SLGEP: Emerging Pension Issues

aicpa.org/gaqc ⋆ gaqc@aicpa.org October 2015

November 2015 Update

Readers of the article below titled, *Effect of Employer-Paid Member Contributions on Plans and Employers*, should be aware of recent Governmental Accounting Standards Board (GASB) developments on employer-paid member contributions. Upon issuance of the article, GASB received a number of inquiries which provided them with more information on the depth of the issue. As a result, the GASB will be addressing the treatment of employer-paid member contributions as part of a GASB project that was already underway titled, *Pension Benefit Issues*. At its October 26, 2015, meeting, the GASB discussed potential changes in accounting for employer-paid member contributions and formed the following tentative conclusions:

- Contributions should be classified by pension plans in a manner consistent with the designation as an employee or employer contribution pursuant to the pension plan terms.
- Expense for amounts paid by the employer to satisfy employee contribution requirements should be included in salaries.

An exposure draft on the *Pension Benefit Issues* project is expected in December 2015, with a final standard scheduled for March 2016. In the meantime, readers should follow this GASB project to determine the effects on plan and employer accounting of employer-paid member contributions.

Introduction and Purpose

With the implementation of Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions*, the AICPA has received a number of inquiries. This article includes a summary of the more significant issues that have been raised and provides related discussion for plan auditors and employer auditors to consider. Issues addressed in this article include:

- Accounting for a change in proportion and audit evidence on beginning net pension liability in the initial year of implementation for employers participating in cost-sharing plans (cost-sharing employers);
- Effect of employer-paid member contributions on plans and employers;
- Additional illustrative schedule of pension amounts by employer for cost-sharing plans;
- Employer's presentation of net position;
- Allocation of pension amounts to funds and departments; and
- Audit evidence on intra-entity allocations.

The following sections reflect the discussions of the AICPA's State and Local Government Expert Panel (SLGEP) on these pension-related inquiries and are intended to build awareness and assist auditors in recognizing and addressing these issues.

Accounting for a Change in Proportion and Audit Evidence on Beginning Net Pension Liability[1] in the Implementation Year for Cost-Sharing Employers

Auditors of cost-sharing employers are reminded that in the initial year of implementing GASB Statement No. 68:

- Cost-sharing employers should report changes in the proportionate share of collective pension amounts (changes in proportion); and
- Sufficient appropriate evidence should be obtained by the employer auditor on the employer's proportionate share of the collective net pension liability as of the beginning of the measurement period.

Accounting for a Change in Proportion in the Implementation Year

There is no exclusion in the transition provisions of GASB Statement No. 68 for calculating a change in the employer's proportionate share of the collective net pension liability in the year of implementation. In accordance with paragraph 54 of GASB Statement No. 68, the employer should report a change in proportion for the initial measurement period (e.g., for the year ended June 30, 2014). Thus, the employer

[1] References to a net pension liability in this section also apply to situations in which the fiduciary net position exceeds the total pension liability resulting in a net pension asset

requires its allocation percentage from the plan as of the end of the prior year (e.g., June 30, 2013) to determine the net pension liability as of the beginning of the year (i.e., the opening balance).

Based on the inquiries received by the GAQC, it appears that some employers have confused the recording of deferred outflows of resources or deferred inflows of resources resulting from the change in proportion in the year of implementation with the transition provisions in paragraph 137 of GASB Statement No. 68. The guidance in paragraph 137 acknowledges that it may not be practical to determine the amounts of all deferred outflows of resources and deferred inflows of resources related to pensions, as applicable, at the beginning of the period of implementation. However, the change in proportion represents activity during the year and is not a transition adjustment affecting beginning balances. In some situations, it may be appropriate for employers to use the same allocation percentages for the beginning and end of the year if the employer determines (and the employer auditor concurs) that any changes in the allocation that occurred during the year would be immaterial to the employers' financial statements.

Audit Evidence on Beginning Net Pension Liability in the Implementation Year

The guidance in AU-C section 508, *Opening Balances-Initial Audit Engagements*, requires the auditor to obtain sufficient appropriate audit evidence about whether the opening balances contain misstatements that materially affect the current period's financial statements. GASB Statement No. 68 requires cost-sharing employers, for the first time, to report net pension liability. To accommodate the employer auditor's need to obtain this evidence on the opening balance of the employer's net pension liability in the year of implementation, it is recommended that plans prepare an additional schedule of employer allocations and a schedule of net pension liability as of the plan's prior year end (e.g., June 30, 2013) for which the plan auditor is engaged to obtain reasonable assurance and report on the schedule of employer allocations and on the total net pension liability. This would be in addition to similar schedules previously recommended by the AICPA that the plan prepares as of its current year end (e.g., June 30, 2014) and that the plan auditor is engaged to opine on. Said another way, the cost-sharing plan solutions communicated in Appendix B, *Governmental Employer Participation in Cost-Sharing Multiple-Employer Plans: Issues Related to Information for Employer Reporting*, of Chapter 13 of the 2015 AICPA Audit and Accounting Guide, *State and Local Governments* (SLG Guide), would be applied for the year prior to implementation, as well as the actual year of implementation.

Unlike the current year schedule of pension amounts described in Appendix B of the SLG Guide, the recommended schedule of net pension liability as of the plan's prior year-end does not need to include deferred outflows of resources, deferred inflows of resources, and pension expense. This is because paragraph 137 of GASB Statement No. 68 does not require employers to determine these amounts prior to the year of implementation. In lieu of preparing a separate schedule of net pension liability for the prior year, the plan may add an additional column to the current year schedule of pension amounts that includes the net pension liability as of the end of the prior year for which the plan auditor is engaged to opine.

Without the plan addressing the opening balances as described above, it is unlikely that the employer auditor could meet the requirements of AU-C section 508. Some have asserted that the recommended approach is not necessary as the plan auditor has, in essence, substantiated the beginning net pension liability because they have audited the current year schedule of pension amounts, which includes ending net pension liability and the changes in net pension liability (NPL) for the year (i.e., Ending NPL + Decreases in NPL – Increases in NPL = Beginning NPL). However, because the increases and decreases in net pension liability are based on the measurement of net pension liability at the beginning and end of the year, additional evidence that supports the beginning net pension liability and its allocation to the employers is necessary.

Effect of Employer-Paid Member Contributions on Plans and Employers

Readers should be aware of recent GASB developments on employer-paid member contributions.
See November 2015 Update box on Page 1 of this article.

Auditors of plans and participating employers should be aware that employer-paid member contributions may have accounting and financial reporting implications for both the plan and participating employers depending on how they are recognized by the employer. To understand the issues related to employer-paid member contributions, it is important to understand the background and information on certain Internal Revenue Service (IRS) guidance that is relevant to the issue.

Background

Employer-paid member contributions arise when payments are made by an employer to satisfy member contribution requirements to a plan. They are also referred to as employer pick-ups. There are two employer recognition alternatives for employer-paid member contributions:

- The employer recognizes the employer-paid member contributions as **salary expense**. This is appropriate when the employer increases the member's salary by the amount of the member's required contribution.
- The employer recognizes the employer-paid member contributions as **other than salary expense**. This is appropriate when the employer elects to comply with Internal Revenue Code (IRC) section 414.h.2, *Employer "Pick-Up" Contributions to Benefit Plans*, as further described in the following paragraphs.

IRC 414.h.2 Election

IRC section 414.h.2 provides that for any plan established by a government, where the contributions of employing units are designated employee contributions, but the employer *picks up* the contributions, the contributions are treated as employer contributions. For the employee contributions to be deemed *picked up* by the employer and characterized as *employer contributions*, certain tests must be met. A series of rulings by the IRS have established that only amounts that employers pay (including certain amounts withheld or otherwise offset from the employee's salary) are considered employer contributions, and are therefore excludable from the employee's gross income.

IRS Revenue Ruling 2006-43, *Government Pick-Up Plans; Employer Contributions; Income Tax; Prospective Application*, clarifies the requirements for employee contributions to be considered made, or picked up, by the employer. Among its clarifications are:

- Employing units must take formal action (such as through the issuance of a resolution by the governing body) to provide that the contributions on behalf of a specific class of employees, although designated as employee contributions, will be paid by the employing unit in lieu of employee contributions.
- Participating employees, from the date of the *pick-up* and later are not permitted to have a cash right or deferred election right with respect to the designated employee contributions. Participating employees must not be permitted to opt out of the pick-up, or to receive the contributed amounts directly instead of having them paid by the employing unit to the plan.

Effect on Plan Financial Statement Display of Contributions

Employer-paid member contributions may affect the classification of contributions by the plan in the statement of changes in fiduciary net position. Based on the guidance in footnote 2 of GASB Statement No. 67, *Financial Reporting for Pension Plans*:

- If the employer-paid member contribution is recognized by an employer as salary expense (i.e., there has been no IRC section 414.h.2 election made by that employer), the contributions relative to that employer should be classified as **member contributions**.
- If the employer-paid member contribution is recognized by an employer as other than salary expense (i.e., the IRC section 414.h.2 election has been made by that employer), the contributions relative to that employer should be classified as **employer contributions**.

If plans have not been aware of this nuance, it is possible that the employer pick-ups may have been misclassified in the plan's statement of changes in fiduciary net position. Plan auditors are advised to inquire of the plan about their knowledge of the nature of employer-paid member contributions and to determine the appropriateness of the classification of any employer pick-ups in the statement of changes in fiduciary net position. If applicable, plan auditors should also consider verifying that a management resolution was issued by the governing body of the employer in accordance with IRC section 414.h.2 to determine that the expense classification made by the employer is appropriate.

This nuance is even more complex for multiple-employer plans because the IRC section 414.h.2 election may be made on an employer-by-employer basis. Auditors of multiple-employer plans are advised to also consider evaluating whether the plans have appropriate processes and controls to determine which participating employers have made the IRC section 414.h.2 election and the effect of such elections on the classification of contributions in the plan's statement of changes in fiduciary net position.

Effect on Employer Pension Expense and Deferred Outflows of Resources

In situations in which employers have made payments to a plan to satisfy member contributions, the employer should evaluate whether such payments affect pension expense. Based on the guidance in footnote 2 of GASB Statement No. 68:

- If the employer-paid member contribution is treated by the employer as salary expense (i.e., there has been no IRC section 414.h.2 election made by the employer), that **contribution would be reported as salary expense and excluded from the employer's pension expense**.
- If the employer-paid member contribution is treated by the employer as other than salary expense (i.e., the IRC section 414.h.2 election has been made by the employer), those **contributions would be considered additional employer pension expense**.

Some employers may not be aware of the complex nuances of the IRC section 414.h.2 election and its effect on expense recognition and deferred outflows of resources. Auditors of employers are advised to determine whether the employer has made any employer-paid member contributions and, if so, whether the IRC section 414.h.2 election was made.

In situations in which the employer-paid member contributions meet the criteria to be classified as pension expense (i.e., the IRC section 414.h.2 election was made by the employer):

- Employer-paid member contributions made **during the measurement period** should be reflected in **pension expense**.
- Employer-paid member contributions to the plan **subsequent to the measurement date** *and before the employer year end* should be reported by the employer as **deferred outflows of resources** in accordance with paragraphs 34 and 57 of GASB Statement No. 68.

In contrast, employers that did not make the IRC section 414.h.2 election should report employer-paid member contributions to the plan during the employer's fiscal year as salary expense.

Effect on Schedule of Pension Amounts for Cost-Sharing Employers

As noted above, the IRC Section 414.h.2 election and its effect may not have been appropriately addressed by plans and employers. An additional implication is that the schedules prepared by cost-sharing plans to assist participating employer reporting as recommended in Appendix B of the SLG Guide (e.g., the schedule of pension amounts) could be affected. It should be noted that if the plan used the illustrative schedules included in the SLG Guide, those illustrations did not take into consideration scenarios in which there are employer-paid member contributions.

In addition to the considerations for plan auditors described in the section above "Effect on Plan Financial Statement Display of Contributions," auditors of cost-sharing plans are advised to consider whether there is any effect on the plan's schedule of pension amounts. If employers have made the IRC section 414.h.2 election or if the plan is unsure as to whether the election has been made by participating employers, the plan would be advised to revise the pension expense columnar headings in the schedule of pension amounts to be more descriptive of what is included in the pension expense column and the plan auditor would accordingly revise the opinion wording on the schedule to be more descriptive of the revised columnar heading. See the related discussion in this article of the additional illustrative schedule that has been developed to address this situation.

Effect on the Calculation of Employer's Proportionate Share of Collective Pension Amounts for Cost-Sharing Employers

While employer-paid member contributions have numerous accounting effects, such contributions made by cost-sharing employers would not affect the calculation of the employer's proportionate share of the collective pension amounts (i.e., net pension liability, deferred outflows of resources, deferred inflows of resources, and pension expense). While GASB Statement No. 68 is not specific on this point, the SLGEP believes that employer-paid member contributions should not be considered in the calculation of the proportionate share of the collective pension amounts due to the potential for inappropriate cost-shifting among participating employers. This position is further supported by the Board's tentative conclusions reached in recent deliberations (insert hyperlink to minutes when posted). In other words, if the cost-sharing allocation calculation is made on a basis of employer contributions, employer-paid member contributions would be excluded. Moreover, in calculating the proportionate share of collective pension expense, the effect of all employer-paid member contributions would have to be subtracted in determining the total allocable pension expense. Individual employers that have made the IRC section 414.h.2 election would need to add the allocated pension expense with their employer specific amount for employer-paid member contributions in determining total pension expense reported by the employer.

Additional Illustrative Schedule of Pension Amounts by Employer for Cost-Sharing Plans

The illustrative schedule of pension amounts by employer, which appears in Appendix B of Chapter 13 of the SLG Guide displays two parts of pension expense:

1. Proportionate share of pension expense.
2. Net recognition (amortization) of deferred amounts from change in proportion and differences between employer contributions and proportionate share of contributions.

The previously issued illustrative schedule did not consider employer-paid member contributions. Additionally, it did not address pension expense related to specific liabilities of individual employers as described in paragraph 56 of GASB Statement No. 68. These specific liabilities result in pension expense specific to the individual employer; in other words, pension expense that is not allocable to all employers. The SLGEP is providing an updated illustrative schedule titled, Illustrative Schedule of Pension Amounts by Employer: Revised for Employer-Specific Situations, to incorporate appropriate changes for employer-paid member contributions and pension expense specific to individual employers. The main revisions made to the illustrative schedule include:

- A new column added as a best practice to reflect pension expense related to specific liabilities of individual employers as reflected in the revised schedule.
- Revisions to the titles of column headings to be clear as to whether the pension expense being opined upon by the plan auditor includes or excludes the effect of employer-paid member contributions as follows:
    - Changed column header to read "Proportionate Share of ***Allocable*** Pension Expense" to reflect the pension expense to which the proportionate share applies.

- Changed the pension expense header to read, “Pension Expense ***Excluding That Attributable to Employer-Paid Member Contributions***” to clarify that employer-paid member contributions that should be added to pension expense for the employer’s purpose are not included in the schedule.

A revised auditor’s report on the schedule of pension amounts is also being provided to assist plan auditors in reporting on the schedule of pension amounts that have been presented using the revised illustrative schedule described above.

EXAMPLE COST-SHARING PENSION PLAN

Schedule of Pension Amounts by Employer

As of and for the year ended 6/30/20X5

		Deferred Outflows of Resources					Deferred Inflows of Resources				Pension Expense Excluding That Attributable to Employer-Paid Member Contributions			
Entity	Net Pension Liability	Differences Between Expected and Actual Experience	Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments	Changes of Assumptions	Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Contributions	Total Deferred Outflows of Resources	Differences Between Expected and Actual Experience	Changes of Assumptions	Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Contributions	Total Deferred Inflows of Resources	Proportionate Share of Allocable Plan Pension Expense [fn 1]	Pension Expense Related to Specific Liabilities of Individual Employers [fn2]	Net Amortization of Deferred Amounts from Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Contributions	Total Pension Expense Excluding That Attributable to Employer-Paid Member Contributions
Employer 1	$ 45,224,620	438,859	1,569,847	1,404,206	695,426	4,108,338	355,917	–	726,425	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	–	74,326	118,884	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	151,946	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	245,675	429,894	–	3,021	432,915
Employer 5	13,355,038	129,597	463,584	414,668	199,845	1,207,694	105,103	–	197,645	302,748	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	72,405	128,355	–	599	128,954
Employer 7	2,011,585	19,520	69,827	62,459	33,458	185,264	15,831	–	35,345	51,176	84,836	–	625	85,461
Employer 8	1,987,964	19,291	69,007	61,725	35,425	185,448	15,645	–	16,453	32,098	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	416,583	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	88,757	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	215,536	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	91,897	147,597	–	453	148,050
Employer 13	1,443,418	14,007	50,104	44,818	23,156	132,085	11,360	–	33,453	44,813	60,874	–	(205)	60,669
Employer 14	131,785	1,279	4,575	4,092	1,968	11,914	1,037	–	894	1,931	5,558	–	147	5,705
Employer 15	44,757	434	1,554	1,390	1,456	4,834	352	–	698	1,050	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	–	1,939,406	2,917,841	5,243,245	–	–	5,243,245

[fn 1] Allocable pension expense is meant to reflect the pension expense to which the proportionate share applies.

[fn 2] Pension expense related to specific liabilities of individual employers is discussed in paragraph 56 of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions.* If these types of liabilities do not exist in a plan, the column may be eliminated.

REPORT LANGUANGE when Additional Columns are Included

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 excluding that attributable to employer-paid member contributions (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.

Opinions

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 excluding that attributable to employer-paid member contributions 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.

REPORT LANGUANGE when Pension Expense Related to Specific Liabilites Exists but is Not Displayed

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 excluding that attributable to employer-paid member contributions (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.

Opinions

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 excluding that attributable to employer-paid member contributions 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.

Employer’s Presentation of Net Position

Employer auditors are reminded that unrestricted net position should not be disaggregated to present separate components on the face of the statement of net position. Upon adoption of GASB Statement No. 68, many governments will report a negative unrestricted net position based on the recognition of a relatively large net pension liability. Given the related effect on many governments’ net position, there have been questions about whether a government may display a separate pension component of unrestricted net position (deficit) on the face of the financial statements. Because the unrestricted net position is a residual balance that results from the cumulative inflows and outflows since the inception of the organization, a deficit unrestricted net position cannot be attributed to any one individual liability or expense and thus, be reported in the aggregate. However, Q&A 7.23.10 of the GASB’s Comprehensive Implementation Guide provides guidance that a government may disclose additional details of unrestricted net position in the notes to the financial statements or in MD&A.

Allocation of Pension Amounts to Funds and Departments

Although net pension liabilities will not be recorded in governmental funds, employer auditors are reminded that pension amounts should be allocated to proprietary and fiduciary funds based on the amounts that the funds are expected to pay, either directly or indirectly (e.g., through a fringe rate reimbursement), in future periods. The guidance on this issue resides in paragraph 42 of National Council on Governmental Accounting (NCGA) Statement 1, *Governmental Accounting and Financial Reporting Principles*, as amended, which requires that long-term liabilities that are “directly related to, and expected to be paid from” those funds be reported in the statement of net position or statement of fiduciary net position, respectively. Note that NCGA Statement 1 is considered in the GASB’s hierarchy of generally accepted accounting principles (GAAP) as Category A level GAAP and thus must by applied by the government.

With regard to departments, paragraph 15.91 of the SLG Guide states, “although GASB standards do not address the accounting and financial reporting for separately issued GAAP-based departmental financial statements, in meeting their reporting obligations, auditors should consider long-established practice dictating that those presentations should apply all relevant GAAP.” Therefore, NCGA Statement 1 would be relevant to departments with separately issued financial statements as well.

In terms of how the allocations to funds or departments would be made, governments generally use the allocation methodology for employers participating in cost-sharing plans as further discussed in chapter 13 of the SLG Guide (see Part III of the chapter titled, Employer Accounting, Financial Reporting, and Auditing Considerations: Cost-Sharing Employers). This allocation will also likely result in the employer recognizing additional deferred outflows of resources or deferred inflows of resources related to changes in proportion from year to year.

Audit Evidence on Intra-Entity Allocations

In situations where a primary government allocates pension amounts to components (funds, departments, or component units) that issue separate financial statements that are audited by other auditors, component auditors are advised that additional audit evidence may be needed to support the allocations. The following discussion addresses when component auditors may require additional audit evidence from the primary government on the allocated amounts based on the type of plan involved.

Cost-Sharing Employers

As noted in Appendix B to the SLG Guide, cost-sharing employers receive an audited schedule of employer allocations and schedule of pension amounts. These audited schedules, at the overall employer (primary government) level, provide components receiving an intra-entity allocation with sufficient appropriate evidence on the basis to apply relevant allocation percentages. However, an audited schedule of intra-entity allocations may be needed for separately issued financial statements of components audited by other auditors depending on whether the allocation basis used by the plan for the schedule of employer allocations (e.g., actual contributions) is the same or different from that used for the intra-entity allocation.

> **<u>If the allocation basis is the same</u>**, component auditors would likely not need additional assurance from the auditor of the primary government on the intra-entity allocations. This is because the allocation to the employer (primary government) provided in the plan's schedule of employer allocations becomes the denominator for the intra-entity calculation. Component auditors could then test the numerator of the allocation based on the books and records of each component.
>
> **<u>If the allocation basis is different</u>**, component auditors would likely need additional assurance (i.e., an opinion) from the auditor of the primary government on the intra-entity allocations. In this circumstance, it is recommended that the primary government prepare a schedule of intra-entity allocations and engage its auditor to obtain reasonable assurance and report on the schedule of intra-entity allocations for use by components and component auditors.

Single Employers and Agent Employers

There are different considerations for employers participating in single-employer and agent multiple-employer defined benefit pension plans. The need for an audited schedule of intra-entity allocations in these situations hinges on whether any of the components receiving an allocation of pension amounts are audited by other auditors.

> **<u>If other auditors are not involved in component audits</u>**, additional assurance from the auditor of the primary government on the intra-entity allocations would not be necessary as the auditor of the primary government is the auditor of the financial reporting entity and would have access to the books and records of the components suitable for testing the various allocations.
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> **<u>If other auditors are involved in component audits</u>**, component auditors would likely need additional assurance (i.e., an opinion) from the auditor of the primary government on the intra-entity allocations and on the pension amounts to which the allocation is applied. Thus, it is recommended the primary government prepare a schedule of intra-entity allocations and engage its auditor to

obtain reasonable assurance and report on the schedule of intra-entity allocations. It is also recommended that either the primary government or plan prepare a schedule of pension amounts and engage the respective auditor (i.e., the auditor of the primary government or plan) to obtain reasonable assurance and report on total net pension liability, total deferred outflows of resources, total deferred inflows of resources, and total pension expense for the sum of all participating components included in this schedule. Without such audit evidence, it is unlikely that component auditors will be able to accumulate sufficient appropriate audit evidence necessary to provide an unmodified opinion on the separately issued financial statements of components that have material allocated pension amounts.