



Agenda Item 4A

AU-C Section XXX

Special Considerations—Audits of ERISA Financial Statements

Effective for audits of financial statements for periods ending on or after December 15, 20XX.

REQUIREMENTS	APPLICATION AND OTHER EXPLANATORY MATERIAL
Introduction	
Scope of This Proposed SAS	Scope of This Proposed SAS
<p>.01 AU-C sections 200-700 apply to an audit of financial statements. This proposed SAS addresses special considerations in the application of those AU-C sections to an audit of employee benefit plan financial statements subject to the financial reporting requirements of the Employee Retirement Income Security Act of 1974 (ERISA), hereinafter referred to as ERISA financial statements. This proposed SAS does not purport to address all special considerations that may be relevant in the circumstances. It also addresses the form and content of the auditor’s report issued as a result of an audit of employee benefit plan financial statements, including reporting on compliance with certain provisions of the plan document and laws and regulations.</p>	<p>.A1 ERISA provides for federal government oversight of the operating and reporting practices of employee benefit plans. In addition to establishing reporting requirements for covered plans, ERISA establishes minimum standards for participation, vesting, and funding for defined benefit and defined contribution plans sponsored by private entities. It also establishes standards of fiduciary conduct and imposes specific restrictions and responsibilities on fiduciaries.</p> <p>.A2 Under ERISA, the DOL and IRS have the authority to issue regulations covering reporting and disclosure requirements and certain administrative responsibilities. The PBGC guarantees participants in most defined benefit pension plans certain minimum pension benefits if the plan terminates, and it administers terminated plans in certain circumstances. The IRS, DOL, and PBGC have consolidated their requirements into the Form 5500 to minimize the filing burden for plan administrators and employers.</p>
	<p>.A3 ERISA contains a requirement for annual audits of plan financial statements by an independent qualified public accountant. Generally, plans with 100 or more participants are subject to the audit requirement. ERISA and DOL regulations require additional information to be disclosed in the financial statements or presented in the supplemental schedules. Some of this information is required to be covered by the auditor’s report.</p>

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<p>.02 Under certain circumstances, plan management may elect to limit the scope of the audit in accordance with ERISA Section 103(a)(3)(C) that allows plan management to instruct the auditor not to perform auditing procedures with respect to the investment information prepared and certified by a bank or similar institution or by an insurance carrier that is regulated, supervised, and subject to periodic examination by a state or federal agency (qualified certifying institution), hereinafter referred to as an ERISA limited-scope audit</p>	<p>.A4 This election is available only if the qualified certifying institution certifies both the accuracy and completeness of the investment information submitted. Certifications that address only accuracy or completeness, but not both, do not comply with the DOL’s regulation and, therefore, are not adequate to allow plan management to limit the scope of the audit. The limited-scope audit is implemented by Title 29 U.S. Code of Federal Regulations (CFR) Part 2520.103-8 that outlines the DOL’s rules and regulations for reporting and disclosure under ERISA. Moreover, the limited-scope audit does not exempt the plan from the requirement to have an audit.</p>
<p>.03 This proposed SAS addresses the reporting for both full scope audits and <i>ERISA Limited-Scope Audits</i> of ERISA financial statements.</p>	
<p>.04 This proposed SAS is written in the context of a complete set of general purpose financial statements</p>	
<p>Effective Date</p>	
<p>.05 This proposed SAS is effective for audits of financial statements for periods ending on or after December 15, XXXX.</p>	
<p>Objectives</p>	
<p>.06 The objectives of the auditor when applying generally accepted auditing standards (GAAS) in an audit of employee benefit plan financial statements is to address appropriately the special performance and reporting considerations that are relevant to</p>	
<p>a. The acceptance of the engagement</p>	
<p>b. Written representations</p>	
<p>c. Forming an opinion and reporting on ERISA financial statements for both full scope and ERISA limited-scope audits</p>	
<p>d. Reporting on compliance</p>	
<p>Definitions</p>	<p>Definitions</p>

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<p>.07 For purposes of this SAS, the following terms have the meanings attributed as follows:</p>	
<p>ERISA Limited-Scope Audit. An audit in which the plan administrator instructs the auditor not to perform auditing procedures with respect to investment information prepared and certified by a bank or similar institution or by an insurance carrier that is regulated, supervised, and subject to periodic examination by a state or federal agency, as permitted by Title 29 CFR 2520.103-8 of the Department of Labor’s Rules and Regulations for Reporting and Disclosure under ERISA. [See ISSUE 6 in Agenda Item 4]</p>	<p>.A5 This scope limitation and corresponding limitation on the auditor’s work extend only to the investments and related investment information prepared and certified by the qualified certifying institution and does not extend to participant data, participant account balances and related earnings allocations, contributions, benefit payments, required financial statement disclosures, or other information, regardless of whether it is included in the certified information. It also, does not apply to information about investments held by a broker or dealer, or an investment company.</p>
<p>Qualified Certifying Institution. A bank or similar institution or an insurance carrier that is regulated, supervised, and subject to periodic examination by a state or federal agency that prepares and certifies the investment information of the plan, as permitted under 29 CFR 2520.103-8 of the DOL Rules and Regulations for Reporting and Disclosure under ERISA. [See ISSUE 6 in Agenda Item 4]</p>	<p>.A6 Sometimes, the plan’s recordkeeper certifies the investment information on behalf of the plan’s qualified certifying institution as “agent for.” In this situation, such certification generally would be acceptable when there is a legal agreement between the trustee and the recordkeeper to be able to provide the certification on the qualified certifying institution’s behalf. See AICPA Technical Questions and Answers 6934.01 Certifications by “Agent of”.</p>
<p>Inconsistency. Information contained in the Form 5500 that conflicts with information contained in the audited financial statements. A material inconsistency may raise doubt about the audit conclusions drawn from audit evidence previously obtained and, possibly, about the basis for the auditor’s opinion on the financial statements. [See ISSUE 8 in Agenda Item 4]</p>	<p>.A7 ERISA requires the notes to the financial statements to include an explanation of differences, if any, between the information contained in the separate financial statements and the net assets, liabilities, income, expense, and changes in net assets as required to be reported on the Form 5500. Such reconciling items are not considered an inconsistency for purposes of this definition.</p>
<p>Misstatement of fact. Information contained in the Form 5500 that is unrelated to matters appearing in the audited financial statements that is incorrectly stated or presented. A material misstatement of fact may undermine the credibility of the document containing audited financial statements. [See ISSUE 8 in Agenda Item 4]</p>	
<p>.08 Reference to <i>financial statements</i> in this proposed SAS means a complete set of general purpose financial statements, including the related notes. The related notes ordinarily comprise a</p>	

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<p>summary of significant accounting policies and other explanatory information. The requirements of the applicable financial reporting framework determine the form and content of the financial statements and what constitutes a complete set of financial statements.</p>	
<p>Requirements</p>	<p>Requirements</p>
<p>Considerations When Accepting the Employee Benefit Plan Engagement</p>	<p>Considerations When Accepting the Employee Benefit Plan Engagement</p>
<p>.09 AU-C section 210, <i>Terms of the Engagement</i>, requires the auditor to agree upon the terms of the audit engagement with management or those charged with governance, as appropriate. The agreed-upon terms of the audit engagement should be documented in an audit engagement letter or other suitable form of written agreement and should include, among other things, the responsibilities of management.¹</p>	<p>.A8 In an audit of ERISA financial statements, the engagement letter (or other suitable form of written agreement) includes management responsibilities that are specific to an ERISA engagement. For example, management’s responsibilities for maintaining records for each employee, administering the plan, for limited-scope audits: choosing to have a limited-scope audit, determining the appropriateness of the certification and determining that the certifying institution is qualified.</p> <p>.A9 AU-C section 210² states that employee benefit plans are an example of entities that are required to have an audit by law or regulation and a disclaimer of opinion is acceptable under the applicable law or to the regulator. For such entities, the auditor is neither precluded from accepting, nor required to accept, the engagement, regardless of whether management imposes a scope limitation that is expected to result in the auditor disclaiming an opinion on the financial statements as a whole.</p> <p>.A10 The concept of an independent audit requires that the auditor not assume management’s responsibility for the preparation and fair presentation of the financial statements. When the auditor assists in drafting the financial statements, in whole or in part, based on information provided by management during the performance of the audit, such assistance is considered a nonattest service under the “Nonattest Services” subtopic (AICPA, Professional Standards, ET sec 1.295) under the “Independence Rule” (AICPA, Professional Standards, ET sec. 1.200.001) of the AICPA Code of Professional Conduct. Before performing nonattest services, the auditor is required to establish and document in writing his or her</p>

¹ Paragraph .10 of AU-C section 210, *Terms of Engagement*

² Paragraph .A19 of AU-C section 210, *Terms of Engagement*.

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	understanding with the client regarding the objectives of the engagement, services to be performed, client’s acceptance of its responsibilities, auditor’s responsibilities, and any limitations of the engagement.
Written Representations in an Employee Benefit Plan Engagement	Written Representations in an Employee Benefit Plan Engagement
.10 AU-C section 580, <i>Written Representations</i> , requires the auditor to request written representations from management with appropriate responsibilities for the financial statements and knowledge of the matters concerned. ³ This includes representations about the preparation and fair presentation of the financial statements, information provided and completeness of transactions, and other written representations. In an audit of ERISA financial statements, the auditor should also request management to provide written representations that it	
a. Acknowledges its responsibility to maintain records with respect to each of the participants sufficient to determine the benefits due or which may become due to such participants in accordance with ERISA sections 107 and 209	.A11 ERISA section 209 (29 USC 1027 <i>Retention of Records</i>) requires the maintenance of records by employers relating to individual benefit reporting. ERISA section 107 (29 USC 1059 <i>Recordkeeping and Reporting Requirements</i>) provides general record retention requirements for employee benefit plans. ERISA requires that records be maintained in sufficient detail to permit the benefits to be properly calculated and paid when due.
b. Acknowledges its responsibility to administer the plan	.A12 ERISA sections 401-404 establishes responsibilities and imposes restrictions on plan fiduciaries.
c. Acknowledges that, for financial reporting purposes, the plan is in compliance with plan provisions and applicable laws and regulations.	.A13 Retirement and certain welfare plans are granted special tax status for the contributions and earnings on plan investments to be exempt from taxation. Plans must be designed and operated in accordance with IRC requirements in order to maintain their tax-exempt status. For qualified retirement plans, these are the provisions of IRC Section 401(a) and related IRC sections. A 403(b) plan is subject to some, but not all, of the same standards as a qualified retirement plan. A tax-exempt welfare benefit plan is subject to the specific requirements of the IRC section that is the basis of their exemption: IRC Section

³ Paragraph .09 of AU-C section 580, *Written Representations*.

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	<p>501(c)(9) for voluntary employee beneficiary associations (VEBAs), IRC Section 501(c)(17) for supplemental unemployment benefits, and IRC Section 501(c)(21) for black lung benefits.</p> <p>.A14 As part of the consideration about whether a plan is operating within the specific guidelines established by the plan document in accordance with the IRC, the plan administrator is responsible for certain nondiscrimination and other compliance tests which are required to be performed at least annually. However, IRS Revenue Procedure 93-42 permits certain plans to perform some of the tests once every three years, rather than annually. The plan administrator is an individual who is identified in the plan document as having responsibility for managing the day-to-day administration and strategic decisions for the plan. The plan administrator can be the employer, a committee of employees, a company executive, or someone hired for this purpose. The plan administrator is responsible for maintaining the plan’s compliance with the plan provisions and applicable laws and regulations including ERISA, DOL rules and regulations for reporting and disclosure, PBGC rules and regulations for insurance coverage and termination of defined benefit plans, and IRS regulations to prevent violations that may cause disqualification of their tax-exempt status.</p>
<p>d. Acknowledges its responsibility for the estimation methods and assumptions used in measuring the plan’s obligations</p>	<p>.A15 Defined benefit pension plans, including defined benefit health and welfare plans involve estimates relating to the plans benefit obligations or other postemployment benefits. Defined contribution retirement plans do not contain such estimates and therefore such management representation would not be necessary for a DC plan.</p>
<p>e. For ERISA limited-scope audits, acknowledges that it requested the limited-scope audit and acknowledges its responsibility to determine whether a limited-scope audit is appropriate in the circumstances and also acknowledging its responsibility to (Ref. par. .A5–.A6)</p>	
<p>i. determine whether the entity issuing the certification is a qualified certifying institution under section 2520.103-5 of the Department of Labor’s Rules and</p>	

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Regulations for Reporting and Disclosure Under ERISA	
<p>ii. determine whether the certified information from the qualified certifying institution includes the appropriate valuation of such investments at the reporting date, in accordance with accounting principles generally accepted in the United States of America</p>	
Forming an Opinion and Reporting Considerations	Forming an Opinion and Reporting Considerations
<p>.11 When forming an opinion and reporting on ERISA financial statements, the auditor should apply the requirements in AU-C section 700, <i>Forming an Opinion and Reporting on Financial Statements</i>, adapted as necessary in the circumstances of the engagement. When, in forming an opinion, the auditor concludes that a modification to the auditor’s opinion on the financial statements is necessary, the auditor should apply the requirements in AU-C section 705, <i>Modifications to the Opinion in the Independent Auditor’s Report</i>.</p>	<p>.A16 Paragraph .13 of AU-C 700 requires the auditor to form an opinion on whether the financial statements are presented fairly, in all material respects, in accordance with the applicable financial reporting framework.</p> <p>.A17 In order to form that opinion Paragraph .14 of AU-C 700 requires the auditor to conclude whether the auditor had obtained reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error. Among other things, that conclusion should take into account the auditor’s conclusion, in accordance with AU-C section 330, <i>Performing Audit Procedures in Response to Assessed Risks and Evaluating the Audit Evidence Obtained</i>, about whether sufficient appropriate audit evidence has been obtained. This applies regardless of whether the auditor is performing a full scope audit or ERISA limited-scope audit.</p>
<p>.12 For ERISA limited-scope audits, the form and content of the standard ERISA limited-scope auditor’s report as discussed in paragraph .19 should be used when the only restriction on the audit relates to the limitation on 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 and there are no identified material misstatements of the ERISA financial statements. When there are other limitations on the scope of the audit, other than what is permitted by ERISA section 103(a)(C), or when the auditor had identified material misstatements of the ERISA financial statements,</p>	

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<p>the use of the ERISA limited-scope auditor’s report is not a substitute for either</p>	
<p>a. The auditor expressing a qualified opinion, an adverse opinion, or disclaiming an opinion, when required by the circumstances of a specific audit engagement (see AU-C 705) or</p>	
<p>b. Disclosures in the financial statements that the applicable financial reporting framework requires management to make</p>	
<p>.13 Plans may hold investment assets, only a portion of which are covered by a certification by a qualified certifying institution. In that case, the auditor should perform full scope auditing procedures on the investment assets that have not been properly certified.</p>	<p>.A18 The scope limitation and corresponding limitation of the auditor’s work extend only to investments and related investment information certified by the qualified certifying institution. Plan investments not held by a qualified certifying institution, such as real estate, leases, mortgages, self-directed brokerage accounts, participant loans, and any other investments or assets not covered by such an entity’s certification should be subjected to appropriate audit procedures. Moreover, the appropriate audit procedures for all noninvestment-related information (for example, benefit payments, employer or employee contributions, and receivables) are the same for an ERISA limited-scope audit as for a full-scope audit.</p>
<p>.14 If the auditor is unable to obtain sufficient appropriate audit evidence regarding noninvestment-related information or investment information not covered by the certification, then the form and content of the standard ERISA limited-scope report may not be appropriate and the auditor should apply the requirements in AU-C section 705, <i>Modifications to the Opinion in the Independent Auditor’s Report</i>.</p>	<p>.A19 If the auditor determines that the standard ERISA limited-scope report is not appropriate in the circumstances, it may not be appropriate for the auditor to report on whether the supplementary information is fairly stated in all material respects, in relation to the financial statements as a whole or opine on the form and content of the supplemental schedules as presented in compliance with the Department of Labor’s Rules and Regulations for Reporting and Disclosure Under ERISA, as discussed in paragraphs .24-.25.</p> <p>.A20 For example, the auditor issues a disclaimer of opinion because the plan did not maintain sufficient accounting records and supporting documentation relating to certain investments and the auditor was unable to apply auditing procedures sufficient to determine the extent to which the financial statements may have been affected. The auditor concluded that the effects could be material and pervasive. In addition, the plan administrator has limited 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. In such situations, it would not be appropriate</p>

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	for the auditor to provide an opinion on the supplemental schedules because AU-C section 725 precludes the auditor from expressing an opinion on the supplementary information when the auditor’s report on the audited financial statements contains an adverse or a disclaimer of opinion. ⁴
Procedures When Performing a Limited-Scope Audit [See ISSUE 7 in Agenda Item 4]	Procedures When Performing a Limited-Scope Audit
.15 The auditor should perform full scope audit procedures in accordance with GAAS on the noninvestment-related information and investment information not covered by the certification.	.A21 Often the qualified certifying institution will certify all activity of the plan. As discussed in paragraph .A18, the scope limitation and corresponding limitation of the auditor’s work extend only to investments and related investment information certified by the qualified certifying institution.
.16 In addition to the full scope audit procedures performed on the noninvestment-related information and investment information not covered by the certification, in order to provide a limited-scope audit opinion on ERISA financial statements as set forth in paragraph .19, the auditor should perform the following procedures on the certified information as part of the ERISA limited-scope audit:	.A22 Performing an ERISA limited-scope audit does not eliminate the need for the auditor to plan and perform the audit in accordance with GAAS. .A23 Paragraph .07 of AU-C section 300 <i>Planning an Audit</i> requires the auditor to establish an overall audit strategy that sets the scope, timing, and direction of the audit and that guides the development of the audit plan, including risk assessment.
a. obtaining and reading a copy of the certification prepared by a qualified certifying institution;	.A24 The certification from a qualified certifying institution serves as audit evidence relating to certified investments. .A25 When designing and performing audit procedures, AU-C section 500 requires the auditor to consider the relevance and reliability of the information to be used as audit evidence. Audit evidence is necessary to support the auditor’s opinion and report. It is cumulative in nature and it is primarily obtained from audit procedures performed during the course of the audit. It may, however, also include information obtained from other sources. In addition to other sources inside or outside the entity, the entity’s accounting records are an important source of audit evidence. The quality of all audit evidence is affected by the relevance and reliability of the information upon which it is based. .A26 Relevance relates to the logical connection with, or bearing upon, the purpose of the audit

⁴ Paragraph .11 of AU-C 725 *Supplementary Information in Relation to the Financial Statements as a Whole*.

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	<p>procedure and, when appropriate, the assertion under consideration. The reliability of information to be used as audit evidence and, therefore, of the audit evidence itself is influenced by its source and nature and the circumstances under which it is obtained, including the controls over its preparation and maintenance, when relevant.</p>
<p>b. evaluating management’s assessment of whether the entity issuing the certification is a qualified certifying institution under DOL rules and regulations;</p>	
<p>c. comparing the certified information with the related information included in the financial statements and related disclosures;</p>	<p>.A27 Agreeing or reconciling the certified information to the amounts included in the plan’s financial statements and related investment disclosures also includes the investment information included in the ERISA supplemental schedules. To the extent that such information cannot be agreed to or derived from the certified investment information then appropriate auditor procedures would need to be performed on such information.</p>
<p>d. assessing whether the form and content of the financial statement disclosures related to the information prepared and certified by a qualified certifying institution are in accordance with accounting principles generally accepted in the United States of America.</p>	<p>.A28 When performing an ERISA limited-scope audit the auditor has no responsibility to test the accuracy or completeness of the investment information certified by the qualified certifying institution, however the auditor may need to understand the types of investments held by the plan to evaluate whether the form and content of the financial statement disclosures for those investments are in accordance with GAAP.</p>
	<p>.A29 The following are examples of procedures that may help the auditor evaluate whether the financial statement disclosures are appropriate in the circumstances:</p> <ul style="list-style-type: none"> a. Obtain an understanding, through inquiry and inspection of supporting documentation, of the types of investments held by the plan and the methodology for valuing those investments b. Inquire whether the investments included in the certification are valued in accordance with GAAP as of the appropriate date.

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	<ul style="list-style-type: none"> c. inquire of management about how investments at fair value are leveled in the fair value hierarchy table d. Consider the appropriateness of the classification of investments by the trustee in the financial statements
.17 Although the auditor is not required to audit certain investment information when performing an ERISA limited-scope audit, if the auditor becomes aware that the certified information is incomplete, inaccurate, or otherwise unsatisfactory, the auditor should perform further inquiry, which might result in additional testing or modification to the auditor’s opinion in accordance with AU-C section 705.	
Auditor’s Report	Auditor’s Report
<i>ERISA Full Scope Auditor’s Report</i>	<i>ERISA Full Scope Auditor’s Report</i>
.18 AU-C section 700 addresses the form and content of the auditor’s report. In the case of an auditor’s report on a full scope audit of ERISA financial statements, the	.A30 Exhibit A, “Illustrations of Auditor’s Reports on ERISA Financial Statements” contains illustrations of full scope and ERISA limited-scope auditor’s reports on ERISA financial statements.
a. section heading “Management’s Responsibility for the Financial Statements” should be revised to state “Management’s Responsibility for the ERISA Financial Statements”	
b. Explanation of management’s responsibility for the ERISA financial statements should also make reference to its responsibility for	.A31 AU-C section 200 explains that an audit in accordance with GAAS is conducted on the premise that management and, when appropriate, those charged with governance have acknowledged certain responsibilities that are fundamental to the conduct of the audit. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities. Management has added responsibilities when auditing ERISA financial statements due to the specialized characteristics of plans.
i. Maintaining records with respect to each of the participants sufficient to determine the benefits due or which may become due to such participants in accordance with ERISA sections 107 and 209	

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<p>ii. Administering the plan and determining whether, for financial reporting purposes, the plan is in compliance with plan provisions and applicable laws and regulations.</p>	
<p>iii. The estimation methods and assumptions used in measuring the plan’s obligations</p>	
<p>c. Explanation of the auditor’s responsibility should also include that generally accepted auditing standards require the auditor to communicate to those charged with governance significant audit findings, including significant deficiencies and material weaknesses identified during the audit.</p>	<p>.A32 AU-C section 265 <i>Communicating Internal Control Related Matters Identified in an Audit</i> addresses the auditor’s responsibility to appropriately communicate to those charged with governance and management deficiencies in internal control that the auditor has identified in an audit of financial statements.</p> <p>[See ISSUE 1 in Agenda Item 4]</p>
<p><i>Standard ERISA Limited-Scope Auditor’s Report</i></p>	<p><i>Standard ERISA Limited-Scope Auditor’s Report</i></p>
<p>.19 AU-C section 700 addresses the form and content of the auditor’s report. In the case of an auditor’s report on an ERISA limited-scope audit of ERISA financial statements, the</p>	
<p>a. Introductory paragraph should contain the following elements instead of those set forth in paragraph .25 of AU-C section 700</p>	
<p>i. Identify the entity whose financial statements have been audited</p>	
<p>ii. State that the auditor performed an ERISA limited-scope audit as instructed by plan management</p>	
<p>iii. State that 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 plan management has elected to limit the scope of the audit under ERISA Section 103(a)(3)(c) that allows plan management to instruct the auditor not to perform auditing procedures with respect to the investment information prepared and</p>	

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certified by a qualified certifying institution.	
iv. State that plan management has determined that the certification is acceptable in the circumstances (if the certification is not acceptable then an ERISA limited-scope audit cannot be performed)	
v. State that an ERISA limited-scope audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements, other than for the certified information described in the ERISA financial statements.	
vi. Identify the title of each statement that the financial statements comprise, and	
vii. Specify the date or period covered by each statement that the financial statements comprise	
b. The section heading “Management’s Responsibility for the Financial Statements” should be revised to state “Management’s Responsibility for Limited-Scope ERISA Financial Statements”	
c. Explanation of management’s responsibility for the limited-scope ERISA financial statements should also make reference to its responsibility for	
i. Maintaining records with respect to each of the participants sufficient to determine the benefits due or which may become due to such participants in accordance with ERISA sections 107 and 209	
ii. Administering the plan and determining whether, for financial reporting purposes, the plan is in compliance with plan provisions and applicable laws and regulations.	

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<p>iii. The estimation methods and assumptions used in measuring the plan’s obligations</p>	<p>[For a DB plan]</p>
<p>iv. electing to have a limited-scope audit performed and determining that a limited-scope audit is appropriate in the circumstances</p>	
<p>v. determining whether the entity issuing the certification is a qualified certifying institution under section 2520.103-5 of the Department of Labor’s Rules and Regulations for Reporting and Disclosure under ERISA</p>	
<p>vi. determining whether the certified information from the qualified certifying institution includes the appropriate valuation of such investments at the reporting date, in accordance with accounting principles generally accepted in the United States of America</p>	
<p>d. The section heading “Auditor’s Responsibility” should include “for an ERISA Limited-Scope Audit”</p>	
<p>e. Explanation of auditor’s responsibility for an ERISA limited-scope audit should also include the following additional information (underlined)</p>	
<p>i. an <u>ERISA limited-scope</u> audit, <u>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</u>, involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements, <u>other than for the certified information described in the notes to the ERISA financial statements.</u></p>	
<p>ii. 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</p>	

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<p>those risk assessments, the auditor considers internal control relevant to the entity’s preparation and fair presentation of the financial statements <u>except for internal control over the investments held and investment transactions executed for the plan by the qualified certifying institution</u>, 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 and accordingly, no such opinion is expressed.</p>	
<p>iii. generally accepted auditing standards require auditors to communicate to those charged with governance significant audit findings, including significant deficiencies and material weaknesses identified during the audit. (Ref. par. .A32)</p>	<p>[See ISSUE 1 in Agenda Item 4]</p>
<p>f. The section heading “Auditor’s Opinion” should be revised to state “Auditor’s ERISA Limited-Scope Opinion”</p>	
<p>g. When expressing an opinion on an ERISA limited-scope audit and the only restriction on the audit is because plan management elected to limit the scope of the audit in accordance with ERISA Section 103(a)(C) and the auditor has not identified any material misstatements the auditor should state in the opinion paragraph that, in the auditor’s opinion, except for the possible effects of the matter described in the Basis for ERISA Limited-scope Opinion paragraph (see paragraph .20) the financial statements are presented fairly, in all material respects, in accordance with the applicable financial reporting framework.</p>	<p>.A33 As required by paragraph .17 of AU-C 700, the auditor’s evaluation about whether the financial statements achieve fair presentation includes consideration of (a) the overall presentation, structure, and content of the financial statements, and (b) whether the financial statements, including the related notes, represent the underlying transactions and events in a manner that achieves fair presentation.</p>
<p>.20 When issuing a standard ERISA limited-scope auditor’s report, in addition to the specific elements required by AU-C section 700, the auditor should also include</p>	
<p>a. a paragraph, immediately before the ERISA limited-scope opinion paragraph and use a heading that includes “Basis for ERISA</p>	

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<p>Limited-Scope Opinion”, that explains the ERISA limited-scope audit as follows</p>	
<p>i. a statement that, 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 the auditor not to perform, and they did not perform, any auditing procedures with respect to the certified information described in the notes to the ERISA financial statements, <u>except as described in the Other Matter Relating to Certified Information paragraph.</u></p>	
<p>ii. a statement that the auditor has been informed by the plan administrator that the qualified certifying institution holds the Plan’s investment assets and executes investment transactions.</p>	
<p>iii. a statement that the plan administrator has obtained a certification from the qualified certifying institution, the dates covered by the certification and that the information provided to the plan administrator by the qualified certifying institution is complete and accurate.</p>	
<p>b. An other matter paragraph, in accordance with AU-C section 706, with the heading “Other Matter Relating to Certified Information” or other appropriate heading, that</p>	
<p>i. States that the auditor performed the following procedures with respect to the certified information described in the notes to the financial statements:</p>	
<p>a. obtaining and reading a copy of the certification from the plan administrator;</p>	
<p>b. evaluating management’s assessment of whether the entity issuing the certification is a qualified certifying institution under DOL rules and regulations;</p>	

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<p>c. comparing the certified information with the related information included in the financial statements and related disclosures;</p>	
<p>d. assessing whether the form and content of the financial statement disclosures related to the information prepared and certified by a qualified certifying institution are in accordance with accounting principles generally accepted in the United States of America.</p>	
<p>ii. States that the scope limitation and corresponding limitation on the audit permitted under ERISA extend only to investments and related investment information certified by a qualified certifying institution. Plan investments not held by a qualified certifying institution and other investments or assets not covered by a qualified certification have been subjected to appropriate audit procedures. As part of the audit the auditor performs procedures to test that received or disbursed amounts, other than certified investment income, such as contributions and benefit payments, were determined in accordance with the plan provisions.</p>	
<p>iii. States that the auditor does not express an opinion on these individual accounts and related disclosures.</p>	
<p>Emphasis-of-Matter Paragraphs [See ISSUE 9 in Agenda Item 4]</p>	<p>Emphasis-of-Matter Paragraphs</p>
<p>.21 The auditor’s report on ERISA financial statements should include an <i>emphasis-of-matter paragraph</i>,⁵ under an appropriate heading, when the following situations exist:</p>	

⁵ Paragraphs .06-.07 of AU-C section 706, *Emphasis-of-Matter Paragraphs and Other-Matter Paragraphs in the Independent Auditor’s Report*.

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<p>a. When there are significant plan amendments that affect net assets that are disclosed in the notes to the financial statements in accordance with FASB ASC 960-205-50-1, 962-205-50-1, and 965-205-50-1.</p>	<p>.A34 The following are illustrations of emphasis-of-matter paragraphs when a defined benefit pension plan has a plan amendment:</p> <p style="padding-left: 40px;">Emphasis of Matter Regarding Plan Freeze</p> <p style="padding-left: 40px;">As discussed in Note X to the financial statements the board of XYZ company voted to freeze entrance and benefit accruals under the XYZ pension plan effective [<i>include date</i>]. Our opinion is not modified with respect to this matter</p> <p style="padding-left: 40px;">Emphasis of Matter Regarding Plan Freeze</p> <p style="padding-left: 40px;">As discussed in Note X to the financial statements a resolution was approved as of [<i>include date</i>] to freeze certain benefits under the plan as of December 31, 20X2 and implement a cash balance retirement feature for certain participants effective January 1, 20X3. Our opinion is not modified with respect to this matter</p>
<p>b. When minimum funding waivers are granted by the IRS, or if a request for waiver is pending before the IRS, that are disclosed in the notes to the financial statements in accordance with FASB ASC 960-205-50-1 and 962-205-50-1.</p>	<p>.A35 The following is an illustration of an emphasis-of-matter paragraph when a defined benefit pension plan received a funding waiver.</p> <p style="padding-left: 40px;">Emphasis of Matter Regarding Funding Waiver</p> <p style="padding-left: 40px;">As discussed in Note X to the financial statements, the plan received a funding waiver from the IRS. Our opinion is not modified with respect to this matter.</p>
<p>c. When there are significant changes in the nature of the plan, for example, a plan merger or spin-off, that are disclosed in the notes to the financial statements in accordance with FASB ASC 965-205-50-1.</p>	<p>.A36 The following is an illustration of an emphasis-of-matter paragraphs when a defined contribution retirement plan is merged into another plan.</p> <p style="padding-left: 40px;">Emphasis of Matter Regarding Plan Merger</p> <p style="padding-left: 40px;">As discussed in Note X to the financial statements, the Board of Directors of the XYZ Company, the Plan's sponsor, voted on March 9, 20X2, to merge the Plan into the ABC Plan effective December 31, 20X2. All plan assets were transferred to the ABC Plan on December 31, 20X2. Our opinion has not been modified with respect to this matter.</p>
<p>Other-Matter Paragraphs [See ISSUE 10 in Agenda Item 4]</p>	<p>Other-Matter Paragraphs</p>
<p><i>Participant Accounts</i></p>	<p><i>Participant Accounts</i></p>

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<p>.22 For individual account plans, the auditor’s report on ERISA financial statements should include an <i>other-matter paragraph</i>,⁶ under an appropriate heading that describes that the auditor performed audit procedures on the participant accounts.</p>	<p>.A37 Exhibit A, Illustration 1—<i>An Auditor’s Report on Comparative ERISA Financial Statements for a Defined Contribution Retirement Plan Prepared in Accordance with Accounting Principles Generally Accepted in the United States of America for a Full Scope ERISA Audit</i>, and Illustration 3 <i>An Auditor’s Report on Comparative ERISA Financial Statements for a Defined Contribution Retirement Plan Prepared in Accordance with Accounting Principles Generally Accepted in the United States of America for an ERISA Limited-Scope Audit</i> include an example other-matter paragraph to illustrate a description of what the auditor does related to participant accounts.</p>
<p><i>Initial Audits</i></p>	<p><i>Initial Audits</i></p>
<p>.23 When a plan has not been previously subject to audit, the auditor should include an other-matter paragraph to describe that the auditor performed procedures on the opening balances in accordance with GAAS.</p>	<p>.A38 AU-C section 510, <i>Opening Balances—Initial Audit Engagements, Including Reaudit Engagements</i>, addresses the auditor’s responsibilities relating to opening balances in an initial audit engagement, including a reaudit engagement. AU-C section 510 contains audit procedures that should be performed on such initial audits. The following is an example of an other-matter paragraph for an initial audit of a DB plan’s ERISA financial statements that may be included in the auditor’s report:</p> <p style="padding-left: 40px;">Other Matter Relating to Opening Balances</p> <p style="padding-left: 40px;">As part of our audit of the financial statements we performed certain procedures on opening balances, as we determined necessary in the circumstances, to test the completeness and accuracy of participant data and records of prior years, in particular as they related to participant contributions and eligibility, the amounts and types of benefits, participant account balances and the census data maintained by the actuary.</p>
<p>Reporting on ERISA Supplemental Schedules [See ISSUE 11 in Agenda Item 4]</p>	<p>Reporting on ERISA Supplemental Schedules</p>
<p>.24 ERISA requires that certain supplemental schedules accompany the basic financial statements if applicable. In ERISA audits, the auditor should</p>	<p>.A39 According to 29 CFR 2520.103-10 the administrator of a plan filing an annual report pursuant to ERISA section 2520.103-1(a)(2) should, as provided</p>

⁶ Paragraphs .06-.07 of AU-C section 706, *Emphasis-of-Matter Paragraphs and Other-Matter Paragraphs in the Independent Auditor’s Report*.

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<p>report on whether such supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole, in accordance with AU-C section 725, <i>Supplementary Information in Relation to the Financial Statements as a Whole</i>.</p>	<p>in the instructions to the Form 5500 “Annual Return/Report of Employee Benefit Plan” include as part of the annual report the separate financial schedules: (1) assets held for investment; (2) assets acquired and disposed of within the plan year; (3) party in interest transactions; (4) obligations in default; (5) leases in default; and (6) reportable transactions.</p> <p>.A40 The Form 5500 requires the following schedules to be attached to the Form 5500 filing. These schedules are covered by the auditor’s report on whether such supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole, in accordance with AU-C 725. The Form 5500 is updated annually and therefore the Form 5500 contains the most current information about the required schedules.</p> <ul style="list-style-type: none"> a. Schedule H, line 4a—Schedule of Delinquent Participant Contributions b. Schedule H, line 4i—Schedule of Assets (Held at End of Year) c. Schedule H, line 4i—Schedule of Assets (Acquired and Disposed of within Year) d. Schedule H, line 4j—Schedule of Reportable Transactions e. Schedule G, Part I—Schedule of Loans or Fixed Income Obligations in Default or Classified as Uncollectible f. Schedule G, Part II—Schedule of Leases in Default or Classified as Uncollectible g. Schedule G, Part III—Nonexempt Transactions
<p>.25 AU-C section 725 addresses the performance requirements as well as the form and content of the report on supplementary information in relation to the financial statements as a whole. In the case of an audit of ERISA financial statements, the report on the required ERISA supplementary information should also</p>	<p>.A41 The reporting requirements in paragraph .25 are in addition to the reporting requirements in AU-C section 725.</p>
<ul style="list-style-type: none"> a. explain that the auditor performed procedures to test the completeness and accuracy of the information presented in the supplemental schedules; 	

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<p>b. explain that in forming the opinion on the supplemental schedules, the auditor evaluated whether the information in the supplemental schedules, including its form and content, is presented in conformity with the Department of Labor’s Rules and Regulations for Reporting and Disclosure Under ERISA.</p>	
<p>c. provide an opinion on whether the form and content of the information in the supplemental schedules is presented in conformity with the Department of Labor’s Rules and Regulations for Reporting and Disclosure under ERISA.</p>	
<p>Considerations Relating to the Form 5500 Filing [See ISSUE 8 in Agenda Item 4]</p>	<p>Considerations Relating to the Form 5500 Filing</p>
<p>.26 Information in the Form 5500 may be relevant to an independent audit or the continuing propriety of the auditor’s report. The auditor should read the Form 5500 in order to identify material inconsistencies, if any, with the audited financial statements.</p>	<p>.A42 Obtaining the Form 5500 prior to the report release date enables the auditor to resolve possible material inconsistencies and apparent misstatements of fact with management on a timely basis. An agreement with management regarding when the Form 5500 will be available may be helpful. The auditor may delay the release of the auditor’s report until management provides the Form 5500 to the auditor.</p> <p>.A43 ERISA requires a plan’s financial statements to include financial statement disclosures of reconciling differences, if any, between amounts reported in the financial statements and the amounts reported in the Form 5500. If, upon reading the Form 5500 subsequent to the issuance of the plan’s financial statements the auditor identifies any such differences, he or she may consider reissuing the auditor’s report, dual-dated with respect to the note explaining the differences. If the differences represent a material inconsistency or misstatement of fact in the preparation of the Form 5500, then the guidance in paragraphs .32–.38 below is appropriate.</p>
<p>.27 The auditor should make appropriate arrangements with management or those charged with governance to obtain the Form 5500 prior to the report release date. If it is not possible to obtain the Form 5500 prior to the report release date, the auditor should read the Form 5500 as soon as practicable.</p>	

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<p>.28 The auditor should communicate with those charged with governance the auditor’s responsibility with respect to the Form 5500; any procedures performed relating to the Form 5500; and the results.</p>	
<p>.29 If, on reading the Form 5500, the auditor identifies a material inconsistency, the auditor should determine whether the audited financial statements or the Form 5500 needs to be revised.</p>	
<p>.30 When the auditor identifies a material inconsistency prior to the date of the auditor’s report that requires revision of the audited financial statements and management refuses to make the revision, the auditor should modify the auditor’s opinion in accordance with AU-C section 705, <i>Modifications to the Opinion in the Independent Auditor’s Report</i>.</p>	
<p>.31 When the auditor identifies a material inconsistency after the date of the auditor’s report but prior to the report release date that requires revision of the audited financial statements, the auditor should apply the relevant requirements in AU-C section 560, <i>Subsequent Events and Subsequently Discovered Facts</i>.</p>	
<p>.32 When the auditor identifies a material inconsistency prior to the report release date that requires revision of the information in the Form 5500 and management refuses to make the revision, the auditor should communicate this matter to those charged with governance and</p>	<p>.A44 When management refuses to revise the information in the Form 5500, the auditor may base any decision on what further action to take on advice from the auditor’s legal counsel.</p>
<p>a. Include in the auditor’s report an other-matter paragraph describing the material inconsistency, in accordance with AU-C section 706, <i>Emphasis-of-Matter Paragraphs and Other-Matter Paragraphs in the Independent Auditor’s Report</i>;</p>	
<p>b. Withhold the auditor’s report; or</p>	
<p>c. When withdrawal is possible under applicable law or regulation, withdraw from the engagement.</p>	

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<p>.33 When revision of the audited financial statements is necessary as a result of a material inconsistency with the information in the Form 5500 and the auditor’s report on the financial statements has already been released, the auditor should apply the relevant requirements in AU-C section 560 <i>Subsequent Events and Subsequently Discovered Facts</i>.</p>	<p>.A45 The auditor may encounter situations in which the auditor’s report is issued prior to the auditor’s reading of the Form 5500. If such a situation occurs, it is important for the auditor to inform the plan administrator that the auditor’s report is not to be attached to the financial statements included with the Form 5500 filing without the auditor’s reading of the Form 5500. When the engagement letter is prepared, it may include a statement that in the event that the auditor’s report is issued prior to the auditor having read the Form 5500, the plan administrator agrees not to attach the auditor’s report to the financial statements included with the Form 5500 filing until the auditor has read the completed Form 5500. The auditor may also consider including a statement in the transmittal letter to the client indicating that the auditor’s report, as presented, is not to be attached to the financial statements to be included in the Form 5500 filing without the auditor’s reading of that filing.</p>
<p>.34 When revision of the Form 5500 is necessary after the report release date and management agrees to make the revision, the auditor should carry out the procedures necessary under the circumstances.</p>	<p>.A46 When revision of the information in the Form 5500 is necessary after the report release date and management agrees to make the revision, the auditor’s procedures may include reviewing the steps taken by management to ensure that individuals in receipt of the previously issued financial statements, the auditor’s report thereon, and the Form 5500 are informed of the need for revision.</p>
<p>.35 When revision of the Form 5500 is necessary after the report release date but management refuses to make the revision, the auditor should notify those charged with governance of the auditor’s concerns regarding the Form 5500 and take any further appropriate action.</p>	<p>.A47 When revision of information in the Form 5500 is necessary after the report release date but management refuses to make the revision, appropriate further actions by the auditor may include obtaining legal advice.</p>
<p>.36 If, on reading the Form 5500 for the purpose of identifying material inconsistencies, the auditor becomes aware of an apparent material misstatement of fact, the auditor should discuss the matter with management.</p>	<p>.A48 When discussing an apparent material misstatement of fact with management, the auditor may not be able to evaluate the validity of some disclosures included within the Form 5500 and management’s responses to the auditor’s inquiries and may conclude that valid differences of judgment or opinion exist.</p>
<p>.37 When following such discussions, the auditor still considers that there is an apparent material misstatement of fact, the auditor should request management to consult with a qualified third party, such as the entity’s legal counsel, and the</p>	

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<p>auditor should consider the advice received by the entity in determining whether such matter is a material misstatement of fact.</p>	
<p>.38 When the auditor concludes that there is a material misstatement of fact in the information in the Form 5500 that management refuses to correct, the auditor should notify those charged with governance of the auditor’s concerns regarding the information in the Form 5500 and take any further appropriate action.</p>	<p>.A49 When the auditor concludes that there is a material misstatement of fact that management refuses to correct, appropriate further actions by the auditor may include obtaining legal advice, withholding the auditor’s report if such report has not been released, or withdrawing from the engagement.</p>
<p>REPORTING ON COMPLIANCE WITH CERTAIN PROVISIONS OF ERISA RULES AND REGULATIONS</p>	<p>REPORTING ON COMPLIANCE WITH CERTAIN PROVISIONS OF ERISA RULES AND REGULATIONS</p>
<p>.39 When providing an opinion on ERISA financial statements, the auditor should also report on compliance with certain provisions of the plan document, the Department of Labor (DOL) rules and regulations for reporting and disclosure under ERISA, and the IRC (hereinafter referred to as ERISA Rules and Regulations). The auditor should report on compliance with certain provisions of ERISA Rules and Regulations (Report on Compliance) for the current period, regardless of whether or not the auditor identifies instances of noncompliance.</p> <p>[See ISSUE 2 in Agenda Item 4]</p>	<p>.A50 It is the responsibility of management, with the oversight of those charged with governance, to ensure that the plan’s operations are conducted in accordance with the provisions of laws and regulations, including compliance with the provisions of laws and regulations that determine the reported amounts and disclosures in a plan’s financial statements.⁷</p> <p>.A51 The requirements in this proposed SAS related to reporting on compliance are designed to assist the auditor in identifying instances of noncompliance with certain provisions of ERISA Rules and Regulations for the current period as part of the audit of the financial statements and are generally recognized to have a direct effect on the determination of amounts and disclosures in the financial statements. The auditor is not responsible for preventing noncompliance with such provisions and cannot be expected to detect noncompliance with all laws and regulations.</p> <p>.A52 The auditor’s report on compliance is limited to compliance with certain provisions of ERISA Rules and Regulations for the current period, even when comparative financial statements are presented (i.e., even when the auditor’s opinion refers to each period for which financial statements are presented). The current period is the most recent period upon which the auditor is reporting. [See ISSUE 2 in Agenda Item 4]</p> <p>.A53 As discussed in paragraph .A12 of AU-C 250, certain other laws and regulations may need particular attention by the auditor because they have a</p>

⁷Paragraph .03 of AU-C 250.

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	<p>fundamental effect on the operations of the plan. Noncompliance with laws and regulations that have a fundamental effect on the operations of the plan may call into question the plan’s tax status and continuance as a going concern, and therefore may need to be addressed in the audit. Such compliance relating to the operations of the plan may need to be tested as part of the audit however, they are not included in the report on compliance in this section.</p>
<p>.40 The report on compliance should be in writing and should be provided either in a separate report (see paragraph .45) or in one or more paragraphs included in the auditor’s report on the financial statements (see paragraph .46). [See ISSUE 3 in Agenda Item 4]</p>	<p>.A54 The report on compliance is an integral part of an audit of ERISA financial statements in accordance with GAAS. ERISA section 103 requires the financial statements and auditor’s opinion to be attached to the Form 5500 filing. Accordingly, when the Report on Compliance is provided in a separate report, the Report on Compliance is to be included with the auditor’s report that is attached to the Form 5500 filing.</p>
<p>.41 When reporting on compliance in a separate report the auditor should include an other-matter paragraph in the auditor’s report on the financial statements that includes:</p>	<p>[See ISSUE 3 in Agenda Item 4]</p>
<p>a. A statement that in accordance with GAAS, the auditor has also issued a report on the auditor’s tests of the Plan’s compliance with certain provisions of the plan document, the Department of Labor’s Rules and Regulations for Reporting and Disclosure Under ERISA, and the IRC (ERISA Rules and Regulations)</p>	
<p>b. The name of the plan</p>	
<p>c. The date of the separate report on compliance</p>	
<p>d. A statement that the purpose of that report is to describe the scope of the auditor’s testing of compliance and the results of that testing, and not to provide an opinion on compliance</p>	
<p>e. A statement that the report is an integral part of the audit of ERISA financial statements performed in accordance with GAAS in considering the plan’s compliance with certain provisions of ERISA Rules and Regulations.</p>	

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Procedures to Report on Compliance with Certain Provisions of the ERISA Rules and Regulations [See ISSUE 4 in Agenda Item 4]	Procedures to Report on Compliance with Certain Provisions of ERISA Rules and Regulations
<p>.42 In order to report on compliance with certain provisions of ERISA Rules and Regulations the auditor should perform the following procedures, if they have not already been performed as part of the financial statement audit.</p>	
<p><i>All Plans</i></p>	<p><i>All Plans</i></p>
<p>a. Testing whether the plan has complied with eligibility provisions in accordance with the plan document</p>	<p>.A55 The plan document or collective bargaining agreement (for multiemployer plans) often specifies the eligibility provisions (in accordance with ERISA sections 201 and 202) that must be met for the employer(s) and employees to make contributions, vesting provisions, the formula to determine upper and lower contribution limits (salary deferral percentages), or the rates for determining the contributions.</p> <p>.A56 In connection with the audit of the financial statements, the auditor may evaluate compliance with eligibility provisions as part of the auditor’s testing of contributions and participant data.</p>
<p>b. Testing whether benefit payments or claim payments have been made in accordance with the plan document</p>	<p>.A57 The plan document (or summary plan descriptions) may specify benefit and claim payment provisions in accordance with ERISA sections 204–206 under which benefits and claims can be paid. In connection with the audit, the auditor may test whether benefit payments were made when required or permitted and in accordance the applicable formula or amount.</p>
<p>c. Testing whether the plan has complied with vesting provisions in accordance with the plan document</p>	<p>.A58 In connection with the audit of the financial statements, the auditor may evaluate compliance with vesting provisions as part of the auditor’s benefit payment testing. Minimum vesting requirements are typically summarized in the plan document in accordance with ERISA section 203.</p>
<p>d. Testing whether employer and employee contributions have been made in accordance with the plan document or collective bargaining agreement (for multiemployer plans), including that the use of compensation upon which contributions</p>	<p>.A59 In connection with the audit of the financial statements, the auditor may test whether employer and employee contributions have been made in accordance with the plan document, including the proper use of compensation by coordinating the procedures for testing contributions with those for payroll and participant data. (AAG 5.159)</p>

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<p>are based is consistent with the definition of compensation in the plan document.</p>	
<p>e. Testing whether identified prohibited transactions have been appropriately disclosed in the supplemental schedules</p>	<p>.A60 In connection with the audit of the financial statements, the auditor may evaluate whether identified prohibited transactions have been appropriately presented in the supplemental schedules as required by ERISA.</p>
<p>f. Inquiring of management whether the plan has performed and passed, corrected, or intends to correct failures of relevant IRC compliance tests within the time provided by the regulations.</p>	<p>.A61 To determine that a plan is operating within the specific guidelines established by the plan document in accordance with the IRC, certain nondiscrimination and other compliance tests are performed annually by plan management. Exhibit B— <i>Nondiscrimination and Other Operating Tests for Plan Qualification</i> includes a list of IRC requirements with which a plan is required to comply in order to maintain its tax exempt status. This list contains the compliance tests contemplated by paragraph .42(f) when reporting on compliance in this SAS. This list is not all inclusive, however, the auditor would not be required to report on compliance with other IRC compliance tests, other than those listed in exhibit B.</p>
<p><i>Individual Account Plans</i></p>	<p><i>Individual Account Plans</i></p>
<p>g. For individual account plans, determining whether assets are fully allocated to the participant accounts in accordance with Revenue Ruling 80-155 and the plan document.</p>	<p>.A62 Revenue Ruling 80-155 interprets Treasury Regulation 1.401-1(b)1(ii). To test whether assets are fully allocated to the participant accounts, the auditor may reconcile the aggregate of participant accounts to the net assets available for benefits.</p>
<p>h. For individual account plans, determining whether the forfeited nonvested portion of the participants' accounts (forfeitures) were used in accordance with IRC and regulations and the plan document.</p>	<p>.A63 Treasury regulation 1.401-7(a) requires a plan to use forfeitures as soon as possible to reduce employer contributions. In connection with the audit of the financial statements, the auditor may test whether forfeitures have been used properly as part of the forfeiture testing, including (a) identifying whether forfeitures exist, and (b) evaluating whether the plan used the forfeitures in accordance with the plan document and the IRC.</p> <p>.A64 If the plan is not using the forfeitures in accordance with the IRC then an improper accumulation of forfeiture amounts could occur.</p>
<p>i. For individual account plans, evaluating whether account activity, including employee and employer contributions, investment income, expenses and fees,</p>	

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distributions, loans, transfers and other deductions or additions have been properly allocated to participants and beneficiaries (active and inactive or terminated)	
<i>Multiemployer Plans</i>	<i>Multiemployer Plans</i>
j. For multiemployer plans, testing that the plan has allocated expenses in accordance with an allocation formula consistent with applicable DOL class or individual exemptions.	.A65 This testing may include evaluating whether the allocation formula is appropriate in the circumstances.
<i>Written Representations from Management</i>	
k. Obtaining written representations from management	
1. that plan management has communicated to the auditor whether the plan has performed and passed or corrected failures of relevant IRC compliance tests.	
2. that when the report on compliance is not presented with the audited financial statements, management will make the audited financial statements readily available to the intended users of the report on compliance no later than the date of issuance by the entity of the report on compliance and the auditor’s report thereon.	
Reporting on Compliance With Certain Provisions of ERISA Rules and Regulations in a Separate Report or in the Auditor’s Report [See ISSUE 5 in Agenda Item 4]	Reporting on Compliance With Certain Provisions of ERISA Rules and Regulations in a Separate Report or in the Auditor’s Report
.43 When reporting on compliance with certain provisions of ERISA Rules and Regulations the auditor should include in the report on compliance, based on the work performed as part of the audit of the financial statements and the procedures performed to address the requirements in paragraph .42, the identified instances of noncompliance with such provisions, other than when the matters are clearly inconsequential.	.A66 Paragraph .12 of AU-C section 260 requires the auditor to communicate with those charged with governance significant findings or issues from the audit. Such communication includes findings or issues arising from the audit that are, in the auditor’s professional judgment, significant and relevant to those charged with governance regarding their responsibility to oversee the financial reporting process. .A67 The communication of matters involving identified noncompliance may describe the act of

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	<p>identified noncompliance, the circumstances of its occurrence, and the effect on the financial statements, if any. The auditor may reach agreement in advance with those charged with governance on the nature of matters that would be considered clearly inconsequential and, thus, need not be communicated.</p> <p>.A68 Matters relevant to the auditor’s evaluation of the possible effect on the financial statements include the following:</p> <ul style="list-style-type: none"> • The quantitative effect of noncompliance. The potential financial consequences of noncompliance with certain provisions of the ERISA Rules and Regulations on the financial statements may include the imposition of fines or penalties. • The qualitative materiality of the effect of noncompliance. For example, failure to remit participant contributions in a timely manner results in a prohibited transaction that is required to be reported separately to the DOL and may result in penalties to the plan sponsor and threaten the tax exempt status of the plan. • Whether the potential financial consequences require accrual or disclosure under the applicable financial reporting framework. For example, the use of an incorrect definition of eligible compensation can affect distribution calculations and funding requirements and could lead to a material effect in the aggregate or be indicative of a systemic problem. • Whether the potential financial consequences are so serious as to call into question the fair presentation of the financial statements or otherwise make the financial statements misleading.
<p>.44 Management may wish to prepare a written response to the auditor’s report regarding the instances of noncompliance with certain provisions of ERISA Rules and Regulations that were identified during the audit. When the auditor receives written comments from management, the auditor should include management’s written comments in the report on compliance. In such situations the auditor should add a paragraph to the report disclaiming an opinion on such information.</p>	<p>.A69 Such management communications may include a description of corrective actions taken by the plan, its plans to correct the instances of noncompliance, or a statement indicating that management believes the cost of correcting the instances of noncompliance would exceed the benefits to be derived from doing so.</p>

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<i>Separate Report on Compliance with Certain Provisions of ERISA Rules and Regulations Based on an Audit of ERISA Financial Statements Performed in Accordance with GAAS</i>	<i>Separate Report on Compliance with Certain Provisions of ERISA Rules and Regulations Based on an Audit of ERISA Financial Statements Performed in Accordance with GAAS</i>
.45 When the auditor reports on compliance with certain provisions of ERISA Rules and Regulations in a separate report, the report should include the following:	.A70 Exhibit A, Illustration 4— <i>Illustrative Separate Report on Compliance with Certain Provisions of ERISA Rules and Regulations Based on an Audit of ERISA Financial Statements Performed in Accordance with GAAS</i> includes an illustrative report on compliance with certain provisions of ERISA Rules and Regulations in an ERISA audit.
a. A title that includes the word <i>independent</i> to clearly indicate that it is the report of an independent auditor.	
b. An appropriate addressee.	
c. A paragraph that includes information about the audited financial statements, including <ul style="list-style-type: none"> i. that the financial statements were audited in accordance with generally accepted auditing standards and an identification of the United States of America as the country of origin of those standards (for example, auditing standards generally accepted in the United States of America or U.S. generally accepted auditing standards); ii. an identification of the financial statements subject to audit; iii. the type of auditor’s opinion expressed on the audited financial statements; iv. the date of the auditor’s report on those financial statements; and v. a statement that the audit was conducted for the purpose of forming an opinion on the financial statements as a whole 	.A71 For an ERISA limited-scope audit the information contained in this paragraph of the report on compliance would be revised as appropriate to the circumstances. Footnote 1 in illustration 4 of Appendix A provides illustrative wording for this paragraph when an ERISA limited-scope audit is performed.
d. A section with the heading “Compliance with Certain Provisions of ERISA Rules and Regulations.” This section of the report should describe:	

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<p>i. as part of obtaining reasonable assurance about whether the plan’s financial statements are free from material misstatement, the auditor performed procedures to test the plan’s compliance with certain provisions of the plan document, DOL rules and regulations for reporting and disclosure under ERISA, and the Internal Revenue Code, as required by GAAS, but not for the purpose of expressing an opinion on such compliance.</p>	
<p>ii. the auditor is not expressing an opinion on the compliance with such provisions.</p>	
<p>e. When no instances of noncompliance with certain provisions of ERISA Rules and Regulations have been identified based on the work performed as part of the audit of the financial statements and the procedures performed to address the requirements in paragraph .42, a statement that given the limitations listed previously, no instances of noncompliance with such provisions were identified during the audit, however instances of noncompliance may exist that have not been identified.</p>	
<p>f. When instances of noncompliance with certain provisions of ERISA Rules and Regulations have been identified based on the work performed as part of the audit of the financial statements and the procedures performed to address the requirements in paragraph .42, a statement that given the limitations listed previously, during the audit certain instances of noncompliance were identified and a listing of those items of noncompliance, other than when the matters are clearly inconsequential.</p>	<p>.A72 The communication of matters involving identified noncompliance may describe the act of identified noncompliance, the circumstances of its occurrence, and the effect on the financial statements, if any. The auditor may reach agreement in advance with those charged with governance on the nature of matters that would be considered clearly inconsequential and, thus, need not be communicated.</p>
<p>g. A paragraph that includes an appropriate alert, in a separate paragraph, that</p> <p style="padding-left: 40px;">i. Describes the purpose of the report on compliance,</p>	<p>.A73 Because the report on compliance is an integral part of the audit engagement of ERISA financial statements for the purpose of assessing the results of the engagement, this form of alert language is used.</p>

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<ul style="list-style-type: none"> ii. states that the report on compliance is an integral part of an employee benefit plan audit, and iii. states that the communication is not suitable for any other purpose. 	
<p>h. The manual or printed signature of the auditor’s firm, the city and state where the auditor practices, and dated no earlier than the date on which the auditor has obtained sufficient appropriate audit evidence on which to base the auditor’s opinion on the financial statements.</p>	<p>.A74 The auditor’s report on compliance carries the same date as that of a financial statement report when the audit procedures required to be performed in paragraph .42 are completed along with the procedures performed on the financial statements. However, when some of the audit procedures performed to satisfy the procedures in paragraph .42 are completed subsequent to the procedures performed on the financial statements, the report on compliance should be dated at a later date (that is, when the auditor has obtained sufficient appropriate audit evidence to support the report on compliance).</p>
<p><i>Report on Compliance with Certain Provisions of ERISA Rules and Regulations Based on an Audit of ERISA Financial Statements Performed in Accordance with GAAS Included in the Auditor’s Report</i></p>	<p><i>Report on Compliance with Certain Provisions of ERISA Rules and Regulations Based on an Audit of ERISA Financial Statements Performed in Accordance with GAAS Included in the Auditor’s Report</i></p>
<p>.46 When a report on compliance with certain provisions of ERISA rules and regulations is included in the auditor’s report on the financial statements, the auditor’s report should include the elements in paragraph .45 (d)-(g) in a separate section of the auditor’s report that should be subtitled “Report on Compliance With Certain Provisions of ERISA Rules and Regulations.”</p>	

Exhibit A—Illustrations of Auditor’s Reports on ERISA Financial Statements

Illustration 1—An Auditor’s Report on Comparative ERISA Financial Statements for a Defined Contribution Retirement Plan Prepared in Accordance with Accounting Principles Generally Accepted in the United States of America for a Full Scope ERISA Audit

Illustration 2—An Auditor’s Report on Comparative ERISA Financial Statements for a Defined Benefit Pension Plan Prepared in Accordance with Accounting Principles Generally Accepted in the United States of America for a Full Scope ERISA Audit

Illustration 3—An Auditor’s Report on Comparative ERISA Financial Statements for a Defined Contribution Retirement Plan Prepared in Accordance with Accounting Principles Generally Accepted in the United States of America for an ERISA Limited-Scope Audit

Illustration 4—A Separate Report on Compliance with Certain Provisions of ERISA Rules and Regulations Based on an Audit of ERISA Financial Statements Performed in Accordance with GAAS

Illustration 1—An Auditor’s Report on Comparative ERISA Financial Statements for a Defined Contribution Retirement Plan Prepared in Accordance with Accounting Principles Generally Accepted in the United States of America for a Full Scope ERISA Audit

Circumstances include the following:

- Full Scope audit of a complete set of general purpose ERISA financial statements for a 401(k) plan (comparative)
- The financial statements are prepared in accordance with GAAP
- The Plan merged with another plan. The merger was disclosed in the notes to the financial statements and the auditor included an emphasis-of-matter paragraph in the auditor’s report.
- The report includes a report on compliance with certain provisions of ERISA Rules and Regulations

Independent Auditor’s Report

[Appropriate Addressee]

We have audited the accompanying financial statements of ABC 401(k) Plan, 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.

Management’s Responsibility for the ERISA Financial Statements

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:

- maintaining records with respect to each of the participants sufficient to determine the benefits due or which may become due to such participants in accordance with ERISA sections 107 and 209
- administering the plan and determining whether, for financial reporting purposes, the plan is in compliance with plan provisions and applicable laws and regulations.⁸

⁸ For example, the timely remittance of employee deferrals, prohibited transactions, and hardship withdrawals.

Auditor's Responsibility

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.

We communicate with those charged with governance regarding, among other matters significant audit findings, including deficiencies in internal control that have been identified during the audit as significant deficiencies or material weaknesses.

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

Opinion

In our opinion, 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.

Emphasis of Matter Relating to Plan Merger

As discussed in Note X to the financial statements, the Board of Directors of ABC Company, the Plan's sponsor, voted on March 9, 20X2, to merge the XYZ Plan into the ABC 401(k) Plan effective December 31, 20X2. All plan assets were transferred to the ABC 401(k) Plan on December 31, 20X2. Our opinion has not been modified with respect to this matter.

Other Matter Relating to Participant Accounts

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. As part of our audit, we also applied certain procedures to participant accounts at the individual participant account level. We do not express an opinion on these individual accounts.

Other Matter Relating to Report on Supplemental Schedules and Form and Content in Compliance with Department of Labor’s Rules and Regulations

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 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. 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.

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.

In our opinion, the information in the accompanying schedules is fairly stated in all material respects in relation to the financial statements as a whole and the 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.

Report on Compliance With Certain Provisions of ERISA Rules and Regulations

As part of obtaining reasonable assurance about whether ABC 401(k) Plan’s financial statements are free from material misstatement, we performed procedures to test its compliance with certain provisions of the plan document, DOL Rules and Regulations for Reporting and Disclosure under ERISA, and the Internal Revenue Code (ERISA Rules and Regulations) for the year ended December 31, 20X2 as required by generally accepted auditing standards in AU-C section XXX. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

[No instances of noncompliance were identified]

Given the limitations in the first paragraph, during our audit we did not identify instances of noncompliance with certain provisions of ERISA Rules and Regulations. However, instances of noncompliance may exist that have not been identified.

or

[Instances of noncompliance have been identified]

Given the limitations in the first paragraph, during our audit we identified certain instances of noncompliance with certain provisions of ERISA Rules and Regulations. The following are the instances of noncompliance with certain provisions of ERISA Rules and Regulations that were identified, other than those matters considered clearly inconsequential.

[Describe identified items of Noncompliance]

Purpose of Report on Compliance

The purpose of this report is solely to describe the scope of our testing of compliance with certain provisions of the plan document and ERISA Rules and Regulations, and not to provide an opinion on the effectiveness of the entity's compliance. This report is an integral part of an employee benefit plan audit performed in accordance with generally accepted auditing standards in considering the plan's compliance. Accordingly, this communication is not suitable for any other purpose.

[Auditor's signature]

[Auditor's city and state]

[Date of the auditor's report]

Illustration 2— An Auditor’s Report on Comparative ERISA Financial Statements for a Defined Benefit Pension Plan Prepared in Accordance with Accounting Principles Generally Accepted in the United States of America

Circumstances include the following:

- Full Scope audit of a complete set of general purpose ERISA financial statements (comparative) for a defined benefit pension plan assuming an end-of-year benefit information date
- The financial statements are prepared in accordance with GAAP
- The information regarding the actuarial present value of accumulated plan benefits and changes therein is presented in separate statements within the financial statements and comparative statements of accumulated plan benefits and a single year statement of changes in accumulated plan benefits are presented
- The plan was amended to implement a voluntary retirement window policy. The plan amendment was disclosed in the notes to the financial statements and had a significant effect on net assets. The auditor included an emphasis-of-matter paragraph in the auditor’s report.
- The report includes a report on compliance with certain provisions of ERISA Rules and Regulations

Independent Auditor’s Report

[Appropriate Addressee]

We have audited the accompanying financial statements of XYZ Pension Plan, which comprise the statements of net assets available for benefits and of accumulated plan benefits as of December 31, 20X2 and 20X1, and the related statements of changes in net assets available for benefits and of changes in accumulated plan benefits for the year ended December 31, 20X2, and the related notes to the financial statements.

Management’s Responsibility for the ERISA Financial Statements

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:

- maintaining records with respect to each of the participants sufficient to determine the benefits due or which may become due to such participants in accordance with ERISA sections 107 and 209

- administering the plan and determining whether, for financial reporting purposes, the plan is in compliance with plan provisions and applicable laws and regulations⁹
- the estimation methods and assumptions used in measuring the defined benefit plan's pension obligation (or the other postemployment benefit obligation)

Auditor's Responsibility

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.

We communicate with those charged with governance regarding, among other matters significant audit findings, including deficiencies in internal control that have been identified during the audit as significant deficiencies or material weaknesses.

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

Opinion

In our opinion, the financial statements referred to above, present fairly, in all material respects, the financial status of the Plan as of December 31, 20X2 and 20X1, and the changes in its financial status for the year ended December 31, 20X2, in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter Relating to Plan Amendment

As discussed in Note Y to the financial statements the plan was amended to implement a voluntary retirement window policy. The effect of the amendment increased the actuarial present

⁹ For example, the timely remittance of employee deferrals, prohibited transactions, and hardship withdrawals.

value of accumulated plan benefits. Our opinion has not been modified with respect to this matter.

Other Matter Relating to Report on Supplemental Schedules and Form and Content in Compliance with Department of Labor’s Rules and Regulations

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 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. 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.

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.

In our opinion, the information in the accompanying schedules is fairly stated in all material respects in relation to the financial statements as a whole and the 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.

Report on Compliance With Certain Provisions of ERISA Rules and Regulations

As part of obtaining reasonable assurance about whether ABC 401(k) Plan’s financial statements are free from material misstatement, we performed procedures to test its compliance with certain provisions of the plan document, DOL Rules and Regulations for Reporting and Disclosure under ERISA, and the Internal Revenue Code (ERISA Rules and Regulations) for the year ended December 31, 20X2 as required by generally accepted auditing standards in AU-C section XXX. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

[No instances of noncompliance were identified]

Given the limitations in the first paragraph, during our audit we did not identify instances of noncompliance with certain provisions of ERISA Rules and Regulations. However, instances of noncompliance may exist that have not been identified.

or

[Instances of noncompliance have been identified]

Given the limitations in the first paragraph, during our audit we identified certain instances of noncompliance with certain provisions of ERISA Rules and Regulations. The following are the instances of noncompliance with certain provisions of ERISA Rules and Regulations that were identified, other than those matters considered clearly inconsequential.

[Describe identified items of Noncompliance]

Purpose of Report on Compliance

The purpose of this report is solely to describe the scope of our testing of compliance with certain provisions of the plan document and ERISA Rules and Regulations, and not to provide an opinion on the effectiveness of the entity's compliance. This report is an integral part of an employee benefit plan audit performed in accordance with generally accepted auditing standards in considering the plan's compliance. Accordingly, this communication is not suitable for any other purpose.

[Auditor's signature]

[Auditor's city and state]

[Date of the auditor's report]

Illustration 3—An Auditor’s Report on Comparative ERISA Financial Statements of a Defined Contribution Retirement Plan Prepared in Accordance with Accounting Principles Generally Accepted in the United States of America for an ERISA Limited-Scope Audit (Standard Limited-Scope Report)

Circumstances include the following:

- Limited-scope audit of a complete set of general purpose ERISA financial statements (comparative) for a 401(k) plan
- The financial statements are prepared in accordance with GAAP
- There are no matters disclosed in the notes to the financial statements that require an emphasis-of-matter paragraph to be included in the auditor’s report.
- The report includes a report on compliance with certain provisions of ERISA Rules and Regulations

Independent Auditor’s Report

[Appropriate Addressee]

We have performed an ERISA limited-scope audit of the accompanying financial statements of XYZ 401(k) Plan as instructed by XYZ 401(k) plan management. 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, XYZ 401(k) plan management elected to limit the scope of the audit under ERISA Section 103(a)(3)(c) that allows plan management to instruct the auditor not to perform auditing procedures with respect to the investment information prepared and certified by a qualified certifying institution. XYZ plan management has determined that the certification is acceptable in the circumstances. An ERISA limited-scope audit 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 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.

Management’s Responsibility for Limited-Scope ERISA Financial Statements

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:

- maintaining records with respect to each of the participants sufficient to determine the benefits due or which may become due to such participants in accordance with ERISA sections 107 and 209
- administering the plan and determining whether, for financial reporting purposes, the plan is in compliance with plan provisions and applicable laws and regulations
- electing to have a limited-scope audit performed and determining that a limited-scope audit is appropriate in the circumstances
- determining whether the entity issuing the certification is a qualified certifying institution under section 2520.103-5 of the Department of Labor’s Rules and Regulations for Reporting and Disclosure under ERISA
- determining whether the certified information from the qualified certifying institution includes the appropriate valuation of such investments at the reporting date, in accordance with accounting principles generally accepted in the United States of America

Auditor’s Responsibility for an ERISA Limited-Scope Audit

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 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 qualified 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 communicate with those charged with governance regarding, among other matters significant audit findings, including deficiencies in internal control that have been identified during the audit as significant deficiencies or material weaknesses.

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

Basis for ERISA Limited-Scope Opinion

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 Relating to Certified Information paragraph. We have been informed by the plan administrator that the qualified certifying institution holds the Plan’s investment assets and executes investment transactions. The plan administrator has obtained a certification from the qualified certifying institution 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 qualified certifying institution is complete and accurate.

Auditor’s ERISA Limited-Scope Opinion

In our opinion, except for the possible effects of the matter described in the Basis for ERISA Limited-Scope 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.

Other Matter Relating to Participant Accounts

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. As part of our audit, we also applied certain procedures to participant accounts at the individual participant account level. We do not express an opinion on these individual accounts.

Other Matter Relating to Certified Information

As part of the ERISA limited-scope audit, the plan administrator instructed us to limit the scope of our testing on investment information prepared and certified by a qualified certifying institution as complete and accurate. Accordingly, we performed the following procedures with respect to the certified investment information described in Note X to the financial statements: (a) obtained and read a copy of the certification from the plan administrator; (b) evaluated management’s assessment of whether the entity issuing the certification is a qualified certifying institution under DOL rules and regulations for reporting and disclosure under ERISA; (c) compared the certified information with the related information included in the financial statements and related disclosures, and (d) assessed whether the form and content of the financial statement disclosures related to the investment information prepared and certified by a qualified certifying institution are in accordance with accounting principles generally accepted in the United States of America.

The scope limitation and corresponding limitation of our audit work permitted under ERISA extend only to investments and related investment information certified by the qualified certifying

institution. Plan investments not held by a qualified certifying institution and other investments or assets not covered by a qualified certification have been subjected to appropriate audit procedures. As part of the audit procedures we performed procedures to test that received or disbursed amounts, other than certified investment income such as contributions and benefit payments, were determined in accordance with the plan provisions.

We do not express an opinion on these individual accounts and related disclosures.

Other Matter Relating to Report on Supplemental Schedules and Form and Content in Compliance with DOL Rules and Regulations

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 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. Except for the certified information described in the Basis for ERISA Limited-Scope Opinion paragraph, 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.

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.

In our opinion, except for the possible effects on the supplementary information as described in the Basis for ERISA Limited-Scope Opinion paragraph, the 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.

Report on Compliance With Certain Provisions of ERISA Rules and Regulations

As part of obtaining reasonable assurance about whether ABC 401(k) Plan’s financial statements are free from material misstatement, we performed procedures to test its compliance with certain provisions of the plan document, DOL Rules and Regulations for Reporting and Disclosure under ERISA and the Internal Revenue Code (ERISA Rules and Regulations) for the year ended December 31, 20X2 as required by generally accepted auditing standards in AU-C section XXX.

However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

[No instances of noncompliance were identified]

Given the limitations in the first paragraph, during our audit we did not identify instances of noncompliance with certain provisions of ERISA Rules and Regulations. However, instances of noncompliance may exist that have not been identified.

or

[Instances of noncompliance have been identified]

Given the limitations in the first paragraph, during our audit we identified certain instances of noncompliance with certain provisions of ERISA Rules and Regulations. The following are the instances of noncompliance with certain provisions of ERISA Rules and Regulations that were identified, other than those matters considered inconsequential.

[Describe identified items of Noncompliance]

Purpose of Report on Compliance

The purpose of this report is solely to describe the scope of our testing of compliance with certain provisions of ERISA Rules and Regulations, and not to provide an opinion on the effectiveness of the entity's compliance. This report is an integral part of an employee benefit plan audit performed in accordance with generally accepted auditing standards in considering the plan's compliance. Accordingly, this communication is not suitable for any other purpose.

[Auditor's signature]

[Auditor's city and state]

[Date of the auditor's report]

Illustration 4—Illustrative Separate Report on Compliance with Certain Provisions of ERISA Rules and Regulations Based on an Audit of ERISA Financial Statements Performed in Accordance with GAAS

Circumstances include the following:

- Full scope audit of a 401(K) plan. For ERISA limited-scope audits the first paragraph of the report would be revised accordingly.
- The auditor’s report on the financial statements includes an other-matter paragraph (in accordance with paragraph .41 of the proposed SAS) regarding the report on compliance that was issued separately. The following is an example of such a paragraph.

Other Matter Regarding Separate Report on Compliance

In accordance with GAAS, we have also issued our report dated [*date of report*] on our tests of ABC 401(k) Plan’s compliance with certain provisions of the Plan document, Department of Labor Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974, and the Internal Revenue Code (ERISA Rules and Regulations). The purpose of that report is to describe the scope of our testing of compliance and the results of that testing, and not to provide an opinion on compliance. That report is an integral part of an employee benefit plan audit performed in accordance with generally accepted auditing standards in considering ABC 401(K) Plan’s compliance with certain provisions of ERISA Rules and Regulations.

Independent Auditor’s Report

[Appropriate Addressee]

We have audited, in accordance with auditing standards generally accepted in the United States of America, the financial statements of ABC 401(k) Plan, 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, and have issued our unmodified opinion thereon dated October 15, 20X3. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole.¹⁰

¹⁰ For a limited scope audit, this paragraph would be replaced with the following:

“We have performed an ERISA limited scope audit of the financial statements of XYZ 401(k) Plan as instructed by XYZ 401(k) plan management. 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, XYZ 401(k) plan management elected to limit the scope of the audit under ERISA Section 103(a)(3)(c) that allows plan management to instruct the auditor not to perform auditing procedures with respect to the investment information prepared and certified by a qualified certifying institution. XYZ plan management has determined that the certification is acceptable in the circumstances. An ERISA limited scope audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements, other than for the certified

Compliance With Certain Provisions of ERISA Rules and Regulations

As part of obtaining reasonable assurance about whether ABC 401(k) Plan’s financial statements are free from material misstatement, we performed procedures to test its compliance with certain provisions of the plan document, DOL Rules and Regulations for Reporting and Disclosure under ERISA and the Internal Revenue Code (ERISA Rules and Regulations) for the year ended December 31, 20X2 as required by generally accepted auditing standards in AU-C section XXX. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

[No instances of noncompliance were identified]

Given the limitations in the first paragraph, during our audit we did not identify instances of noncompliance with certain provisions of ERISA Rules and Regulations. However, instances of noncompliance may exist that have not been identified.

or

[Instances of noncompliance have been identified]

Given the limitations in the first paragraph, during our audit we identified certain instances of noncompliance with certain provisions of ERISA Rules and Regulations. The following are the instances of noncompliance with certain provisions of ERISA Rules and Regulations that were identified, other than those matters considered inconsequential. .

[Describe identified items of Noncompliance]

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of compliance with certain provisions of ERISA Rules and Regulations, and not to provide an opinion on the effectiveness of the entity’s compliance. This report is an integral part of an employee benefit plan audit performed in accordance with generally accepted auditing standards in considering the plan’s compliance. Accordingly, this communication is not suitable for any other purpose.

[Auditor’s signature]

[Auditor’s city and state]

[Date of the auditor’s report]

information described in Note X to the financial statements. 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. We have issued our standard ERISA limited scope opinion thereon dated October 15, 20X3. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole.

Exhibit B—Nondiscrimination and Other Operating Tests for Plan Qualification

This list contains the compliance tests contemplated by paragraph .42(j) when reporting on compliance in this SAS.

Type of Test	Applicable IRC reference
1. Minimum coverage test	IRC section 410(b) (retirement plans only)
2. Nondiscrimination test	IRC Section 401(a)(4) or 505 (retirement plans, and if funded through VEBA, welfare plans) (Collectively bargained (CB) plans are deemed to automatically satisfy this test.)
3. Average deferral and contribution percentage limits	IRC Section 401(k) and (m) (defined contribution plan only; however 403(b) plans with employer contributions are only subject to the contribution percentage test)
4. Top heavy test	IRC Section 416 (qualified retirement plans only; not 403(b) plans; plans with no key employees, and CB plans are deemed to automatically satisfy this test)
5. Benefit and contribution limits	IRC Section 415(b) (retirement plans only)
6. Employee deferral contribution limitations	IRC Section 402(g)- defined contribution plans only)
7. Minimum funding obligations	IRC Sections 412 or 430 (defined benefit plans and money purchase pension plans)
8. Diversification rules for ESOPs	IRC Section 401(a)(28)
9. Unrelated business income tax	IRC Sections 419A and 511 (retirement and health and welfare plans – if plans are invested in other than typical passive investments, such as hedge funds, partnerships, or real estate)