

AU-C Section 9805

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

New GASB Pension Standards

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

Auditing interpretation No. 1, “Auditor of Governmental Cost-Sharing Multiple-Employer Pension Plan,” (paragraphs .01–.07), and auditing interpretation No. 2, “Auditor of Participating Employer in a Governmental Cost-Sharing Multiple-Employer Pension Plan,” of AU-C section 500, *Audit Evidence* (AICPA, *Professional Standards*), are intended to assist both plan and employer auditors who are auditing entities that have implemented the new accounting standards.

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

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

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



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

Independent Auditor’s Report

[Appropriate Addressee]

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

Management’s Responsibility for the Schedules

Management is responsible for the preparation and fair presentation of these schedules in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the schedules that are free from material misstatement, whether due to fraud or error.

Auditor’s Responsibility²

Our responsibility is to express opinions on the schedule of employer allocations and the specified column totals included in the schedule of pension amounts by employer based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the schedule of employer

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

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

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

allocations and specified column totals included in the schedule of pension amounts by employer are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the schedule of employer allocations and specified column totals included in the schedule of pension amounts by employer. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the schedule of employer allocations and specified column totals included in the schedule of pension amounts by employer, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the schedule of employer allocations and specified column totals included in the schedule of pension amounts by employer in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the schedule of employer allocations and specified column totals included in the schedule of pension amounts by employer.

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

Opinions³

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

Other Matter

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

Restriction on Use

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

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

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

[*Auditor's signature*]

[*Auditor's city and state*]

[*Date of the auditor's report*]

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

.04 *Interpretation*—No. AU-C section 805 states, in part:⁴

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

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

⁴ Paragraph .14 of AU-C section 805, *Special Considerations—Audits of Single Financial Statements and Specific Elements, Accounts, or Items of a Financial Statement* (AICPA, *Professional Standards*).

.05 Exhibit 1—Schedule of Employer Allocations

EXAMPLE COST-SHARING PENSION PLAN

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

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

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

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

Entity	Deferred Outflows of Resources					Deferred Inflows of Resources					Pension Expense		
	Net Pension Liability	Differences Between Expected and Actual Experience	Net Difference Between Projected and Actual Earnings on Pension Plan Investments	Changes of Assumptions	Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Contributions	Total Deferred Outflows of Resources	Differences Between Expected and Actual Experience	Changes of Assumptions	Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Contributions	Total Deferred Inflows of Resources	Proportionate Share of Pension Expense	Net Amortization of Deferred Amounts from Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Contributions	Total Pension Expense
Employer 1	\$ 45,224,620	438,859	1,569,847	1,404,206	695,426	4,108,338	355,917	—	726,425	1,082,342	1,907,283	12,375	1,919,658
Employer 2	5,661,780	54,942	196,533	175,796	84,231	511,502	44,558	—	74,326	118,884	238,777	(1,793)	236,984
Employer 3	6,795,628	65,945	235,892	211,001	117,354	630,192	53,481	—	98,465	151,946	286,596	(8,088)	278,508
Employer 4	10,193,442	98,917	353,838	316,502	161,215	930,472	80,222	—	165,453	245,675	429,894	3,021	432,915
Employer 5	13,355,038	129,597	463,584	414,668	199,845	1,207,694	105,103	—	197,645	302,748	563,229	(9,900)	553,329
Employer 6	3,043,487	29,534	105,646	94,499	53,453	283,132	23,952	—	48,453	72,405	128,355	599	128,954
Employer 7	2,011,585	19,520	69,827	62,459	33,458	185,264	15,831	—	35,345	51,176	84,836	625	85,461
Employer 8	1,987,964	19,291	69,007	61,725	35,425	185,448	15,645	—	16,453	32,098	83,839	(5,712)	78,127
Employer 9	16,777,717	162,811	582,393	520,941	248,356	1,514,501	132,040	—	284,543	416,583	707,576	8,405	715,981
Employer 10	5,641,888	54,749	195,843	175,178	95,465	521,235	44,401	—	44,356	88,757	237,938	(1,188)	236,750
Employer 11	8,512,562	82,606	295,490	264,312	136,453	778,861	66,993	—	148,543	215,536	359,005	1,254	360,259
Employer 12	3,499,761	33,962	121,485	108,666	52,145	316,258	27,543	—	64,354	91,897	147,597	453	148,050
Employer 13	1,443,418	14,007	50,104	44,818	23,156	132,085	11,360	—	33,453	44,813	60,874	(205)	60,669
Employer 14	131,785	1,279	4,575	4,092	1,968	11,914	1,037	—	894	1,931	5,558	147	5,705
Employer 15	44,757	434	1,554	1,390	1,456	4,834	352	—	698	1,050	1,888	7	1,895
Total for All Entities	\$ 124,325,432	1,206,453	4,315,618	3,860,253	1,939,406	11,321,730	978,435	—	1,939,406	2,917,841	5,243,245	—	5,243,245

.07 Exhibit 2(b)—Schedule of Collective Pension Amounts

EXAMPLE COST-SHARING PENSION PLAN

Schedule of Collective Pension Amounts

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

	Deferred Outflows of Resources				Deferred Inflows of Resources			Pension Expense *
	Differences Between Expected and Actual Experience	Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments	Changes of Assumptions	Total Deferred Outflows of Resources Excluding Employer Specific Amounts *	Differences Between Expected and Actual Experience	Changes of Assumptions	Total Deferred Inflows of Resources Excluding Employer Specific Amounts *	
\$ <u>Net Pension Liability</u>	<u>1,206,453</u>	<u>4,315,618</u>	<u>3,860,253</u>	<u>9,382,324</u>	<u>978,435</u>	<u>—</u>	<u>978,435</u>	<u>5,243,245</u>

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

[Issue Date: April 2014.]