 20X2 and 20X1, and for the year ended December 31, 20X2, that the information provided to the plan administrator by the trustee (or custodian) is complete and accurate.</p>	<p>As permitted by 29 CFR 2520.103-8 of the Department of Labor’s Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974, the plan administrator instructed us not to perform, any auditing procedures with respect to the certified information included summarized in Note X, which was certified by ABC Bank, the trustee (or custodian) of the Plan, except as described in the Other Matter— Summary of Significant Accounts and Disclosures, and Certified Information paragraph. for comparing the certified investment such information with the related information included in the financial statements. We have been informed by the plan administrator that the trustee (or custodian) holds the Plan’s investment assets and executes investment transactions. The plan administrator has obtained a certification from the trustee (or custodian) as of December 31, 20X2 and 20X1, and for the year ended December</p>	<p>The Company’s investment in XYZ, a joint venture, is carried at \$XXX on the Company’s balance sheet, which represents over 90 percent of the Company’s net assets as of December 31, 20X1. We were not allowed access to the management and auditors of XYZ. As a result, we were unable to determine whether any adjustments were necessary relating to the Company’s proportional share of XYZ Company’s assets that it controls jointly, its proportional share of XYZ Company’s liabilities for which it is jointly responsible, its proportional share of XYZ Company’s income and expenses for the year, and the elements making up the statements of changes in stockholders’ equity and cashflows.</p>	<p>We were not engaged as auditors of the Company until after 12/31/X1, and therefore did not observe the counting of physical inventories at the beginning or end of the year. We were unable to satisfy ourselves by other auditing procedures concerning the inventory held at 12/31/ X1, which is stated in the balance sheet at \$XXX. In addition, the introduction of a new computerized accounts receivable system in September 20X1 resulted in numerous misstatements in accounts receivable. As of the date of our audit report, management was still in the process of rectifying the system deficiencies and correcting the misstatements. We were unable to determine whether any adjustments may have been found necessary in respect of recorded or unrecorded inventories and accounts receivable and the elements making up the statements of income, changes in stockholder’s equity and cashflows.</p>

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	31, 20X2, that the information provided to the plan administrator by the trustee (or custodian) is complete and accurate.		
<i>Disclaimer of Opinion</i>	<i>Disclaimer of Opinion</i>	<i>Disclaimer of Opinion</i>	<i>Disclaimer of Opinion</i>
Because of the significance of the matter described in the Basis for Disclaimer of Opinion paragraph, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on these financial statements.	Because of the significance of the matter described in the Basis for Disclaimer of Opinion paragraph, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on these financial statements.	Because of the significance of the matter described in the Basis for Disclaimer of Opinion paragraph, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on these financial statements.	Because of the significance of the matter described in the Basis for Disclaimer of Opinion paragraph, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on these financial statements.
<i>[Emphasis of Matter (if any)]</i>	<i><u>Emphasis of Matter</u></i>	<i>Emphasis of Matter (if any)</i>	<i>Emphasis of Matter (if any)</i>
	<p><i><u>[Include the following matters when they are appropriately disclosed in the notes to the financial statements:</u></i></p> <ul style="list-style-type: none"> • <i><u>Mergers, Spin-offs or terminations</u></i>³ • <i><u>For DB plans—Plans funding percentage (funding deficiency)</u></i>⁴ 		

³ 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.

⁴ 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.

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	<ul style="list-style-type: none"> • <u>For health and welfare plans — Excess obligations over plan assets⁵</u> <p><u>These matters did not modify our (disclaimer of) opinion.</u></p>		
<u>Other Matters (if any)</u>	<u>Other Matter—Summary of Significant Accounts and Disclosures, and Certified Information</u>	Other Matter	Other Matter
	<p><u>Except for the certified information described in Note X to the financial statements, as part of our audit of the financial statements as a whole we subjected the material accounts and disclosures of ABC 401(k) plan to audit procedures. This included [list material accounts, for example, notes receivable from participants and its related interest, contributions and contributions receivable, benefit payments, rollovers, benefit obligations and administrative expenses].</u></p>	<p><i>Report on Supplementary Information I (under 725, if engaged to do so— AU-C 705 precludes the auditor from expressing an opinion on the supplementary information when a disclaimer of opinion is issued – see below disclaimer wording)</i></p> <p><i>(under AU-C 720 – there are no reporting requirements))</i></p>	<p><i>Report on Supplementary Information (under AU-C 725, if engaged to do so – AU-C 705 precludes the auditor from expressing an opinion on the supplementary information when a disclaimer of opinion is issued – see below disclaimer wording)</i></p> <p><i>(under AU-C 720 – there are no reporting requirements)</i></p>

⁵ 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).

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	<p><u>We did not perform auditing procedures with respect to the certified information described in Note X, except for obtaining and reading a copy of the certification from the plan administrator; considering whether the entity issuing the certification is a qualifying institution under DOL rules and regulations; comparing the certified information with the related information included in the financial statements and related disclosures; performing necessary procedures to test whether received or disbursed amounts (for example, contributions and benefit payments) were determined in accordance with the plan provisions; and considering whether the form and content of the financial statement disclosures related to the information prepared and certified by a qualifying institution are in accordance with accounting principles generally accepted in the United States of America.</u></p> <p><u>We do not express an opinion on these individual accounts and related disclosures.</u></p>		
<p><i>Other Matter</i></p>	<p><i><u>Other Matter—Report on Form and Content in Compliance with DOL Rules and Regulations</u></i><i>Report on Supplemental Schedules</i></p>		

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<p>The supplemental schedules [<i>identify schedules</i>] as of or for the year ended December 31, 20X2 are required by the Department of Labor’s (DOL) Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974 and are presented for the purpose of additional analysis and are not a required part of the financial statements. Because of the significance of the matter described in the Basis for Disclaimer of Opinion paragraph, we do not express an opinion on these supplemental schedules.</p>	<p><u>We were engaged for the purpose of forming an opinion on the financial statements as a whole, except with respect to the certified information described in the Basis for Disclaimer of Opinion paragraph.</u> The supplemental schedules [<i>identify schedules</i>] as of or for the year ended December 31, 20X2 are required by the Department of Labor’s (DOL) Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974 and are presented for the purpose of additional analysis and are not a required part of the financial statements. <u>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. Because of the significance of the matter described in the Basis for Disclaimer of Opinion paragraph, we do not express an opinion on these supplemental schedules.</u></p>	<p>We were engaged for the purpose of forming an opinion on the basic financial statements as a whole. The [<i>identify accompanying supplementary information</i>] is presented for the purpose of additional analysis and are not a required part of the financial statements. Because of the significance of the matter described in the Basis for Disclaimer of Opinion paragraph, it is appropriate to and we do not express an opinion on these supplemental schedules.</p>	<p>We were engaged for the purpose of forming an opinion on the basic financial statements as a whole. The [<i>identify accompanying supplementary information</i>] is presented for the purpose of additional analysis and are not a required part of the financial statements. Because of the significance of the matter described in the Basis for Disclaimer of Opinion paragraph, it is appropriate to and we do not express an opinion on these supplemental schedules</p>
<p>Report on Form and Content in Compliance With DOL Rules and Regulations</p>	<p>Report on Form and Content in Compliance With DOL Rules and Regulations</p>		
<p>The form and content of the information included in the financial statements and supplemental schedules, other than that derived from the information certified</p>	<p>The form and content of the information included in the financial statements and supplemental schedules, <u>that was derived from and relates directly to the</u></p>		

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<p>by the trustee (or custodian), have been audited by us in accordance with auditing standards generally accepted in the United States of America and, in our opinion, are 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><u>underlying accounting and other records</u>, other than that derived from the information certified by the trustee (or custodian), have been audited by us in accordance with auditing standards generally accepted in the United States of America and, in our opinion, are 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>_____</p> <p>[Auditor's Signature]</p> <p>[Auditor city and state]</p> <p>[Date of the auditor's report]</p>	<p>_____</p> <p>[Firm's manual signature]</p> <p>[Auditor Firm's city and state]</p> <p>[Date of the auditor's report]</p>	<p>_____</p> <p>[Firm's manual signature]</p> <p>[Auditor Firm's city and state]</p> <p>[Date of the auditor's report]</p>	<p>_____</p> <p>[Firm's manual signature]</p> <p>[Auditor Firm's city and state]</p> <p>[Date of the auditor's report]</p>