

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.

Auditing Interpretation No. 2, “Auditor of Governmental Agent Multiple-Employer Pension Plan” (paragraphs .08–.12), and Auditing Interpretation No. 3, “Auditor of Participating Employer in a Governmental Agent Multiple-Employer Pension Plan,” of AU-C section 500, *Audit Evidence* (AICPA, *Professional Standards*), are intended to assist both plan and employer auditors who are auditing entities that have implemented the new accounting standards.

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 AU-C section 805, *Special Considerations—Audits of Single Financial Statements and Specific Elements, Accounts, or Items of a*



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Financial Statement (AICPA, Professional Standards). An illustrative auditor’s report on the schedule of changes in fiduciary net position by employer as a whole prepared pursuant to AU-C 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.⁵

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 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

⁵ 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.

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.

Opinion⁶

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

⁶ 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").

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

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. AU-C section 805 states, in part:⁸

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

⁷ In accordance with AU-C section 725, *Supplementary Information in Relation to the Financial Statements as a Whole* (AICPA, *Professional Standards*), if the auditor's report on the audited financial statements contains an opinion other than unmodified, the auditor should refer to the guidance in AU-C section 725.

⁸ Paragraph .14 of AU-C section 805, *Special Considerations—Audits of Single Financial Statements and Specific Elements, Accounts, or Items of a Financial Statement* (AICPA, *Professional Standards*).

engaged to opine on each employer column in the schedule, the auditor should determine materiality separately for each employer column.

.12 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

| | <u>Employer 1</u> | <u>Employer 2</u> | <u>Employer 3</u> | <u>Total</u> |
|---|-------------------------|----------------------|----------------------|----------------------|
| 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 | <u>199,879,000</u> | <u>67,912,000</u> | <u>108,460,000</u> | <u>376,251,000</u> |
| 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 | <u>389,351,000</u> | <u>186,238,000</u> | <u>231,185,000</u> | <u>806,774,000</u> |
| Net increase (decrease) | <u>(189,472,000)</u> | <u>(118,326,000)</u> | <u>(122,725,000)</u> | <u>(430,523,000)</u> |
| Net position restricted for pension benefits: | | | | |
| Beginning of year | <u>5,843,645,000</u> | <u>1,468,538,000</u> | <u>2,678,595,000</u> | <u>9,990,778,000</u> |
| End of year | <u>\$ 5,654,173,000</u> | <u>1,350,212,000</u> | <u>2,555,870,000</u> | <u>9,560,255,000</u> |

[Issue Date: June 2014.]