



Agenda Item 4C

Illustration 3—An Auditor’s Report on Financial Statements of a Defined Contribution Retirement Plan Subject to ERISA When Management Imposes a Limitation on the Scope of the Audit As Permitted by ERISA

Circumstances include the following:

- Management imposed a limitation on the scope of the audit, as permitted by 29 CFR 2520.103-8 of the DOL’s Rules and Regulations for Reporting and Disclosure under ERISA,¹ with respect to the certified investment information for a complete set of general purpose financial statements of a 401(k) plan. No other scope limitations were imposed and the financial statements are not materially misstated.
- The financial statements are prepared in accordance with GAAP
- There are no matters disclosed in the notes to the financial statements that require an If emphasis-of-matter paragraph to be included in the auditor’s report.

Independent Auditor’s Report

[Appropriate Addressee]

We have performed an audit of the accompanying financial statements of XYZ 401(k) Plan, subject to the limitation on the scope of the audit imposed by management, as permitted by Employee Retirement Income Security Act of 1974. The financial statements comprise the statements of net assets available for benefits as of December 31, 20X2 and 20X1, and the related statement of changes in net assets available for benefits for the year ended December 31, 20X2, and the related notes to the financial statements.

Basis for Limitation on the Scope of the 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, management imposed a limitation on the scope of the audit. Under the authority of section 103(a)(3)(c) of the Employee Retirement Income Security Act of 1974, the audit need not extend to any statement or information prepared and certified by a bank or similar institution or insurance carrier which is regulated and supervised and subject to periodic examination by a State or Federal

¹ Although not as common, the plan administrator may limit the scope of the audit of 103-12 investment entities as permitted by ERISA. If the scope limitation imposed by management is under 29 CFR 2520.103-12 then the wording in this illustrative report may need to change to reflect the circumstances of the engagement.

agency, provided that the statements or information regarding assets so held are prepared and certified to by the bank or insurance carrier in accordance with 29 CFR 2520.103-5.

We have been informed by management that a qualified institution holds the investments and executes investment transactions. Management has obtained certifications from the qualified institution as of December 31, 20X2 and 20X1, and for the year ended December 31, 20X2, stating that the investment information, described in Note X to the financial statements, is complete and accurate.

Management's Responsibility for the Financial Statements and the Limitation on the Scope of the Audit

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.

Management is also responsible for determining whether a limitation on the scope of the audit is permissible in the circumstances, in accordance with the Employee Retirement Income Security Act of 1974, including

- evaluating whether the certification is prepared by a qualified institution, and
- evaluating whether the certified investment information is complete and accurate.

The limitation on the scope of the audit does not affect management's responsibility for the financial statements. Management is responsible for determining whether the certified investment information is appropriately measured, presented and disclosed in accordance with accounting principles generally accepted in the United States of America.

Management is also responsible for administering the plan and determining that the plan's transactions that are presented or disclosed in the financial statements are in conformity with the plan's provisions, including maintaining sufficient records with respect to each of the participants, in accordance with sections 107 and 209 of the Employee Retirement Income Security Act of 1974, to determine the benefits due or which may become due to such participants.

Auditor's Responsibility (Including Responsibility for the Certified Investment Information)

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. 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.

With respect to the certified investment information that management instructed us not to audit, we did not assess the risks of material misstatement nor did we consider internal control over the certified investment information. Our procedures were limited to the following:

- (a) obtaining and reading the certification
- (b) evaluating management's assessment of whether the entity issuing the certification is a qualified institution under ERISA
- (c) comparing the certified investment information with the related information presented or disclosed in the financial statements
- (d) assessing whether the form and content of the certified investment information presented or disclosed in the financial statements is in accordance with accounting principles generally accepted in the United States of America

Other than the certified investment information, our audit procedures were not limited for other amounts and disclosures in the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion on the financial statements with the ERISA-permitted scope limitation.

Auditor's Opinion on the Financial Statements With the ERISA-Permitted Audit Scope Limitation

In our opinion, with the exception of the possible effects of the limitation on the scope of the audit described in the *Basis for Limitation on the Scope of the Audit* section, the financial statements referred to above present fairly, in all material respects, the net assets available for benefits of the XYZ 401(k) 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.

Other Matter Relating to the Supplementary Information Required by ERISA

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The supplemental schedules of [*identify title of 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 Security Act of 1974. 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. With the exception of the certified investment information described in the *Basis for Limitation on the Scope of the Audit* section, 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.

Our procedures with respect to the certified investment information included in the supplemental schedules were limited to those procedures described in the *Auditor's Responsibility (Including Responsibility for the Certified Investment Information)* section.

In forming our opinion on the supplemental schedules, we evaluated whether the supplementary 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, with the exception of the possible effects of the limitation on the scope of the audit described in the *Basis for Limitation on the Scope of the Audit* section, the supplementary information in the accompanying schedules is fairly stated in all material respects in relation to the financial statements as a whole and is in conformity with the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974.

[Auditor's signature]

[Auditor's city and state]

[Date of the auditor's report]