

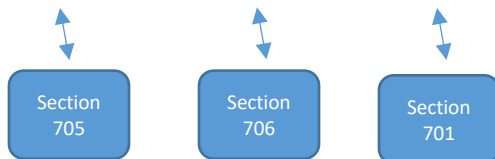
New auditing standard for employee benefit plans

What happened?

In July 2019, the AICPA Auditing Standards Board (ASB) issued as a final standard, Statement on Auditing Standards (SAS) No. 136, *Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA (EBP SAS)*. The EBP SAS prescribes certain new performance requirements for an audit of financial statements of employee benefit plans subject to the Employee Retirement Income Security Act of 1974 (ERISA) and changes the form and content of the related auditor's report. It should not be adapted for plans that are not subject to ERISA.

Codified in new AU-C section 703 of the AICPA *Professional Standards*, this standard is the foundational section that addresses the auditor's responsibility to form an opinion on the ERISA plan financial statements and prescribes the form and content of the auditor's report for ERISA plan audits.

Section 703 (foundational section for EBPs)



What has changed?

To enhance the quality of employee benefit plan audits, the EBP SAS specifically addresses requirements for:

- Engagement acceptance
- Audit risk assessment and response, including the auditor's consideration of relevant plan provisions
- Communications of reportable findings with those charged with governance
- The auditor's responsibilities relating to the ERISA-required supplemental schedules and the Form 5500.



This new auditing standard addresses specific performance and reporting requirements for audits of ERISA plans, and changes the form and content of the auditor's report

- The form and content of the related auditor's report

"Limited-Scope Audits" now referred to ERISA section 103(a)(3)(C) audits

ERISA section 103(a)(3)(C) permits plan management to elect to exclude from the audit certain investment information a qualified institution holds and certifies. Formerly referred to as a "limited-scope audit," the EBP SAS refers to this type of audit as an "ERISA section 103(a)(3)(C) audit." The EBP SAS does not change anything in ERISA, and therefore plan management's ability to elect such an audit continues. The EBP SAS clarifies what is expected of the auditor, including specific procedures when performing an ERISA section 103(a)(3)(C) audit, and establishes a new form of report that provides greater transparency about the scope and nature of the audit and describes the procedures performed on the certified investment information.

The following are the key aspects of the ERISA section 103(a)(3)(C) Report:

- **Scope and Nature of ERISA Section 103(a)(3)(C) Audit section required to be presented first**, followed by the Opinion section and Basis for Opinion section. This section acknowledges that management has elected to have an audit performed in accordance with section 103(a)(3)(C) of ERISA and describes this type of audit.

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What has changed? (continued)

ERISA Section 103(a)(3)(C) Report (continued)

• **Opinion section, required to follow the Scope and Nature section** that contains a two-part opinion addressing whether

- the amounts and disclosures in the ERISA plan financial statements that are not covered by the certification are presented fairly in accordance with the applicable financial reporting framework,
- the investment information in the ERISA plan financial statements related to the certified investment information agrees to or is derived from the certified investment information provided by a qualified institution

• **Basis for Opinion section required to follow the opinion section**, including a statement that the auditor is required to be independent of the entity and to meet the auditor's other ethical responsibilities, in accordance with the relevant ethical requirements relating to the audit.

• **Enhanced auditor reporting relating to going concern**, including a description of the respective responsibilities of management when required by the applicable financial reporting framework, and the auditor for going concern.

• **Expanded description of management's responsibilities** including management's responsibilities for maintaining a current plan instrument, including all plan amendments, administering the plan, and determining that the plan's transactions that are presented and disclosed in the financial statements are in conformity with the plan's provisions, including maintaining sufficient records with respect to each of the participants, to determine the benefits due or which may become due to such participants

• **Expanded description of the auditor's responsibilities**, including the auditor's responsibilities relating to professional judgment and professional skepticism, and the auditor's communications with those charged with governance. In addition, this section explains that the ERISA section 103(a)(3)(C) audit did not extend to the certified investment information, except for

certain procedures that are outlined in this section of the auditor's report .

• **Required other-matter paragraph** to report on the ERISA-required supplemental schedules.

Non ERISA-section 103(a)(3)(C) Reports

The key elements of the non-ERISA section 103(a)(3)(C) report (formerly referred to as "full-scope reports") are the same as those in SAS No. 134 ([click here](#) for At a Glance for SAS No. 134) with the following exceptions:

- The opinion section identifies the plan as an employee benefit plan subject to ERISA
- Expanded description of management's responsibilities as described previously for the ERISA section 103(a)(3)(C) report
- Includes new content in the other-matter paragraph relating to the ERISA-required supplemental schedules, including a new form and content opinion on the supplemental schedules

Next steps?

SAS No. 136 is effective for audits of financial statements for periods ending on or after December 15, 2020. Early implementation is not permitted.

The EBP SAS includes transitional implementation reporting guidance upon initial adoption of the SAS. SAS No. 136 is available for auditors to read and consider in order to adequately prepare for implementation, and can be viewed on the AICPA's website under [recently issued standards](#).