



Agenda Item 1C

Reports on ERISA Audits — Illustrative Limited Scope Auditor’s Report (Qualified Opinion)

Sample Limited Scope Auditor’s Report - QUALIFIED OPINION

[Comparison of task force proposal for disclaimer of opinion (see agenda Item 1B) to task force proposal for qualified opinion, and illustration from AICPA Professional Standards]

TASK FORCE PROPOSED REVISIONS DISCLAIMER OF OPINION (LIMITED SCOPE ADUIT) (see agenda item 1B)	TASK FORCE PROPOSED QUALIFIED OPINION (LIMITED SCOPE AUDIT)	AU-C 705.A32 (Illustration #4) QUALIFIED REPORT FOR SCOPE LIMITATION (from professional standards)
Sample Limited Scope Auditor’s Report (Disclaimer)	Sample Limited Scope QUALIFIED Auditor’s Report	Sample Qualified Auditor’s Report
Independent Auditor’s Report	Independent Auditor’s Report	Independent Auditor’s Report
To the Trustees, Participants and Beneficiaries Report on the Financial Statements	To the Trustees, Participants and Beneficiaries Report on the Financial Statements	To the Trustees,
We were engaged to audit the accompanying financial statements of XYZ 401(k) Plan; however we did not	We have audited the accompanying financial statements of XYZ 401(k) Plan which comprise the	We have audited the accompanying financial statements of ABC Company, which comprise the

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<p>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.</p>	<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>balance sheet as of December 31, 20X1, and the related statements of income, changes in stockholders’ equity, and cash flows for the year then ended, 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>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>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"> • maintaining records with respect to each of the employees sufficient to determine the benefits due or which may become due to such employees 	<p>Management is also responsible for:</p> <ul style="list-style-type: none"> • maintaining records with respect to each of the employees sufficient to determine the benefits due or which may become due to such employees 	

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<ul style="list-style-type: none"> the estimation methods and assumptions used in measuring investment information reported or disclosed at fair value¹ 	<ul style="list-style-type: none"> the estimation methods and assumptions used in measuring investment information reported or disclosed at fair value² 	
<ul style="list-style-type: none"> administering the plan and determining whether the plan is in compliance with Department of Labor Rules and Regulations³ 	<ul style="list-style-type: none"> administering the plan and determining whether the plan is in compliance with Department of Labor Rules and Regulations⁴ 	
<ul style="list-style-type: none"> 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 	<ul style="list-style-type: none"> 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 	
<ul style="list-style-type: none"> 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 	<ul style="list-style-type: none"> 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 	
<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	Our responsibility is to express an opinion on these financial statements based on our audits. We	Our responsibility is to express an opinion on these financial statements based on our audit. We

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 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."

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 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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~~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.~~

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 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.~~

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 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 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.

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

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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 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 qualified audit opinion.

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<i>Basis for Disclaimer of Opinion</i>	<i>Basis for Qualified Opinion</i>	<i>Basis for Qualified Opinion</i>
<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 <u>certified</u> information <u>included summarized</u> 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 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, and we did not perform, any auditing procedures with respect to the certified information described in Note X, except as described in the Other Matter—Certified Information paragraph. 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>ABC Company’s investment in XYZ Company, a foreign affiliate acquired during the year and accounted for under the equity method, is carried at \$XXX on the balance sheet at December 31, 20X1, and ABC Company’s share of XYZ Company’s net income of \$XXX is included in ABC Company’s net income for the year then ended. We were unable to obtain sufficient appropriate audit evidence about the carrying amount of ABC Company’s investment in XYZ Company as of December 31, 20X1 and ABC Company’s share of XYZ Company’s net income for the year then ended because we were denied access to the financial information, management, and the auditors of XYZ Company. Consequently, we were unable to determine whether any adjustments to these amounts were necessary.</p>
<i>Disclaimer of Opinion</i>	<i>Qualified Opinion</i>	<i>Qualified Opinion</i>
<p>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.</p>	<p>In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion paragraph, 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>	<p>In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of ABC Company as of December 31, 20X1, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.</p>

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<u>Emphasis of Matter</u>	Emphasis of Matter	<i>Emphasis of Matter (if any)</i>
<p><u>[Include the following matters when they are appropriately disclosed in the notes to the financial statements:</u></p> <ul style="list-style-type: none"> • <u>Mergers, Spin-offs or terminations</u>⁵ • <u>For DB plans—Plans funding percentage (funding deficiency)</u>⁶ • <u>For health and welfare plans — Excess obligations over plan assets</u>⁷ 	<p><u>[Include the following matters when they are appropriately disclosed in the notes to the financial statements:</u></p> <ul style="list-style-type: none"> • <u>Mergers, Spin-offs or terminations</u>⁸ • <u>For DB plans—Plans funding percentage (funding deficiency)</u>⁹ 	

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 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 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.

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<p><u><i>These matters did not modify our (disclaimer of) opinion.</i></u></p>	<p>For health and welfare plans — Excess obligations over plan assets¹⁰</p> <p>Our qualified opinion is not modified with respect to this matter.</p>	
<p><u>Other Matter—Summary of Significant Accounts and Disclosures, and Certified Information</u></p>	<p>Other Matter—Certified Information</p>	
<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><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</u></p>	<p>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</p>	

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.

¹⁰ 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>statements and related disclosures; performing necessary procedures to test that 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>the related information included in the financial statements and related disclosures; performing necessary procedures to test that 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.</p> <p>We do not express an opinion on these individual accounts and related disclosures.</p>	
<p><u>Other Matter—Report on Form and Content in Compliance with DOL Rules and Regulations</u> <i>Report on Supplemental Schedules</i></p> <p><i>[note: disclaimer of opinion is based on AU-C 720]</i></p>	<p><u>Other Matter - Report on Supplemental Schedules and Form and Content in Compliance with DOL Rules and Regulations</u></p> <p><i>[note: qualified would follow AU-C 725]</i></p>	<p><i>Other Matter</i> <i>Report on Supplementary Information (under AU-C 725.A17)- illustration 2</i></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</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. <u>Except for the certified information described in the Basis for Qualified Opinion paragraph,</u> the information has been subjected to the auditing procedures applied in the audits of the financial</p>	<p>Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The [<i>identify accompanying supplementary information</i>] is presented for purposes of additional analysis and is not a required part of the financial statements. 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 audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of</p>

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<p>not express an opinion on these supplemental schedules.</p>	<p>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.</p> <p>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>America. In our opinion, except for the effect on the supplementary information of [describe reason for qualification of the auditor’s opinion on the financial statements and reference the other-matter paragraph], the information is fairly stated in all material respects in relation to the financial statements as a whole.</p>
<p><u>Report on Form and Content in Compliance With DOL Rules and Regulations</u></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 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>In our opinion, except for the possible effects on the supplementary information as described in the Basis for Qualified Opinion paragraph, the information 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>	

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[Firm's manual signature]	[Firm's manual signature]	[Firm's manual signature]
[Auditor Firm's city and state]	[Auditor Firm's city and state]	[Auditor Firm's city and state]
[Date of the auditor's report]	[Date of the auditor's report]	[Date of the auditor's report]