Grant Thornton

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Auditing Standards Board
American Institute of Certified Public Accountants
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**Re: Proposed Statement on Auditing Standards, *Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA***

Dear Board Members and Staff:

Grant Thornton LLP appreciates the opportunity to comment on the proposed Statement on Auditing Standards (Proposed SAS), *Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA*, approved for exposure by the Auditing Standards (ASB) of the American Institute of Certified Public Accountants (AICPA). We commend the Board in their efforts to improve the quality of employee benefit plan (EBP) audits and support the intended objective of the EBP reporting project. We respectfully submit our responses to the "Issues for Consideration" posed by the ASB, as well as other comments on and recommendations to the Proposed SAS, including specific paragraph-level comments and proposed revisions to certain illustrative reports in the accompanying Appendix.

### Required procedures for certified information

We believe the procedures set forth in paragraph 20 of the Proposed SAS will provide consistency relative to the level of audit effort applied to information prepared and certified by a qualified institution as permitted by The Employee Retirement Income Security Act of 1974 (ERISA). The proposed procedures are generally aligned with our firm's approach to the information and our understanding as to other firms' approaches in this area. We further believe the procedures are sufficiently complete and have no recommendations for additional procedures.

### Auditor's report with ERISA-permitted audit scope limitation

We are supportive of the proposed requirements for reporting on ERISA plan financial statements when an ERISA-permitted audit scope limitation is imposed. We believe the proposed reporting model significantly enhances transparency and clarity of the auditor's responsibilities. Further, a new reporting model that differs from the current form of report typically issued ( a disclaimer of opinion) would likely (1) be more informative to users of the financial statements regarding the nature of the audit work performed, and (2) provide a better description of the auditor's responsibilities and work effort when conducting an audit in these circumstances.

We believe the profession will need specific transition guidance for reporting on comparative financial statements where the prior year was audited under the extant "disclaimer model" and the current year would reflect the new form of report. Although such guidance would be more appropriately conveyed outside the auditing standard itself, we encourage the Board to develop guidance in some form that is released in conjunction with the issuance of the final auditing standard.

If adopted as proposed, this would obviously be a significant change in current practice, and as such, we urge the ASB and AICPA staff to provide communications and training directed to plan sponsors and their legal counsel, accounting firms, and others to provide further background and insights into the nature and purpose of the changes to the reporting model. It may be helpful to include talking points and highlights for auditors to use in discussing the changes with the plan sponsors and other relevant parties. How to educate users of the report, including plan participants, would also be helpful. It will be important for each party in the financial reporting chain to have a clear understanding of any changes made and the underlying reasons for those changes.

**Opinion modifications**

With respect to the proposed reporting for ERISA-permitted audit scope limitations, we believe it is clear that the guidance in AU-C section 705, *Modifications to the Opinion in the Independent Auditor's Report*, does not apply in these circumstances. However, the proposed approach for modifying the auditor's report is unclear in circumstances where the auditor identifies other scope limitations (besides the ERISA-permitted scope limitation) or if there are material misstatements of the ERISA plan financial statements. More specifically, it appears that the ERISA-permitted scope limitation should be considered in determining the appropriate qualification of the report in those circumstances, which could lead the auditor to determine that a disclaimer of opinion is the de facto conclusion. We question whether this is the appropriate conclusion since the goal of the project is to enhance the transparency of the auditor's responsibilities, among other things.

When we consider the second bullet in proposed paragraph .34 along with the application guidance in proposed paragraph .A64, the use of the phrase "if appropriate" in paragraph .34 seems incongruous with the guidance in .A64, which states the "possible effects of the ERISA-permitted audit scope limitation is also considered…" The application guidance seems to suggest that the content in proposed paragraph .94a would generally be included in the basis for modified opinion paragraph. Further, we note the ERISA-permitted audit scope limitation is included in Illustration 7. While we acknowledge that report is for illustrative purposes only, auditors often look to those illustrations as a baseline for creating their reports. We believe it is important for the reader of the financial statements to understand, regardless of the resulting opinion or disclaimer thereof, that management imposed the ERISA-permitted scope limitation on the audit.

We would therefore recommend that the Board adopt an approach that would maintain the proposed form of report for ERISA-permitted scope limitations in circumstances where other report qualifications need to be considered under AU-C section 705. We further recommend including requirements and related guidance in the Proposed SAS that would direct the auditor to consider the guidance in AU-C section 705 only with respect to the additional scope limitation or misstatement matters noted.

### Required emphasis-of-matter paragraphs

We agree with the Board's desire to drive better consistency in reporting certain matters, but we do not support the required emphasis of matter paragraphs set forth in proposed paragraph .116 of the Proposed SAS. We believe it is overly prescriptive for the current, principles-based auditing standards. We further note the circumstances described in this paragraph would generally be disclosed in the notes to the financial statements and many of those situations would also be referenced in Form 5500 for plan sponsors when applicable. Therefore, we do not see the value to users of the financial statements in requiring further disclosure of those matters in the auditor's report, particularly when the proposed auditor's reports would already be significantly lengthier than the current reports. However, if the Board moves forward, we have provided specific paragraph-level comments to the proposed requirement in the Appendix to this letter.

### Reporting internal control deficiencies

We fully agree with the ASB's conclusion that the Proposed SAS should not include a requirement to disclose certain internal control findings in the auditor's report. We believe the current reporting construct, whereby the auditor communicates significant deficiencies and material weaknesses to those charged with governance, is sufficient and appropriate.

### Performance requirements for specific plan provisions

We generally agree with the procedures over specific plan provisions proposed in paragraphs 15-16 and believe requiring the auditor to address these aspects of compliance with the provisions of the plan would enhance the quality of the underlying audit work supporting the audit opinion. However, we have significant concerns with regard to (1) determining the scope of the procedures "irrespective of the risks of material misstatement," as set forth in the Proposed SAS, and (2) reporting the results of the procedures in the auditor's report. We have described our concerns in more detail and offered suggestions to address them below.

#### Required procedures

With regard to operationalizing the required procedures over specific plan provisions in paragraphs 15 and 16 of the Proposed SAS, we are concerned that the level of prescription included in the requirements without regard to any materiality considerations could be problematic. We believe the notion of materiality is essential to the overall audit process, and eliminating the auditor's ability to consider materiality in determining the nature and scope of the work to be performed could introduce operational challenges and increased costs without potentially generating a corresponding increase in audit quality. . For example, in paragraph .15d, it is not clear as to whether the Board expect the auditor to design a test to include each type of contribution, including those that are often immaterial to the plan taken as a whole, such as Roth contributions or special contributions limited to a small number of participants, or whether testing contributions in general would satisfy the requirement? We also note that the implementation guidance in the proposed standard could result in significant inconsistencies in application.

In addition, currently, auditors generally do not perform audit procedures to test loan origination fees given their immateriality. It appears that the intention of the proposed standard is to include such fees under the scope of paragraph 15. We strongly urge the Board to reframe the procedures in paragraph .15 to better align with the construct in the current Employee Benefit Plan Audit

Guide where the auditor considers "what could go wrong" in each financial statement area and determines the nature, timing, and extent of audit procedures based on the corresponding risk assessment.

Recognizing the importance of the Board's objectives in requiring these procedures, we propose the following alternative for the Board's consideration. We believe the procedures should be required and the nature, timing, and extent of those procedures should be based on the auditor's risk assessment. In instances where the auditor determines no work is necessary given the risk assessment, the auditor should be required to document his/her considerations as to why no specific testing was performed, with additional reporting to those charged with governance (as described further below). . We have included suggested edits to the proposed requirement to illustrate this approach in the accompanying Appendix. We believe such an approach would enhance overall audit quality without significantly impacting costs nor creating operational and interpretive challenges for many auditors.

### Findings

As described above, we do not support the proposed requirement to include in the auditor's report a description of findings identified during the execution of paragraphs .15-.16 for the following reasons.

- In our experience, findings are not always straightforward, and sometimes the plan sponsor's ERISA counsel has to review and weigh in on the potential issues (for example, the application of the definition of "eligible compensation" used in determining the amounts of various types of contributions provided under the terms of the plan). Required disclosure in the auditor's report could likely increase costs to both plan sponsors and auditors who may wish to consult with their respective legal counsel prior to issuing the auditor's report. Further, the ambiguity and complexity of certain potential findings might make it difficult for auditors to operationalize the proposed threshold of "clearly inconsequential."

- We believe it is highly likely that the reporting of findings would not be well understood by most users of the reports, including the plan participants. Such users of the plan financial statements might draw inappropriate conclusions as to the implications of the reported findings on their individual accounts or benefits. We believe it would be difficult to provide sufficient description in the report for users to discern the impact, if any, of the findings without the benefit of a two-way dialogue similar to the auditor's discussion with those charged with governance.

- We are concerned as to the application of the requirement in the context of disclosing information about the entity that would not otherwise be made public, without a corresponding regulatory or financial reporting framework requirement.

We continue to support increasing transparency to the audit and therefore encourage the Board to retain the portion of the proposed requirement to include the auditor's responsibilities relative to specific plan provisions relating to the financial statements in the auditor's report. Moreover, we recommend the Board require communication of the results of these procedures to those charged with governance as an alternative to the current proposed reporting requirement. Such communications could coincide with the communications already required by AU-C section 260, *The Auditor's Communication with Those Charged with Governance*. Furthermore, we believe requiring the communication of the results of the procedures to those charged with governance would facilitate more robust two-way dialogue on the nature of the procedures, related findings, and the potential internal control implications related to those findings. We believe this approach would enhance audit quality in an effective manner.

Finally, we note that auditors would benefit from additional guidance, including examples, of how to apply the procedures in various plan audit circumstances. We therefore recommend that the AICPA update the audit guide concurrently with the effective date of the standard to include examples and guidance related to the application of these procedures.

If the Board decides to move forward with the requirement to include the description of findings in the auditor's report, we believe it would be inappropriate for an auditor to report on findings in instances where a disclaimer of opinion is issued. Such reporting could undermine the disclaimer itself and would result in what could be viewed as a piecemeal opinion. Additionally, we strongly recommend that the Board conduct additional analysis, including obtaining views from legal counsel, with regard to the possible consequences of disclosing original information in the form of the proposed findings in public documents, including regulatory findings.

**Form 5500 required procedures**

We are supportive of the procedures in paragraphs .36 to .48 of the Proposed SAS and do not have any recommended changes. The proposed requirements in the SAS currently are built into our firm's methodology, so we do not expect the adoption of these procedures to represent a significant change to our firm's work effort. We believe adopting these procedures as requirements would positively impact audit quality and would increase consistency in auditors' work related to Form 5500.

**Proposed new reporting standard**

While we agree with creating a separate standard addressing audits of ERISA plan financial statements, we believe placing it in the 700 series, *Audit Conclusions and Reporting,* could be confusing to practitioners. Rather, we recommend the Board consider placing it in the 800 series, *Special Considerations.* We believe this is a better characterization of the nature of the proposed standard taken as a whole.

**Proposed effective date**

We believe that, depending on the ultimate changes adopted, the proposed standard could result in a significant change to the profession's approach to auditing and reporting on EBP financial statements. Therefore, we believe periods ending on or after December 15, 2018 would create challenges to adopt changes to methodologies and conduct appropriate training. We recommend instead an effective date no earlier than periods ending on or after June 15, 2019. We also propose, for the Board's consideration, a phased approach to effectiveness whereby the changes to the standard auditor's report are effective for a period of time prior to the effectiveness of the performance and reporting requirements related to testing specific plan provisions.

## Other comments

### Certified investment information

In the context of the ERISA-permitted audit scope limitation, the proposed standard uses the phrase "certified investment information." We believe this phrase requires clarification by way of application guidance, particularly as it relates to participant loans. In practice, participant loans may or may not be included in the qualifying institution's certification. Additionally, participant loans are considered "investments" under ERISA but not for presentation purposes under generally accepted accounting principles. Given these nuances, there could be confusion in how practitioners operationalize the requirements for "certified investment information" and what this phrase means, and application guidance would help alleviate potential confusion.

### Reporting

We question the appropriateness of specifically referring to Sections 107 and 209 of ERISA in the management's responsibility section. We understand that the regulations under Section 107 are limited and relate only to electronic recordkeeping. Further, regulations under Section 209 are proposed and are not yet law. Given the perceived ambiguity around these ERISA Sections, we recommend removing the references to these specific ERISA Sections from the report. Refer to our proposed revisions to the report contained in the Appendix to this letter.

We believe that the proposal for the auditor to opine on whether the supplemental information is fairly stated in all material respects in relation to the financial statements as a whole, as well as whether its form and content are in compliance with ERISA, may be misunderstood, specifically as it relates to whether the standard is requiring performance requirements beyond those included in AU-C section 725, *Supplementary Information in Relation to the Financial Statements as a Whole*. While we agree providing transparency into the fact that compliance with ERISA is considered, we recommend the Board remove the notion of "form and content" from the opinion itself, as shown in our proposed revisions in the Appendix to this letter.

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If you have any questions about our response, or wish to further discuss our comments, please contact Trent Gazzaway, National Managing Partner of Professional Standards, at (704) 632-6834 or Trent.Gazzaway@us.gt.com.

Sincerely,

Grant Thornton LLP

# Appendix

## Specific paragraph-level comments

The following section provides certain specific paragraph-level comments for the Board's consideration. Some comments contain suggested revisions to the proposed text. ***Boldface italics*** denotes new language; deleted text is shown in ~~strikethrough~~.

| *Paragraph* | |
|---|---|
| .A8 | In consideration of our comments on the phrase "certified investment information," it is unclear whether participant loans would be considered part of participant account balances. Accordingly, we recommend adding additional application guidance to this paragraph addressing how participant loans may or may not be certified. |
| .12c | Based on our comment above regarding the ambiguity of ERISA Sections 107 and 209, we recommend the following edits:<br><br>maintaining sufficient records with respect to each of the participants ~~in accordance with ERISA section 107 and 209~~ to determine the benefits due or which may become due to such participants |
| .12d(c) | We note that the illustrative report example specifies "certified investment information" whereas this paragraph refers only to "certified information." We recommend being consistent in these terms. |
| .14 | We suggest the following revisions based on our comments in the body of our letter:<br><br>Paragraphs 15-16 require the auditor to perform audit procedures that are the basis for reporting ***to those charged with governance regarding*** ~~on~~ specific plan provisions relating to the ERISA plan financial statements~~ as required in paragraphs 119-124~~. Paragraphs 15-16 do not include all requirements necessary for the auditor to form an opinion and report on the ERISA plan financial statements (see paragraphs 2 and A1)…. |
| .15 | Based on our comments in the body of our letter, we recommend the following edits.<br><br>~~Irrespective of the risks of material misstatement, t~~***The*** auditor should perform substantive procedures for the following: |
| .15e | This paragraph appears to be focused on compliance with the plan document, and therefore this requirement appears misplaced. We recommend moving it to paragraph .16. |

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| .15f | As currently drafted, this requirement appears to be focused on the allocation of expenses, which would not apply to single employer plans or other plans such as defined benefit or health and welfare plans. Is the Board's intention for expenses to be tested only in the context of allocation in multi-employer plans? If not, we recommend adding a requirement to address expenses in plans outside the scope of this requirement as currently drafted. |
| .17 | In light of the applicable recommendations in the body of our letter, we recommend the Board add a requirement that, if the auditor determines that a procedure from paragraphs .15-.16 will not be performed, the auditor should document his or her considerations in making that determination. |
| .54b | We recommend the following revisions based on our comments above:<br>Administering the plan…including maintaining sufficient records with respect to each of the participants~~, in accordance with sections 107 and 209 of the Employee Retirement Income Security Act of 1974,~~ to determine the benefits due or which may become due to such participants. |
| .59 | We recommend adding a sub-bullet in this paragraph to describe that the auditor is required to perform certain procedures to test whether the plan and plan transactions are in accordance with specific plan provisions and to communicate the results of those procedures to those charged with governance. The sub-bullet would also include the fact that such procedures are not performed for the purpose of providing an opinion on compliance with those provisions and that, accordingly, the auditor does not express such an opinion. Refer to our suggested edits to the illustrative reports below. |
| .66-.69 | We believe these paragraphs should be deleted, based on our comments in the body of our letter. |
| .96d | We recommend edits similar to those provided above for paragraph .54b (that is, removing the mention of ERISA Sections 107 and 209). |
| .101 | We recommend edits similar to those provided above for paragraph .59. |
| .103 | We believe this paragraph should be deleted to correspond with our suggested report edits below. Such a statement may confuse users of the financial statements and we believe removing it will not diminish the quality of the reporting and would help streamline the report content. |
| .110-.112 | We believe these paragraphs should be deleted, based on our comments in the body of our letter. |
| .116 | If the Board moves forward with requiring certain emphasis of matter paragraphs, it is unclear whether the sub-bullets in this paragraph are intended to be an exhaustive list. We do not believe the footnote reference to AU-C section 706 is sufficient in conveying that there may be other circumstances where the auditor is required to include an emphasis of matter paragraph in the auditor's report. We recommend the footnote be replaced with more specific application guidance in this paragraph. |
| .116a | If the Board moves forward with requiring certain emphasis of matter paragraphs, we believe application guidance regarding the meaning/intention of "significant" would make the requirement more operational and provide for more consistent interpretation. |
| .118g | Based on our comments in the body of our letter, we believe the notion of specifically opining on whether "the form and content are presented in conformity with the Department of Labor's Rules and Regulations for Reporting and Disclosure under ERISA" should be deleted. |

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| .118i | We recommend edits similar to those provided above for paragraph .118g. |
| .119 | We recommend the section beginning with paragraph .119 should be renamed from "reporting" to "communicating with those charged with governance" and the succeeding paragraphs through paragraph .124 should be deleted and replaced with requirements for the auditor to communicate the results of the procedures performed in paragraphs .15-.16 to those charged with governance. Further, if the auditor determines a procedure required by those paragraphs was not necessary based on his or her risk assessment, that fact should be communicated to those charged with governance. |
| Illustration 7 | We note the circumstances for illustration 7 are for an audit of a 401(k) plan. However, in practice, this type of report is almost exclusively used for 403(b) plans. We recommend the Board revise the circumstances and related illustration to show a 403(b) plan. |

## Proposed revisions to illustrative reports

The following section provides proposed revisions to certain of the illustrative reports in the proposed standard. We suggest that our recommendations as shown below be carried through the other report illustrations as applicable. ***Boldface underlined italics*** denotes new language; deleted text is shown in ~~strikethrough~~.

Illustration 1—An Auditor's Report on Financial Statements for a Defined Contribution Retirement Plan Subject to ERISA

Circumstances include the following:

- Audit of a complete set of general purpose financial statements for a 401(k) plan subject to ERISA (comparative statement of net assets available for benefits and a single year statement of changes in net assets available for benefits)
- The financial statements are prepared in accordance with U.S. 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 on Specific Plan Provisions Relating to Financial Statements* is included with the auditor's report and includes findings. The auditor performed procedures relating to participant eligibility, benefit payments, participant vesting provisions, employer and employee contributions, disclosure of prohibited transactions, IRC compliance tests, participant asset allocations, use of forfeitures, and recording of account activity.~~

**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 Financial Statements of an Employee Benefit Plan Subject to ERISA***

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 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~~, in accordance with sections 107 and 209 of the Employee Retirement Income Security Act of 1974,~~ to determine the benefits due or which may become due to such participants.

***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. ***As part of obtaining reasonable assurance about whether ABC 401(k) Plan's financial statements are free from material misstatement, we are required to perform certain procedures to test whether the plan and plan transactions are in accordance with specific plan provisions and communicate the results of those procedures to those charged with governance. However, these procedures were not performed for the purpose of providing an opinion on compliance with those provisions and, accordingly, we do not express such an 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 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 ABC 401(k) Plan as of December 31, 20X2 and 20X1, and the changes in its 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, XYZ Plan was merged into ABC 401(k) Plan effective December 31, 20X2. Our opinion has not been modified with respect to this matter.~~

***Other Matter Relating to the Supplemental Schedules Required by ERISA***

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 purposes 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 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 supplementary 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 are 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 Specific Plan Provisions Relating to the Financial Statements**~~
~~As part of obtaining reasonable assurance about whether ABC 401(k) Plan's financial statements are free from material misstatement, we are required to perform certain procedures to test whether the plan and plan transactions are in accordance with specific plan provisions. We performed procedures relating to participant eligibility, benefit payments, participant vesting provisions, employer and employee contributions, disclosure of prohibited transactions, Internal Revenue Code compliance tests, participant asset allocations, use of forfeitures, and recording of account activity for the year ended December 31, 20X2 as required by generally accepted auditing standards for audits of employee benefit plans subject to the Employee Retirement Income Security Act of 1974 as set forth in AU-C section 703, *Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA*. However, these procedures were not performed for the purpose of providing an opinion on compliance with those provisions and, accordingly, we do not express such an opinion.~~

~~During our audit, we noted the following findings relating to whether the plan and plan transactions are in accordance with specific plan provisions. However, the audit was not designed to identify all instances when the plan and plan transactions are not in accordance with those specific plan provisions. Our opinion on the financial statements is not modified with respect to these findings.~~

- ~~We noted instances when vesting was not calculated in accordance with the plan instrument which resulted in the plan not paying the appropriate benefits.~~

~~*Purpose of this Report*~~
~~The purpose of this report on specific plan provisions relating to the financial statements is solely to describe the results of our procedures relating to specific plan provisions, and not to provide an opinion on the plan's compliance with ABC 401(k) Plan's provisions. This report on specific plan provisions relating to the financial statements is an integral part of an employee benefit plan audit~~

~~performed in accordance with generally accepted auditing standards. Accordingly, this communication is not suitable for any other purpose.~~

[Auditor's signature]
[*City and state report is issued*]
[Date of the auditor's report]

Illustration 3—An Auditor's Report on Financial Statements for a Defined Contribution Retirement Plan Subject to ERISA When Management Imposes a Limitation on the Scope of the Audit as Permitted by ERISA

Circumstances include the following:

- Management imposed a limitation on 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 with respect to the certified investment information for a complete set of general purpose financial statements of a 401(k) plan. No other scope limitations were imposed and the financial statements are not materially misstated.
- The financial statements are prepared in accordance with U.S. 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 on Specific Plan Provisions Relating to Financial Statements* is included with the auditor's report and includes findings. The auditor performed procedures relating to participant eligibility, benefit payments, participant vesting provisions, employer and employee contributions, disclosure of prohibited transactions, IRC compliance tests, participant asset allocations, use of forfeitures, and recording of account activity.~~

**Independent Auditor's Report**

[Appropriate Addressee]

We have performed an audit of the accompanying financial statements of ABC 401(k) Plan, subject to the limitation on the scope of the audit imposed by management, as permitted by Employee Retirement Income Security Act of 1974. 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.

***Basis for Limitation on the Scope of 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, management imposed a limitation on the scope of the audit. Under the authority of section 103(a)(3)(C) of the Employee Retirement Income Security Act of 1974, the audit need not extend to information related to assets held for investment of the plan (investment information) prepared and certified by a bank or similar institution or insurance carrier which is regulated and supervised and subject to periodic examination by a State or Federal agency, provided that the statements or information regarding assets so held are prepared and certified to by the bank or insurance carrier in accordance with 29 CFR 2520.103-5 and 29 CFR 2520.103-8.

We have been informed by management that a qualified institution holds the investments and executes investment transactions. Management has obtained certifications from the qualified institution as of December 31, 20X2 and 20X1, and for the year ended December 31, 20X2, stating that the investment information, described in Note X to the financial statements, is complete and accurate.

***Management's Responsibility for the Financial Statements and the Limitation on the Scope of the Audit***

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 determining whether a limitation on the scope of the audit is permissible in the circumstances, in accordance with the Employee Retirement Income Security Act of 1974, including evaluating whether

- the certification is prepared by a qualified institution, and
- the certified investment information is complete and accurate.

The limitation on the scope of the audit does not affect management's responsibility for the financial statements. Management is responsible for determining whether the certified investment information is appropriately measured, presented and disclosed in accordance with accounting principles generally accepted in the United States of America.

Management is also responsible 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~~, in accordance with sections 107 and 209 of the Employee Retirement Income Security Act of 1974,~~ to determine the benefits due or which may become due to such participants.

***Auditor's Responsibility (Including Responsibility for the Certified Investment Information)***

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. ***As part of obtaining reasonable assurance about whether ABC 401(k) Plan's financial statements are free from material misstatement, we are required to perform certain procedures to test whether the plan and plan transactions are in accordance with specific plan provisions and communicate the results of those procedures to those charged with governance. However, these procedures were not performed for the purpose of providing an opinion on compliance with those provisions and, accordingly, we do not***

***express such an 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.

With respect to the certified investment information that management instructed us not to audit, we did not assess the risks of material misstatement nor did we consider internal control over the certified investment information. Our procedures were limited to the following:

(a) obtaining and reading the certification
(b) evaluating management's assessment of whether the entity issuing the certification is a qualified institution under the Employee Retirement Income Security Act of 1974
(c) comparing the certified investment information with the related information presented and disclosed in the financial statements
(d) evaluating whether the form and content of the certified investment information presented and disclosed in the financial statements are in accordance with accounting principles generally accepted in the United States of America

~~Other than with respect to the certified investment information, our audit procedures were not limited for other amounts and disclosures in the financial statements.~~

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion with the ERISA-permitted audit scope limitation on the financial statements.

***Auditor's Opinion With the ERISA-Permitted Audit Scope Limitation on the Financial Statements***

In our opinion, based on our audit and based on our use of the certification of the investment information that we were instructed not to audit, the financial statements referred to above present fairly, in all material respects, the net assets available for benefits of ABC 401(k) 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 the Supplemental Schedules Required by ERISA***

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 purposes 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 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 the use of the certification of the investment information, that we were instructed not to audit, 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.

Our procedures with respect to the certified investment information included in the supplemental schedules were limited to those procedures described in the *Auditor's Responsibility (Including Responsibility for the Certified Investment Information)* section.

In forming our opinion on the supplemental schedules, we evaluated whether the supplementary 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, based on our audit and based on our use of the certification of the investment information that we were instructed not to audit, 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 are 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 Specific Plan Provisions Relating to the Financial Statements**~~

~~As part of obtaining reasonable assurance about whether ABC 401(k) Plan's financial statements are free from material misstatement, we are required to perform certain procedures to test whether the plan and plan transactions are in accordance with specific plan provisions. We performed procedures relating to participant eligibility, benefit payments, participant vesting provisions, employer and employee contributions, disclosure of prohibited transactions, Internal Revenue Code compliance tests, participant asset allocations, use of forfeitures, and recording of account activity for the year ended December 31, 20X2 as required by generally accepted auditing standards for audits of employee benefit plans subject to the Employee Retirement Income Security Act of 1974 as set forth in AU-C section 703, *Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA*. However, these procedures were not performed for the purpose of providing an opinion on compliance with those provisions and, accordingly, we do not express such an opinion.~~

~~During our audit, we noted the following findings relating to whether the plan and plan transactions are in accordance with specific plan provisions. However, the audit was not designed to identify all instances when the plan and plan transactions are not in accordance with those specific plan provisions. Our opinion with the ERISA-permitted audit scope limitation on the financial statements is not modified with respect to this finding.~~

- ~~We noted instances when vesting was not calculated in accordance with the plan document, which resulted in the plan not paying appropriate benefits.~~

~~*Purpose of this Report*~~

~~The purpose of this report on specific plan provisions relating to the financial statements is solely to describe the results of our procedures relating to the specific plan provisions, and not to provide an opinion on the plan's compliance with ABC 401(k) Plan's provisions. This report on specific plan provisions relating to the financial statements is an integral part of an employee benefit plan audit performed in accordance with generally accepted auditing standards. Accordingly, this communication is not suitable for any other purpose.~~

[Auditor's signature]
[*City and state report is issued*]
[*Date of the auditor's report*]