

## AU-C Section 9805

# ***Special Considerations—Audits of Single Financial Statements and Specific Elements, Accounts, or Items of a Financial Statement: Auditing Interpretations of Section 805***

### **New GASB Pension Standards**

In June 2012, the Governmental Accounting Standards Board (GASB) issued two new standards that will substantially change the accounting and financial reporting of public employee pension plans and the state and local governments that participate in such plans. GASB Statement No. 67, *Financial Reporting for Pension Plans*, revises existing guidance for the financial reports of most governmental pension plans. GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, revises and establishes new financial reporting requirements for most governments that provide their employees with pension benefits. GASB Statement No. 67 is effective for financial statements for periods beginning after June 15, 2013. GASB Statement No. 68 is effective for financial statements for fiscal years beginning after June 15, 2014.

Interpretation No. 1, "Auditor of Governmental Cost-Sharing Multiple-Employer Pension Plan" (paragraphs .01–.07), Interpretation No. 2, "Auditor of Governmental Agent Multiple-Employer Pension Plan" (paragraphs .08–.12), and Interpretation Nos. 2–3 of section 500, *Audit Evidence*, are intended to assist both plan and employer auditors who are auditing entities that have implemented the new accounting standards.

## **1. Auditor of Governmental Cost-Sharing Multiple-Employer Pension Plan**

**.01 Question**—Management of a governmental cost-sharing multiple-employer pension plan (cost-sharing plan or plan) has calculated and prepared a schedule of employer allocations and a schedule of pension amounts, as described in the AICPA's State and Local Governments Expert Panel white paper *Governmental Employer Participation in Cost-Sharing Multiple-Employer Plans: Issues Related to Information for Employer Reporting*. If the plan auditor is engaged to perform an audit on schedules such as those illustrated in exhibit 1, "Schedule of Employer Allocations," and either exhibit 2(a), "Schedule of Pension Amounts by Employer," or exhibit 2(b), "Schedule of Collective Pension Amounts," of this interpretation, what type of audit report may be issued?

**.02 Interpretation**—Because the amounts contained in the previously mentioned schedules are considered elements or items of the cost-sharing plan or

participating employer's financial statements, the elements included in these schedules may be audited under section 805, *Special Considerations—Audits of Single Financial Statements and Specific Elements, Accounts, or Items of a Financial Statement*. An illustrative auditor's report on the schedule of employer allocations and schedule of pension amounts by employer prepared pursuant to section 805 follows.

### **Independent Auditor's Report**

[Appropriate Addressee]

We have audited the accompanying schedule of employer allocations of ABC Pension Plan as of and for the year ended June 30, 20X5, and the related notes. We have also audited the total for all entities of the columns titled net pension liability, total deferred outflows of resources, total deferred inflows of resources, and total pension expense (specified column totals) included in the accompanying schedule of pension amounts by employer of ABC Pension Plan as of and for the year ended June 30, 20X5, and the related notes.<sup>1</sup>

### **Management's Responsibility for the Schedules**

Management is responsible for the preparation and fair presentation of these schedules 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 the schedules that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility<sup>2</sup>**

Our responsibility is to express opinions on the schedule of employer allocations and the specified column totals included in the schedule of pension amounts by employer based on our audit. We conducted our audit 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 schedule of employer allocations and specified column totals included in the schedule of pension amounts by employer are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the schedule of employer allocations and specified column totals included in the schedule of pension amounts by employer. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the schedule of employer allocations and specified column totals included in the schedule of pension amounts by employer, whether due to fraud or error. In making those risk assessments,

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<sup>1</sup> If the plan prepares a schedule of collective pension amounts as illustrated in exhibit 2(b), "Schedule of Collective Pension Amounts," of this interpretation instead of the schedule of pension amounts by employer as illustrated in exhibit 2(a), "Schedule of Pension Amounts by Employer," of this interpretation, this paragraph would be changed as follows:

We have audited the accompanying schedule of employer allocations of ABC Pension Plan as of and for the year ended June 30, 20X5, and the related notes. We have also audited the columns titled net pension liability, total deferred outflows of resources excluding employer specific amounts, total deferred inflows of resources excluding employer specific amounts, and pension expense (specified column totals) included in the accompanying schedule of collective pension amounts of ABC Pension Plan as of and for the year ended June 30, 20X5, and the related notes.

<sup>2</sup> If the plan prepares a schedule of collective pension amounts as illustrated in exhibit 2(b) of this interpretation, instead of the schedule of pension amounts by employer as illustrated in exhibit 2(a) of this interpretation, all references to "specified column totals included in the schedule of pension amounts by employer" in this section would be replaced with "specified column totals included in the schedule of collective pension amounts."

the auditor considers internal control relevant to the entity's preparation and fair presentation of the schedule of employer allocations and specified column totals included in the schedule of pension amounts by employer 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 schedule of employer allocations and specified column totals included in the schedule of pension amounts by employer.

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

### Opinions<sup>3</sup>

In our opinion, the schedules referred to above present fairly, in all material respects, the employer allocations and net pension liability, total deferred outflows of resources, total deferred inflows of resources, and total pension expense for the total of all participating entities for ABC Pension Plan as of and for the year ended June 30, 20X5, in accordance with accounting principles generally accepted in the United States of America.

### Other Matter

We have audited, in accordance with auditing standards generally accepted in the United States of America, the financial statements of ABC Pension Plan as of and for the year ended June 30, 20X5, and our report thereon, dated October 15, 20X5, expressed an unmodified opinion on those financial statements.

### Restriction on Use

Our report is intended solely for the information and use of ABC Plan management, [*identify the body or individuals charged with governance of ABC Plan*], ABC Plan employers and their auditors and is not intended to be and should not be used by anyone other than these specified parties.

[*Auditor's signature*]

[*Auditor's city and state*]

[*Date of the auditor's report*]

**.03 Question**—In planning and performing an audit of the schedules illustrated in exhibits 1 and 2(a) or exhibit 2(b) of this interpretation, may the plan auditor use the same materiality as used for the audit of the plan's basic financial statements?

**.04 Interpretation**—No. Section 805 states, in part:<sup>4</sup>

In the case of an audit of one or more specific elements of a financial statement, the auditor should determine materiality for each individual element reported on rather than the aggregate of all elements or the complete set of financial statements.

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<sup>3</sup> If the plan prepares a schedule of collective pension amounts as illustrated in exhibit 2(b) of this interpretation instead of a schedule of pension amounts by employer as illustrated in exhibit 2(a) of this interpretation, this paragraph would be changed as follows:

In our opinion, the schedules referred to above present fairly, in all material respects, the employer allocations and net pension liability, total deferred outflows of resources excluding employer specific amounts, total deferred inflows of resources excluding employer specific amounts, and pension expense for ABC Pension Plan as of and for the year ended June 30, 20X5, in accordance with accounting principles generally accepted in the United States of America.

<sup>4</sup> Paragraph .14 of section 805, *Special Considerations—Audits of Single Financial Statements and Specific Elements, Accounts, or Items of a Financial Statement*.

Accordingly, the plan auditor should determine materiality separately for the schedule of employer allocations as well as each of the elements upon which the auditor opines from the schedule of pension amounts (that is, the column totals for net pension liability, total deferred outflows of resources, total deferred inflows of resources, and total pension expense).

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**Exhibit 1 — Schedule of Employer Allocations****EXAMPLE COST-SHARING PENSION PLAN**Schedule of Employer Allocations  
As of and for the year ended 6/30/20X5

<i>Employer</i>	<i>20X5 Actual Employer Contributions</i>	<i>Employer Allocation Percentage</i>
Employer 1	\$2,143,842	36.376
Employer 2	268,425	4.554
Employer 3	322,142	5.466
Employer 4	483,255	8.199
Employer 5	633,125	10.742
Employer 6	144,288	2.448
Employer 7	95,365	1.618
Employer 8	94,238	1.599
Employer 9	795,365	13.495
Employer 10	267,468	4.538
Employer 11	403,527	6.847
Employer 12	165,886	2.815
Employer 13	68,454	1.161
Employer 14	6,240	0.106
Employer 15	2,144	0.036
Total	\$5,893,764	100.000

**Exhibit 2(a) — Schedule of Pension Amounts by Employer**

**EXAMPLE COST-SHARING PENSION PLAN**  
 Schedule of Pension Amounts by Employer  
 As of and for the year ended 6/30/20X5

Entity	Deferred Outflows of Resources				Deferred Inflows of Resources				Pension Expense		
	Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments	Changes of Assump-tions	Share of Contri-butions	Total Deferred Outflows of Resources	Differences Between Expected and Actual Experience	Changes of Assump-tions	Share of Contri-butions	Total Deferred Inflows of Resources	Proportionate Share of Pension Expense	Net Amortization of Deferred Amounts From Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Pension Expense	
Employer 1	\$45,224,620	438,859	1,569,847	1,404,206	695,426	4,108,338	355,917	1,082,342	1,907,283	12,375	1,919,658
Employer 2	5,661,780	54,942	196,533	175,796	84,231	511,502	44,558	118,384	238,777	(1,793)	236,984
Employer 3	6,795,628	65,945	235,892	211,001	117,354	630,192	53,481	98,465	286,596	(8,088)	278,508
Employer 4	10,193,442	98,917	353,838	316,502	161,215	930,472	80,222	165,453	429,894	3,021	432,915
Employer 5	13,353,038	129,597	463,584	414,668	199,845	1,207,694	105,103	197,645	563,229	(9,900)	553,329
Employer 6	3,043,487	29,534	105,646	94,499	53,453	283,132	23,952	48,453	128,355	599	128,954
Employer 7	2,011,585	19,520	69,827	62,459	33,458	186,264	15,831	35,345	84,836	625	85,461
Employer 8	1,987,964	19,291	69,007	61,725	35,425	185,448	15,645	16,453	83,839	(5,712)	78,127
Employer 9	16,777,717	162,811	582,393	520,941	248,356	1,514,501	132,040	284,543	707,576	8,405	715,981
Employer 10	5,641,888	54,749	195,843	175,178	95,465	521,235	44,401	44,356	237,938	(1,188)	236,750
Employer 11	8,512,562	82,606	295,490	264,312	136,453	778,861	66,993	148,543	359,005	1,254	360,259
Employer 12	3,499,761	33,962	121,485	108,666	52,145	316,258	27,543	64,354	147,597	453	148,050
Employer 13	1,443,418	14,007	50,104	44,818	23,156	132,085	11,360	33,453	60,874	(205)	60,669
Employer 14	131,785	1,279	4,575	4,092	1,968	11,914	1,037	894	5,558	147	5,705
Employer 15	44,757	434	1,554	1,390	1,456	4,834	352	698	1,888	7	1,895
Total for All Entities	\$124,325,432	1,206,453	4,315,618	3,860,253	1,939,406	11,321,730	978,435	2,917,841	5,243,245	—	5,243,245

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## Exhibit 2(b) — Schedule of Collective Pension Amounts

**EXAMPLE COST-SHARING PENSION PLAN**

Schedule of Collective Pension Amounts  
As of and for the year ended 6/30/20X5

	<u>Deferred Outflows of Resources</u>				<u>Deferred Inflows of Resources</u>			
	<i>Net Difference Between Projected and Actual Differences Between Expected and Actual</i>	<i>Investment Earnings on Pension Plan In-vestments</i>	<i>Changes of As-sumptions</i>	<i>Total Deferred Outflows of Resources Excluding Employer Specific Amounts*</i>	<i>Differences Between Expected and Actual Experience</i>	<i>Changes of Assump-tions</i>	<i>Total Deferred Inflows of Resources Exclud-ing Employer Specific Amounts*</i>	<i>Pension Expense*</i>
<i>Net Pension Liability</i>	<u>1,206,453</u>	<u>4,315,618</u>	<u>3,860,253</u>	<u>9,382,324</u>	<u>978,435</u>	<u>—</u>	<u>978,435</u>	<u>5,243,245</u>

\* Employer specific amounts that are excluded from this schedule are the changes in proportion and differences between employer contributions and proportionate share of contributions as well as the related amortization as defined in paragraphs 54–55 of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*.

[Issue Date: April 2014.]

## 2. Auditor of Governmental Agent Multiple-Employer Pension Plan

**.08 Question**—Management of a governmental agent multiple-employer pension plan (agent plan or plan) has calculated and prepared a schedule of changes in fiduciary net position by employer, as described in the AICPA's State and Local Governments Expert Panel white paper *Governmental Employer Participation in Agent Multiple-Employer Plans: Issues Related to Information for Employer Reporting*. If the plan auditor is engaged to perform an audit on a schedule such as that illustrated in exhibit 3, "Schedule of Changes in Fiduciary Net Position by Employer," of this interpretation, what type of audit report may be issued?

**.09 Interpretation**—Because the amounts contained in the previously mentioned schedule are considered elements or items of the agent plan or participating employer's financial statements, the elements included in this schedule may be audited under section 805. An illustrative auditor's report on the schedule of changes in fiduciary net position by employer as a whole prepared pursuant to section 805 follows.

### **Independent Auditor's Report**

[Appropriate Addressee]

We have audited the fiduciary net position as of June 30, 20X5, and the changes in fiduciary net position for the year then ended, included in the accompanying Schedule of Changes in Fiduciary Net Position by Employer ("Schedule") of ABC Pension Plan, and the related notes.<sup>5</sup>

#### **Management's Responsibility for the Schedule**

Management is responsible for the preparation and fair presentation of the Schedule 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 the Schedule that is free from material misstatement, whether due to fraud or error.

#### **Auditor's Responsibility**

Our responsibility is to express an opinion on the fiduciary net position and the changes in fiduciary net position included in the Schedule based on our audit. We conducted our audit 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 fiduciary net position and the changes in fiduciary net position included in the Schedule are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Schedule. The procedures selected depend on

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<sup>5</sup> If the plan engages its auditor to opine on each employer column in the schedule of changes in fiduciary net position by employer as illustrated in exhibit 3, "Schedule of Changes in Fiduciary Net Position by Employer," of this interpretation, in addition to opining on the schedule as a whole, this paragraph would be changed as follows:

We have audited the fiduciary net position as of June 30, 20X5, and the changes in fiduciary net position for the year then ended, included in the accompanying Schedule of Changes in Fiduciary Net Position by Employer (Schedule) of ABC Pension Plan, and the related notes. We have also audited the fiduciary net position of each individual employer as of June 30, 20X5, and the changes in fiduciary net position of each individual employer for the year then ended, included in the accompanying Schedule, and the related notes.

the auditor's judgment, including the assessment of the risks of material misstatement of the fiduciary net position and the changes in fiduciary net position included in the Schedule, 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 fiduciary net position and the changes in fiduciary net position included in the Schedule 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 fiduciary net position and the changes in fiduciary net position included in the Schedule.

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

### **Opinion<sup>6</sup>**

In our opinion, the Schedule referred to above presents fairly, in all material respects, the fiduciary net position of ABC Pension Plan as of June 30, 20X5, and the changes in fiduciary net position for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

### **Other Matters**

We have audited, in accordance with auditing standards generally accepted in the United States of America, the financial statements of ABC Pension Plan as of and for the year ended June 30, 20X5, and our report thereon, dated October 15, 20X5, expressed an unmodified opinion on those financial statements.

Our audit of the financial statements of ABC Pension Plan was conducted for the purpose of forming an opinion on the financial statements as a whole. The individual employer information presented in each of the individual columns of the accompanying Schedule is presented for purposes of additional analysis and is not a required part of the financial statements. The individual employer 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. Each column of individual employer 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, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the individual employer information presented in each individual column of the accompanying Schedule is stated fairly, in all material respects, in relation to the financial statements of ABC Pension Plan as a

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<sup>6</sup> If the plan engages its auditor to opine on each employer column in the schedule of changes in fiduciary net position by employer as illustrated in exhibit 3 of this interpretation, in addition to opining on the schedule as a whole, this paragraph would be changed as follows:

In our opinion, the Schedule referred to above presents fairly, in all material respects, the fiduciary net position of ABC Pension Plan as of June 30, 20X5, and the changes in fiduciary net position for the year then ended, in accordance with accounting principles generally accepted in the United States of America. Also, in our opinion, the Schedule referred to above presents fairly, in all material respects, the fiduciary net position of each individual employer as of June 30, 20X5 and the changes in fiduciary net position of each individual employer for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Additionally, the second paragraph of the "Other Matters" section would be eliminated, and the heading would be singular (that is, "Other Matter").

whole. We do not express an opinion on the fiduciary net position or changes in fiduciary net position of each individual employer.<sup>7</sup>

### Restriction on Use

Our report is intended solely for the information and use of ABC Pension Plan management, [*identify the body or individuals charged with governance of ABC Pension Plan*], ABC Pension Plan participating employers and their auditors and is not intended to be and should not be used by anyone other than these specified parties.

[*Auditor's signature*]

[*Auditor's city and state*]

[*Date of the auditor's report*]

**.10 Question**—In planning and performing an audit of the schedule illustrated in exhibit 3 of this interpretation, may the plan auditor use the same materiality as used for the audit of the plan's basic financial statements?

**.11 Interpretation**—No. Section 805 states, in part:<sup>8</sup>

In the case of an audit of one or more specific elements of a financial statement, the auditor should determine materiality for each individual element reported on rather than the aggregate of all elements or the complete set of financial statements.

As a frame of reference, the plan auditor considers judgments about matters that are material to users of the financial statements based on a consideration of the common financial information needs of users as a group. In the report described in paragraph .09 of this interpretation, the auditor is opining on two elements: fiduciary net position and the changes in fiduciary net position. Accordingly, the plan auditor should determine materiality separately for the two elements (that is, fiduciary net position and the changes in fiduciary net position). If the plan auditor has been engaged to opine on each employer column in the schedule, the auditor should determine materiality separately for each employer column.

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<sup>7</sup> In accordance with section 725, *Supplementary Information in Relation to the Financial Statements as a Whole*, if the auditor's report on the audited financial statements contains an opinion other than unmodified, the auditor should refer to the guidance in section 725.

<sup>8</sup> Paragraph .14 of section 805.

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## Exhibit 3—Schedule of Changes in Fiduciary Net Position by Employer

**EXAMPLE AGENT MULTIPLE-EMPLOYER PLAN**  
Schedule of Changes in Fiduciary Net Position by Employer  
As of and for the year ended June 30, 20X5

	<i>Employer 1</i>	<i>Employer 2</i>	<i>Employer 3</i>	<i>Total</i>
Additions:				
Contributions:				
Employer	86,252,000	34,500,000	51,751,000	172,503,000
Plan Member	32,662,000	13,065,000	19,597,000	65,324,000
Investment income:	80,965,000	20,347,000	37,112,000	138,424,000
Total additions	199,879,000	67,912,000	108,460,000	376,251,000
Deductions:				
Pension benefits, including refunds	384,635,000	184,352,000	228,356,000	797,343,000
Administrative expenses	4,716,000	1,886,000	2,829,000	9,431,000
Total deductions	389,351,000	186,238,000	231,185,000	806,774,000
Net increase (decrease)	(189,472,000)	(118,326,000)	(122,725,000)	(430,523,000)
Net position restricted for pension benefits:				
Beginning of year	5,843,645,000	1,468,538,000	2,678,595,000	9,990,778,000
End of year	\$5,654,173,000	1,350,212,000	2,555,870,000	9,560,255,000

[Issue Date: June 2014.]

