Statement on Auditing Standards — *July 2019* — ***136***

Issued by the Auditing Standards Board

Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA

(*AICPA,* Professional Standards*, AU-C sec. 703; Amends*

- ***SAS No. 119, as amended [AICPA,* Professional Standards*, AU-C sec. 725];***
- ***Various sections in SAS No. 122,* Statements on Auditing Standards: Clarification and Recodification*, as amended [AICPA,* Professional Standards*, AU-C secs. 220, 240, 330, 450, 501, 510, 540, 550, 560, 580, and 708];***
- ***SAS No. 132,* The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern *[AICPA,* Professional Standards*, AU-C sec. 570])***

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The Auditing Standards Board gratefully acknowledges the contributions of Charles E. Landes, Jerry Murray, and Alice Wunderlich in the development of this Statement on Auditing Standards.

Note: *Statements on Auditing Standards are issued by the Auditing Standards Board, the senior technical body of the AICPA designated to issue pronouncements on auditing matters. The "*Compliance With Standards Rule" (ET sec. 1.310.001)[1] *of the AICPA Code of Professional Conduct requires compliance with these standards in an audit of a nonissuer.*

[1] All ET sections can be found in AICPA *Professional Standards*.

Statement on Auditing Standards ***Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA***

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REQUIREMENTS

Introduction

Scope of This Statement on Auditing Standards

1. This Statement on Auditing Standards (SAS) addresses the auditor's responsibility to form an opinion on the financial statements of employee benefit plans (EBPs) subject to the Employee Retirement Income Security Act of 1974 (ERISA), hereinafter referred to as *ERISA plans*. It also addresses the form and content of the auditor's report issued as a result of an audit of ERISA plan financial statements. This SAS applies to audits of single employer, multiple employer, and multiemployer plans subject to ERISA. This SAS should not be adapted for plans that are not subject to ERISA. (Ref: par. A1)

2. This SAS applies to an audit of a complete set of general purpose financial statements of EBPs subject to ERISA and is written in that context.

3. The Department of Labor (DOL), IRS, and the Pension Benefit Guaranty Corporation (PBGC) jointly developed the Form 5500 series so EBPs could use the Form 5500 series forms to satisfy annual reporting requirements under Title I and Title IV of ERISA and the IRC. The Form 5500 series is part of ERISA's overall reporting and disclosure framework, which is intended to assure that EBPs are operated and managed in accordance with certain prescribed standards and that participants and beneficiaries, as well as regulators, are provided or have access to sufficient information to protect the rights and benefits of participants and beneficiaries under EBPs. The Form 5500 series includes Form 5500, *Annual Return/Report for Employee Benefit Plan*, and related schedules (hereinafter referred to as *Form 5500*). (Ref: par. A2–A5)

4. ERISA requires that certain supplemental schedules accompany the ERISA plan financial statements (hereinafter referred to as *ERISA-required supplemental schedules*), if applicable. Paragraphs 127–135 address the auditor's responsibilities relating to reporting on the ERISA-required supplemental schedules, and paragraphs 22–24 address the auditor's responsibilities relating to prohibited transactions.

5. The requirements in this SAS are specific to ERISA plan audit engagements and are intended to be performed as part of the audit of ERISA plan financial statements in accordance with generally accepted auditing standards (GAAS); however, this SAS does not contain all the requirements necessary to form an opinion and report on ERISA plan financial statements.

6. When performing an audit of ERISA plan financial statements, all the AU-C sections[1] apply, except for the following AU-C sections or portions thereof, which are not applicable to an audit of ERISA plan financial statements because those requirements and related application material are specifically covered in this SAS:

a. AU-C section 700, *Forming an Opinion and Reporting on Financial Statements*

[1] All AU-C sections can be found in AICPA *Professional Standards*.

b. Paragraph .09 of AU-C section 725, *Supplementary Information in Relation to the Financial Statements as a Whole*

In addition, this SAS contains incremental requirements to AU-C section 210, *Terms of Engagement*; AU-C section 250, *Consideration of Laws and Regulations in an Audit of Financial Statements*; AU-C section 260, *The Auditor's Communication With Those Charged With Governance*; and AU-C section 580, *Written Representations*.

7. This SAS also addresses the auditor's responsibilities for forming an opinion on ERISA plan financial statements, including the form and content of the report when management elects to have an audit performed pursuant to ERISA Section 103(a)(3)(C) (hereinafter referred to as an *ERISA Section 103(a)(3)(C) audit*).

8. When management elects an ERISA Section 103(a)(3)(C) audit, as discussed in paragraph 7, the audit need not extend to any statements or information related to assets held for investment of the plan (hereinafter referred to as *investment information*) by a bank or similar institution or an insurance carrier that is regulated, 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 similar institution or insurance carrier in accordance with the Code of Federal Regulations (CFR), *Labor*, Title 29, Section 2520.103-5 of the DOL's Rules and Regulations for Reporting and Disclosure under ERISA (hereinafter referred to as a *qualified institution*). Paragraphs 29–35 contain required procedures when an ERISA Section 103(a)(3)(C) audit is performed. (Ref: par. A6–A10)

9. Reference to *ERISA plan financial statements* in this SAS means a complete set of general purpose financial statements[2] for an EBP subject to ERISA. The requirements of the applicable financial reporting framework determine the presentation, structure, and content of the financial statements and what constitutes a complete set of financial statements. (Ref: par. A11–A12)

10. AU-C section 705, *Modifications to the Opinion in the Independent Auditor's Report*, and AU-C section 706, *Emphasis-of-Matter Paragraphs and Other-Matter Paragraphs in the Independent Auditor's Report*, address how the form and content of the auditor's report are affected when the auditor expresses a modified opinion (a qualified opinion, an adverse opinion, or a disclaimer of opinion) or includes an emphasis-of-matter paragraph or other-matter paragraph in the auditor's report. (Ref: par. A13)

11. This SAS does not require the communication of key audit matters. AU-C section 701, *Communicating Key Audit Matters in the Independent Auditor's Report*, addresses the auditor's responsibility to communicate key audit matters when the auditor is engaged to do so.

12. AU-C section 800, *Special Considerations — Audits of Financial Statements Prepared in Accordance With Special Purpose Frameworks*, addresses special considerations when financial statements are prepared in accordance with a special purpose framework.[3] AU-C section 805, *Special Considerations — Audits of Single Financial Statements and Specific Elements, Accounts,*

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[2] See the AU-C Glossary for a definition of *general purpose financial statements*.
[3] See AU-C section 800, *Special Considerations — Audits of Financial Statements Prepared in Accordance With Special Purpose Frameworks*, for a definition of *special purpose framework*.

or Items of a Financial Statement, addresses special considerations relevant to an audit of a single financial statement or of a specific element, account, or item of a financial statement. (Ref. par. A14–A15)

Effective Date

13. This SAS is effective for audits of ERISA plan financial statements for periods ending on or after December 15, 2020. Early implementation is not permitted. Exhibit B, "Implementation Guidance for ERISA Section 103(a)(3)(C) Audits," provides transitional implementation reporting guidance upon initial implementation by the auditor of this SAS.

Objectives

14. The objectives of the auditor are to do the following:

a. Accept an ERISA plan audit engagement when the basis upon which it is to be performed has been agreed upon through establishing whether the preconditions for the audit are present (Ref: par. A5)

b. Appropriately plan and perform the audit of ERISA plan financial statements, including procedures required by this SAS on the certified investment information when management elects an ERISA Section 103(a)(3)(C) audit

c. Form an opinion on the ERISA plan financial statements based on an evaluation of the audit evidence obtained, including evidence obtained about comparative financial statements [4]

d. Express clearly the opinion on the ERISA plan financial statements through a written report

e. Perform procedures and report on the presentation of the supplementary information in accordance with this SAS

f. Appropriately communicate to management and those charged with governance reportable findings that the auditor has identified during the audit of the ERISA plan financial statements

Requirements

Engagement Acceptance

15. In addition to the preconditions for an audit in AU-C section 210, the auditor should obtain the agreement of management that it acknowledges and understands its responsibility for the following: (Ref: par. A16)

a. Maintaining a current plan instrument, including all plan amendments (Ref: par. A22)

b. Administering the plan and determining that the plan's transactions that are presented and disclosed in the ERISA plan financial statements are in conformity with the plan's provisions, including maintaining sufficient records with respect to each of the

[4] See the AU-C Glossary for a definition of *comparative financial statements.*

participants to determine the benefits due or which may become due to such participants (Ref: par. A60)

c. When management elects to have an ERISA Section 103(a)(3)(C) audit, determining whether

i. an ERISA Section 103(a)(3)(C) audit is permissible under the circumstances,

ii. the investment information is prepared and certified by a qualified institution as described in 29 CFR 2520.103-8,

iii. the certification meets the requirements in 29 CFR 2520.103-5, and

iv. the certified investment information is appropriately measured, presented, and disclosed in accordance with the applicable financial reporting framework

16. When management elects to have an ERISA Section 103(a)(3)(C) audit, the auditor should inquire of management about how management determined that the entity preparing and certifying the investment information is a qualified institution, as discussed in paragraphs 8 and A6.

17. The auditor should also obtain the agreement of management or those charged with governance to provide to the auditor, prior to the dating of the auditor's report, a draft of Form 5500 that is substantially complete (hereinafter referred to as the *draft Form 5500*). (Ref: par. A17)

Audit Risk Assessment and Response in an Audit of ERISA Plan Financial Statements

18. AU-C section 315, *Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement*, addresses the auditor's responsibility to identify and assess the risks of material misstatement in the financial statements through understanding the entity and its environment, including the entity's internal control. The plan instrument is essential to understanding the plan and identifying and performing audit procedures that are responsive to assessed risks. (Ref: par. A18–A21)

19. The auditor should obtain and read the most current plan instrument for the audit period, including effective amendments (hereinafter referred to as the *plan instrument*), as part of obtaining an understanding of the entity sufficient to perform risk assessment procedures. (Ref: par. A22–A24)

20. When designing and performing audit procedures, the auditor should consider relevant plan provisions that affect the risk of material misstatement at the relevant assertion level for classes of transactions, account balances, and disclosures. (Ref: par. A25–A28)

Plan Tax Status

21. As part of the auditor's responsibilities in accordance with AU-C section 250 relating to the plan's tax status, the auditor should consider whether management has performed the relevant IRC compliance tests, including but not limited to, discrimination testing, and has corrected or intends to correct failures, as applicable. (Ref: par. A29–A32)

Prohibited Transactions

22. The auditor should evaluate whether prohibited transactions identified by management or as part of the audit have been appropriately reported in the applicable ERISA-required supplemental schedules (see paragraph A5). (Ref: par. A33–A35)

23. If the auditor becomes aware that the plan has entered into a prohibited transaction with a party in interest, and the prohibited transaction has not been properly reported in the applicable ERISA-required supplemental schedule, the auditor should discuss the matter with management. If management does not revise the ERISA-required supplemental schedule, the auditor should discuss the matter with those charged with governance (unless all those charged with governance are involved in managing the plan). If the ERISA-required supplemental schedule is not revised, the auditor should modify the auditor's opinion on the ERISA-required supplemental schedule, when the effect of the transaction is material based on the financial statements as a whole. When the effect of the prohibited transaction is not material to the financial statements, then the auditor should include additional discussion in the other-matter paragraph in the auditor's report on the ERISA-required supplemental schedules describing the prohibited transaction. (Ref: par. A36)

24. If a material prohibited party-in-interest transaction that is not disclosed in the ERISA-required supplemental schedule is also considered a related party transaction and that transaction is not properly disclosed in the notes to the ERISA plan financial statements, the auditor should modify the auditor's opinion on the financial statements in accordance with AU-C section 705 due to a departure from the applicable financial reporting framework.

Evaluation and Documentation

25. When the audit work performed results in the identification of items that are not in accordance with the criteria specified (for example, not in accordance with the plan instrument), the auditor should evaluate whether the matters are reportable findings. *Reportable findings* are matters that are one or more of the following:

- *a.* An identified instance of noncompliance or suspected noncompliance with laws or regulations in accordance with AU-C section 250
- *b.* A finding arising from the audit that is, in the auditor's professional judgment, significant and relevant to those charged with governance regarding their responsibility to oversee the financial reporting process in accordance with AU-C section 260
- *c.* An indication of deficiencies in internal control identified during the audit that have not been communicated to management by other parties and that, in the auditor's professional judgment, are of sufficient importance to merit management's attention in accordance with AU-C section 265, *Communicating Internal Control Related Matters Identified in an Audit*

26. The auditor should prepare audit documentation in accordance with AU-C section 230, *Audit Documentation*. If the auditor has determined that it is not necessary to test any relevant plan provisions as described in paragraph 20, the auditor should document the considerations in reaching such conclusion. (Ref: par. A37)

Communication With Management or Those Charged With Governance

27. Based on the evaluation required by paragraph 25, the auditor should communicate in writing to those charged with governance, on a timely basis, reportable findings from the audit procedures performed relating to the matters included in paragraph 20. Such communication should be included with the required communication with those charged with governance in accordance with AU-C sections 250, 260, or 265, as appropriate, either in a separate section or placed in such communications as the auditor deems appropriate. The written communication should include the following:

a. A description of the reportable finding

b. Sufficient information to enable those charged with governance and management to understand the context of the communication

c. An explanation of the potential effects of the reportable findings on the financial statements or to the plan

(Ref: par. A38–A45)

28. The auditor should not issue a written communication stating that no reportable findings were identified during the audit. (Ref: par. A46)

Procedures for an ERISA Section 103(a)(3)(C) Audit

29. When management elects to have an ERISA Section 103(a)(3)(C) audit as discussed in paragraph 8, the auditor should evaluate management's assessment of whether the entity issuing the certification is a qualified institution under DOL rules and regulations. (Ref: par. A47–A48)

30. If, as a result of the procedures performed in paragraph 29, the auditor has concerns about whether the entity preparing and certifying the investment information is a qualified institution, the auditor should discuss his or her concerns with management. If management does not provide sufficient information that supports its determination that the entity preparing and certifying the investment information is a qualified institution, then the auditor should discuss his or her concerns with those charged with governance and determine the implications for the audit. (Ref: par. A49)

31. The auditor should identify which investment information is certified.

32. The auditor should perform the following procedures on the certified investment information: (Ref: par. A50)

a. Obtain from management and read the certification as it relates to investment information prepared and certified by a qualified institution (Ref: par. A6–A7 and A50–A52)

b. Compare the certified investment information with the related information presented and disclosed in the ERISA plan financial statements and ERISA-required supplemental schedules (Ref: par. A53) *c.* Read the disclosures relating to the certified investment information to assess whether they are in accordance with the presentation and disclosure requirements of the applicable financial reporting framework

33. If, as part of the procedures performed in paragraphs 31–32, the auditor becomes aware that the certified investment information in the financial statements and related disclosures is incomplete, inaccurate, or otherwise unsatisfactory, the auditor should discuss the matter with management and perform additional procedures to determine the appropriate course of action. (Ref: par. A54–A57)

34. The auditor should perform audit procedures on the financial statement information, including the disclosures, not covered by the certification as well as noninvestment-related information based on the assessed risk of material misstatement. Plans may hold investments in which only a portion are covered by a certification by a qualified institution. In that case, the auditor should perform audit procedures on the investment information that has not been certified. (Ref: par. A58)

35. For all audits of ERISA plan financial statements, including an ERISA Section 103(a)(3)(C) audit, the auditor should perform the procedures necessary to become satisfied that received and disbursed amounts (for example, employer or employee contributions and benefit payments) reported by the trustee or custodian were determined in accordance with the plan provisions (also see paragraph 17).

Written Representations

36. In addition to the requirements in AU-C section 580, the auditor should request the following written representations from management in an audit of ERISA plan financial statements: (Ref: par. A59)

a. That management has provided the auditor with the most current plan instrument for the audit period, including all plan amendments

b. Acknowledgement of its responsibility for administering the plan and determining that the plan's transactions that are presented and disclosed in the ERISA plan 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 (Ref: par. A60)

c. When management elects to have an ERISA Section 103(a)(3)(C) audit, acknowledgement that management's election of the ERISA Section 103(a)(3)(C) audit does not affect its responsibility for the financial statements and for determining whether

i. an ERISA Section 103(a)(3)(C) audit is permissible under the circumstances,

ii. the investment information is prepared and certified by a qualified institution as described in 29 CFR 2520.103-8,

iii. the certification meets the requirements in 29 CFR 2520.103-5, and

iv. the certified investment information is appropriately measured, presented, and disclosed in accordance with the applicable financial reporting framework

Forming an Opinion on the ERISA Plan Financial Statements

37. The auditor should form an opinion on whether the ERISA plan financial statements are presented fairly, in all material respects, in accordance with the applicable financial reporting framework. (Ref: par. A61)

38. In order to form that opinion, the auditor should conclude whether the auditor has obtained reasonable assurance[5] about whether the ERISA plan financial statements as a whole are free from material misstatement, whether due to fraud or error. That conclusion should take into account the following:

a. The auditor's conclusion, in accordance with AU-C section 330, *Performing Audit Procedures in Response to Assessed Risks and Evaluating the Audit Evidence Obtained,* about whether sufficient appropriate audit evidence has been obtained[6]

b. The auditor's conclusion, in accordance with AU-C section 450, *Evaluation of Misstatements Identified During the Audit*, about whether uncorrected misstatements are material, individually or in the aggregate[7]

c. The evaluations required by paragraphs 39–42 of this SAS

39. The auditor should evaluate whether the ERISA plan financial statements are prepared, in all material respects, in accordance with the requirements of the applicable financial reporting framework. This evaluation should include consideration of the qualitative aspects of the plan's accounting practices, including indicators of possible bias in management's judgments. (Ref: par. A62–A64)

40. In particular, in view of the requirements of the applicable financial reporting framework, the auditor should evaluate whether

a. the ERISA plan financial statements appropriately disclose the significant accounting policies selected and applied. In making this evaluation, the auditor should consider the relevance of the accounting policies to the plan and whether they have been presented in an understandable manner. (Ref: par. A65)

b. the accounting policies selected and applied are consistent with the applicable financial reporting framework and are appropriate.

c. the accounting estimates made by management are reasonable.

d. the information presented in the ERISA plan financial statements is relevant, reliable, comparable, and understandable. In making this evaluation, the auditor should consider whether all required information has been included, and whether such

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[5] Paragraph .14 of AU-C section 200 defines the term *reasonable assurance*.

[6] Paragraph .28 of AU-C section 330, *Performing Audit Procedures in Response to Assessed Risks and Evaluating the Audit Evidence Obtained*.

[7] Paragraph .11 of AU-C section 450, *Evaluation of Misstatements Identified During the Audit*.

information is appropriately classified, aggregated or disaggregated, and presented; (Ref: par. A66)

e. the ERISA plan financial statements provide adequate disclosures to enable the intended users to understand the effect of material transactions and events on the information conveyed in the ERISA plan financial statements. (Ref: par.A67)

f. the terminology used in the ERISA plan financial statements, including the title of each financial statement, is appropriate.

41. The auditor's evaluation about whether the ERISA plan financial statements achieve fair presentation should also include consideration of the following: (Ref: par. A68–A70)

a. The overall presentation, structure, and content of the ERISA plan financial statements

b. Whether the ERISA plan financial statements represent the underlying transactions and events in a manner that achieves fair presentation (Ref: par. A71)

42. The auditor should evaluate whether the ERISA plan financial statements adequately refer to or describe the applicable financial reporting framework. (Ref: par. A72–A75)

Form of Opinion

Auditor's Opinion on ERISA Plan Financial Statements

43. The auditor should express an unmodified opinion[8] when the auditor concludes that the ERISA plan financial statements are presented fairly, in all material respects, in accordance with the applicable financial reporting framework.

44. The auditor should modify the opinion in the auditor's report, in accordance with AU-C section 705, in the following circumstances:

a. The auditor concludes that, based on the audit evidence obtained, the ERISA plan financial statements as a whole are materially misstated.

b. The auditor is unable to obtain sufficient appropriate audit evidence to conclude that the ERISA plan financial statements as a whole are free from material misstatement.

Auditor's Opinion on ERISA Plan Financial Statements When Performing an ERISA Section 103(a)(3)(C) Audit

45. When management elects an ERISA Section 103(a)(3)(C) audit, the auditor should follow the requirements in paragraphs 98–126 of this SAS. (Ref: par. A13)

Fair Presentation

46. If the auditor concludes that the ERISA plan financial statements do not achieve fair presentation, the auditor should discuss the matter with management and, depending on how the

[8] See the AU-C Glossary for a definition of *unmodified opinion.*

matter is resolved, should determine whether it is necessary to modify the opinion in the auditor's report in accordance with AU-C section 705. (Ref: par. A76–A77)

Considerations Relating to Form 5500 Filing

Reading the Draft Form 5500

47. The auditor should make appropriate arrangements with management to obtain the draft Form 5500. The auditor should obtain and read the draft Form 5500 prior to dating the auditor's report. (Ref: par. A78)

48. The auditor should read the draft Form 5500 in order to identify material inconsistencies, if any, with the audited ERISA plan financial statements. (Ref: par. A79–A80)

49. The auditor should communicate with those charged with governance the auditor's responsibility with respect to Form 5500, procedures performed relating to Form 5500, and the results of those procedures.

Material Inconsistencies With the Draft Form 5500

50. If, on reading the draft Form 5500, the auditor identifies a material inconsistency, the auditor should determine whether the audited ERISA plan financial statements or the draft Form 5500 needs to be revised.

Material Inconsistencies With the Draft Form 5500 Identified Prior to the Date of the Auditor's Report That Require Revision of the Audited ERISA Plan Financial Statements

51. When the auditor identifies a material inconsistency between the draft Form 5500 and the ERISA plan financial statements that requires revision of the audited ERISA plan financial statements prior to the date of the auditor's report, and management refuses to make the revision, the auditor should discuss the matter with those charged with governance (unless all those charged with governance are involved in managing the plan). If the revisions are not made, the auditor should determine whether it is necessary to modify the opinion in the auditor's report in accordance with AU-C section 705.

Material Inconsistencies With the Draft Form 5500 Identified After the Date of the Auditor's Report But Prior to the Report Release Date That Require Revision of the Audited ERISA Plan Financial Statements

52. When the auditor identifies a material inconsistency between the draft Form 5500 and the ERISA plan financial statements after the date of the auditor's report but prior to the report release date that requires revision of the audited ERISA plan financial statements, the auditor should apply the relevant requirements in AU-C section 560, *Subsequent Events and Subsequently Discovered Facts*.

Material Inconsistencies With the Draft Form 5500 Identified Prior to the Report Release Date That Require Revision of the Draft Form 5500

53. When the auditor identifies a material inconsistency prior to the report release date that requires revision of the information in the draft Form 5500, and management refuses to make the revision, the auditor should communicate this matter to those charged with governance and (Ref: par. A81)

a. include in the auditor's report an other-matter paragraph describing the material inconsistency, in accordance with AU-C section 706,

b. withhold the auditor's report, or

c. when withdrawal is possible under applicable law or regulation, withdraw from the engagement.

Material Inconsistencies Identified Subsequent to the Report Release Date

54. When revision of the audited ERISA plan financial statements is necessary as a result of a material inconsistency with the information in Form 5500 and the auditor's report on the ERISA plan financial statements has already been released, the auditor should apply the relevant requirements in AU-C section 560.

55. When revision of 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. (Ref: par. A82)

56. When revision of 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 Form 5500 and take any further appropriate action. (Ref: par. A83)

Material Misstatement of Fact

57. If, on reading the draft Form 5500 for the purpose of identifying material inconsistencies between Form 5500 and the ERISA plan financial statements, the auditor becomes aware of an apparent material misstatement of fact in the draft Form 5500, the auditor should discuss the matter with management. (Ref: par. A84)

58. When, following such discussions as described in paragraph 57, 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 auditor should consider the advice received by the entity in determining whether such matter is a material misstatement of fact.

59. When the auditor concludes that there is a material misstatement of fact that management refuses to correct, the auditor should notify those charged with governance of the auditor's concerns regarding the information in the draft Form 5500 and take any further appropriate action. (Ref: par. A85)

Auditor's Report on ERISA Plan Financial Statements (Other Than for an ERISA Section 103(a)(3)(C) Audit)[9]

60. The auditor's report should be in writing. (Ref: par. A86–A87)

[9] For ERISA Section 103(a)(3)(C) audits, paragraphs 98–126 apply instead of paragraphs 60–82.

Title

61. The auditor's report should have a title that clearly indicates that it is the report of an independent auditor. (Ref: par. A88)

Addressee

62. The auditor's report should be addressed, as appropriate, based on the circumstances of the engagement. (Ref: par. A89–A90)

Auditor's Opinion

63. The first section of the auditor's report should include the auditor's opinion and should have the heading "Opinion."

64. The "Opinion" section of the auditor's report should also do the following: (Ref: par. A91–A93)

- *a.* Identify the plan whose financial statements have been audited
- *b.* State that the financial statements have been audited, and the plan is an employee benefit plan subject to the Employee Retirement Income Security Act of 1974 (ERISA),
- *c.* Identify the title of each statement that the financial statements comprise
- *d.* Refer to the notes
- *e.* Specify the dates of or periods covered by each financial statement that the financial statements comprise

65. When expressing an unmodified opinion on the ERISA plan financial statements, the auditor's opinion should state that, in the auditor's opinion, the accompanying financial statements present fairly, in all material respects, […] in accordance with [*the applicable financial reporting framework*]. (Ref: par. A94–A97)

66. The auditor's opinion should identify the applicable financial reporting framework and its origin. (Ref: par. A98)

Basis for Opinion

67. The auditor's report should include a section, directly following the "Opinion" section, with the heading "Basis for Opinion" that does the following: (Ref: par. A99)

- *a.* States that the audit was conducted in accordance with generally accepted auditing standards and identifies the United States of America as the country of origin of those standards (Ref: par. A100–A101)
- *b.* Refers to the section of the auditor's report that describes the auditor's responsibilities under GAAS

c. Includes a statement that the auditor is required to be independent of the plan and to meet the auditor's other ethical responsibilities, in accordance with the relevant ethical requirements relating to the audit (Ref: par. A102–A103)

d. States whether the auditor believes that the audit evidence the auditor has obtained is sufficient and appropriate to provide a basis for the auditor's opinion

Going Concern

68. When applicable, the auditor should report in accordance with AU-C section 570, *The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern*.

Key Audit Matters

69. When the auditor is engaged to communicate key audit matters, the auditor should do so in accordance with AU-C section 701. (Ref: par. A104)

Responsibilities of Management for the Financial Statements

70. The auditor's report should include a section with the heading "Responsibilities of Management for the Financial Statements."

71. This section of the auditor's report should describe management's responsibility for the following:

a. The preparation and fair presentation of the financial statements in accordance with the applicable financial reporting framework, and for 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. (Ref: par. A105–A106)

b. When required by the applicable financial reporting framework, the evaluation of whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the plan's ability to continue as a going concern [*for the time period set by the applicable financial reporting framework*, *as applicable*.]

c. Maintaining a current plan instrument, including all plan amendments

d. 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

72. The description about management's responsibility for the financial statements in the auditor's report should not reference a separate statement by management about such responsibilities, even if such a statement is included in a document containing the auditor's report. (Ref: par. A107)

Auditor's Responsibilities for the Audit of the Financial Statements

73. The auditor's report should include a section with the heading "Auditor's Responsibilities for the Audit of the Financial Statements."

74. This section of the auditor's report should do the following: (Ref: par. A108)

a. State that the objectives of the auditor are to

i. obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and (Ref: par. A109–)

ii. issue an auditor's report that includes the auditor's opinion

b. State that reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. (Ref: par. A110)

c. State that the risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control

d. State that misstatements are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users made on the basis of these financial statements.[10] (Ref: par. A111)

75. The "Auditor's Responsibilities for the Audit of the Financial Statements" section of the auditor's report should further describe an audit by stating that, in performing an audit in accordance with GAAS, the auditor's responsibilities are to:

a. Exercise professional judgment and maintain professional skepticism throughout the audit.

b. Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

c. Obtain an understanding of internal control relevant to the audit 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 plan's internal control. Accordingly, no such opinion is expressed.

In circumstances in which the auditor also has a responsibility to express an opinion on the effectiveness of internal control in conjunction with the audit of the financial statements, the auditor should omit the following: "but not for the purpose of

[10] Paragraph .02 of AU-C section 320, *Materiality in Planning and Performing an Audit*.

expressing an opinion on the effectiveness of the plan's internal control. Accordingly, no such opinion is expressed."

d. Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

e. Conclude whether, in the auditor's judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the plan's ability to continue as a going concern for a reasonable period of time.

76. The "Auditor's Responsibilities for the Audit of the Financial Statements" section of the auditor's report should also state that the auditor is required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that the auditor identified during the audit.

ERISA-Required Supplemental Schedules

77. As discussed in paragraph 127, when auditing ERISA plan financial statements, the auditor is required to report on whether the ERISA-required supplemental schedules are fairly stated, in all material respects, in relation to the financial statements as a whole, in accordance with AU-C section 725 and paragraphs 129–130 of this SAS, as applicable.

Other Reporting Responsibilities

78. If the auditor addresses other reporting responsibilities in the auditor's report on the ERISA plan financial statements that are in addition to the auditor's responsibility under GAAS, these other reporting responsibilities should be addressed in a separate section in the auditor's report with the heading "Report on Other Legal and Regulatory Requirements" or another heading that is appropriate to the content of the section. (Ref: par. A112–A113)

79. If the auditor's report contains a separate section that addresses other reporting responsibilities, the requirements in paragraphs 61–77 of this SAS should be included under a section with the heading "Report on the Audit of the Financial Statements." The "Report on Other Legal and Regulatory Requirements" should follow the "Report on the Audit of the Financial Statements." (Ref: par. A114)

Signature of the Auditor

80. The auditor's report should include the manual or printed signature of the auditor's firm. (Ref: par. A115–A116)

Auditor's Address

81. The auditor's report should name the city and state where the auditor's report is issued. (Ref: par. A117–A118)

Date of the Auditor's Report

82. The auditor's report should be 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 ERISA plan financial statements, including evidence of the following: (Ref: par. A119)

a. All the statements and disclosures that the ERISA plan financial statements comprise have been prepared.

b. Management has asserted that it has taken responsibility for those ERISA plan financial statements. (Ref: par. A120–A121)

c. The procedures relating to the draft Form 5500 have been performed.

Auditor's Report for Audits Conducted in Accordance With Both GAAS and Another Set of Auditing Standards

83. Paragraph 67 requires that the auditor's report state that the audit was conducted in accordance with GAAS and identify the United States of America as the country of origin of those standards. However, an auditor may indicate that the audit was also conducted in accordance with another set of auditing standards (for example, International Standards on Auditing [ISAs], or *Government Auditing Standards*). The auditor should not refer to having conducted an audit in accordance with another set of auditing standards in addition to GAAS, unless the audit was conducted in accordance with both sets of standards in their entirety.

84. When the auditor's report refers to both GAAS and another set of auditing standards, the auditor's report should identify the other set of auditing standards as well as its origin.

Comparative Financial Statements

85. Comparative financial statements may be required by the applicable financial reporting framework, or management may elect to provide such information. When comparative financial statements are presented, the auditor's report should refer to each period for which financial statements are presented and on which an audit opinion is expressed. (Ref: par. A122–A124)

86. When expressing an opinion on all periods presented, a continuing auditor should update the report on the financial statements of one or more prior periods presented on a comparative basis with those of the current period. The auditor's report on comparative financial statements should not be dated earlier than the date on which the auditor has obtained sufficient appropriate audit evidence on which to support the opinion for the most recent audit. (Ref: par. A125–A126)

Audit Procedures

87. The auditor should perform the procedures required by paragraphs 88–90 if comparative financial statements are presented for the prior periods.

88. The auditor should determine whether the comparative financial statements have been presented in accordance with the relevant requirements, if any, of the applicable financial reporting framework.

89. The auditor should evaluate the following:

a. Whether the comparative financial statements agree with the amounts and other disclosures presented in the prior period or, when appropriate, has been restated for the correction of a material misstatement or adjusted for the retrospective application of an accounting principle

b. Whether the accounting policies reflected in the comparative financial statements are consistent with those applied in the current period or, if there have been changes in accounting policies, whether those changes have been properly accounted for and adequately presented and disclosed[11]

90. If the auditor becomes aware of a possible material misstatement in the comparative financial statements while performing the current period audit, the auditor should perform such additional audit procedures as are necessary in the circumstances to obtain sufficient appropriate audit evidence to determine whether a material misstatement exists. If the auditor audited the prior period's financial statements and becomes aware of a material misstatement in those financial statements, the auditor should also follow the relevant requirements of AU-C section 560. If the prior period financial statements are restated, the auditor should determine that the comparative financial statements agree with the restated financial statements.

91. As required by AU-C section 580, the auditor should request written representations for all periods referred to in the auditor's opinion. The auditor also should obtain a specific written representation regarding any restatement made to correct a material misstatement in a prior period that affects the comparative financial statements. (Ref: par. A127)

92. When reporting on prior period financial statements in connection with the current period's audit, if the auditor's opinion on such prior period financial statements differs from the opinion the auditor previously expressed, the auditor should disclose the following matters in an emphasis-of-matter or other-matter paragraph, in accordance with AU-C section 706:

a. The date of the auditor's previous report

b. The type of opinion previously expressed

c. The substantive reasons for the different opinion

d. That the auditor's opinion on the amended financial statements is different from the auditor's previous opinion (Ref: par. A128)

Prior Period Financial Statements Audited by a Predecessor Auditor

93. If the financial statements of the prior period were audited by a predecessor auditor, and the predecessor auditor's report on the prior period's financial statements is not reissued,[12] in addition to expressing an opinion on the current period's financial statements, the auditor should state the following in an other-matter paragraph:[13]

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[11] See AU-C section 708, *Consistency of Financial Statements*.
[12] Paragraphs .19–.20 of AU-C section 560, *Subsequent Events and Subsequently Discovered Facts*.
[13] See AU-C section 706, *Emphasis-of-Matter Paragraphs and Other-Matter Paragraphs in the Independent Auditor's Report*.

a. That the financial statements of the prior period were audited by a predecessor auditor

b. The type of opinion expressed by the predecessor auditor and, if the opinion was modified, the reasons therefore

c. The nature of an emphasis-of-matter paragraph or other-matter paragraph included in the predecessor auditor's report, if any

d. The date of that report

94. If the auditor concludes that a material misstatement exists that affects the prior period financial statements on which the predecessor auditor had previously reported without modification, the auditor should follow the communication requirements in AU-C section 510, *Opening Balances — Initial Audit Engagements, Including Reaudit Engagements*.[14] If the prior period financial statements are restated, and the predecessor auditor agrees to issue a new auditor's report on the restated financial statements of the prior period, the auditor should express an opinion only on the current period. (Ref: par. A129)

Prior Period Financial Statements Not Audited

95. When current period financial statements are audited and presented in comparative form with financial statements for the prior period for which a compilation or review was performed, and the report on the prior period is not reissued, the auditor should include an other-matter paragraph[15] in the current period auditor's report that includes the following with respect to the prior period: (Ref: par. A130)

a. The service performed in the prior period

b. The date of the report on that service

c. A description of any material modifications noted in that report

d. For a review engagement, a statement that the service was substantially less in scope than an audit and does not provide the basis for the expression of an opinion on the financial statements as a whole (Ref: par. A131)

e. For a compilation engagement, a statement that no opinion or other form of assurance is expressed on the financial statements (Ref: par. A132)

96. If the prior period financial statements were not audited, reviewed, or compiled, the financial statements should be clearly marked to indicate their status, and the auditor's report should include an other-matter paragraph to indicate that the auditor has not audited, reviewed, or compiled the prior period financial statements and that the auditor assumes no responsibility for them. (Ref: par. A133)

Information Presented in the Financial Statements

[14] Paragraphs .12–.13 of AU-C section 510, *Opening Balances — Initial Audit Engagements, Including Reaudit Engagements*.
[15] See footnote 13.

97. Information that is not required by the applicable financial reporting framework but is nevertheless presented as part of the basic financial statements should be covered by the auditor's opinion if it cannot be clearly differentiated. (Ref: par. A134–A136)

Auditor's Report for an ERISA Section 103(a)(3)(C) Audit

98. The auditor's report should be in writing. (Ref: par. A86–A87)

99. The auditor should apply the provisions in paragraphs 83–97, when applicable. (Ref: par. A137)

Title

100. The auditor's report should have a title that clearly indicates that it is the report of an independent auditor. (Ref: par. A88)

Addressee

101. The auditor's report should be addressed, as appropriate, based on the circumstances of the engagement. (Ref: par. A89–A90)

Scope and Nature of the ERISA Section 103(a)(3)(C) Audit

102. The first section of the auditor's report should include a description of the scope and nature of the ERISA Section 103(a)(3)(C) audit and should have the heading "Scope and Nature of the ERISA Section 103(a)(3)(C) Audit."

103. The "Scope and Nature of the ERISA Section 103(a)(3)(C) Audit" section of the auditor's report should also do the following:

- *a.* Identify the plan whose financial statements have been audited
- *b.* State that the auditor performed an audit of the financial statements of an employee benefit plan subject to the Employee Retirement Income Security Act of 1974 (ERISA), as permitted by ERISA Section 103(a)(3)(C) (ERISA Section 103(a)(3)(C) audit) (Ref: par. A138)
- *c.* Identify the title of each statement that the financial statements comprise
- *d.* Refer to the notes
- *e.* Specify the dates of or periods covered by each financial statement that the financial statements comprise
- *f.* State that management, having determined it is permissible in the circumstances, has elected to have the audit of the plan's financial statements performed in accordance with ERISA Section 103(a)(3)(C) pursuant to 29 CFR 2520.103-8 of the Department of Labor's Rules and Regulations for Reporting and Disclosure under ERISA (Ref: par. A139)
- *g.* State that as permitted by ERISA Section 103(a)(3)(C), the audit need not extend to any statements or information related to assets held for investment of the plan (investment information) by a bank or similar institution or insurance carrier that is

regulated, 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 similar institution or insurance carrier in accordance with 29 CFR 2520.103-5 of the Department of Labor's Rules and Regulations for Reporting and Disclosure under ERISA (qualified institution) (Ref: par. A140)

h. State that management has obtained a certification [*or certifications*] from a qualified institution as of [*date or dates*], and for the [*period or year ended date*], stating that the certified investment information, as described in [*insert note reference*] to the financial statements is complete and accurate

Auditor's Opinion

104. The auditor's report should include the "Opinion" section, directly following the "Scope and Nature of the ERISA Section 103(a)(3)(C) Audit" section, with the heading "Opinion."

105. When the auditor has not identified any material misstatements of the financial statements and no scope limitations exist, the auditor's report should include a statement that, in the auditor's opinion, based on the audit and on the procedures performed as described in the "Auditor's Responsibilities for the Audit of the Financial Statements" section

a. the amounts and disclosures in the accompanying financial statements, other than those agreed to or derived from the certified investment information, are presented fairly, in all material respects, in accordance with the applicable financial reporting framework.

b. the information in the accompanying financial statements related to assets held by and certified to by a qualified institution agrees to, or is derived from, in all material respects, the information prepared and certified by an institution that management determined meets the requirements of ERISA Section 103(a)(3)(C). (Ref: par. A140)

106. The auditor's opinion should identify the applicable financial reporting framework and its origin. (Ref: par. A98)

Basis for Opinion

107. The auditor's report should include a section, directly following the "Opinion" section, with the heading "Basis for Opinion" that does the following: (Ref: par. A99)

a. States that the audit was conducted in accordance with generally accepted auditing standards (GAAS) and identifies the United States of America as the country of origin of those standards (Ref: par. A100–A101)

b. Refers to the section of the auditor's report that describes the auditor's responsibilities for GAAS

c. Includes a statement that the auditor is required to be independent of the plan and to meet the auditor's other ethical responsibilities, in accordance with the relevant ethical requirements relating to the audit (Ref: par. A102–A103) *d.* States whether the auditor believes that the audit evidence the auditor has obtained is sufficient and appropriate to provide a basis for the ERISA Section 103(a)(3)(C) audit opinion.

Going Concern

108. When applicable, the auditor should report in accordance with AU-C section 570, *The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern.*

Key Audit Matters

109. When the auditor is engaged to communicate key audit matters, the auditor should do so in accordance with AU-C section 701. (Ref: par. A104)

Responsibilities of Management for the Financial Statements

110. The auditor's report should include a section with the heading "Responsibilities of Management for the Financial Statements."

111. This section of the auditor's report should describe management's responsibility for the following:

a. The preparation and fair presentation of the financial statements in accordance with the applicable financial reporting framework, and for 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. (Ref: par. A105–A106)

b. The election of the ERISA Section 103(a)(3)(C) audit and that the election does not affect management's responsibility for the financial statements.

c. When required by the applicable financial reporting framework, the evaluation of whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the plan's ability to continue as a going concern [*for the time period set by the applicable financial reporting framework*, as applicable.]

d. Maintaining a current plan instrument, including all plan amendments

e. 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.

112. The description about management's responsibility for the financial statements in the auditor's report should not reference a separate statement by management about such responsibilities, even if such a statement is included in a document containing the auditor's report. (Ref: par. A107)

Auditor's Responsibilities for the Audit of the Financial Statements

113. The auditor's report should include a section with the heading "Auditor's Responsibilities for the Audit of the Financial Statements."

114. This section of the auditor's report should do the following: (Ref: par. A108)

a. State that except as described in the "Scope and Nature of the ERISA Section 103(a)(3)(C) Audit" section of the report, the objectives of the auditor are to

i. obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error and (Ref: par. A109)

ii. issue an auditor's report that includes the auditor's opinion.

b. State that reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. (Ref: par. A110)

c. State that the risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

d. State that misstatements are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users made on the basis of these financial statements.[16] (Ref: par. A111)

115. The "Auditor's Responsibilities for the Audit of the Financial Statements" section of the auditor's report should further describe an audit by stating that, in performing an audit in accordance with GAAS, the auditor's responsibilities are to:

a. Exercise professional judgment and maintain professional skepticism throughout the audit

b. Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

c. Obtain an understanding of internal control relevant to the audit 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 plan's internal control. Accordingly, no such opinion is expressed.

In circumstances in which the auditor also has a responsibility to express an opinion on the effectiveness of internal control in conjunction with the audit of the financial statements, the auditor should omit the following "but not for the purpose of

[16] See footnote 10.

expressing an opinion on the effectiveness of the plan's internal control. Accordingly, no such opinion is expressed."

d. Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

e. Conclude whether, in the auditor's judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the plan's ability to continue as a going concern for a reasonable period of time.

116. The auditor's report should state that the audit did not extend to the certified investment information, except for obtaining and reading the certification, comparing the certified investment information with the related information presented and disclosed in the financial statements, and reading the disclosures relating to the certified investment information to assess whether they are in accordance with the presentation and disclosure requirements of the applicable financial reporting framework.

117. The auditor's report should state that, accordingly, the objective of the ERISA Section 103(a)(3)(C) audit is not to express an opinion about whether the financial statements as a whole are presented fairly, in all material respects, in accordance with the applicable financial reporting framework.

118. The "Auditor's Responsibilities for the Audit of the Financial Statements" section of the auditor's report should also state that the auditor is required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal-control-related matters that the auditor identified during the audit.

Modifications to the Opinion

119. AU-C section 705 addresses the auditor's responsibility to issue an appropriate report in circumstances when, in forming an opinion in accordance with this SAS, the auditor concludes that a modification to the auditor's opinion on the ERISA plan financial statements is necessary. In the case of an ERISA Section 103(a)(3)(C) audit, the auditor should apply the requirements in AU-C section 705, adapted as necessary in the circumstances of the engagement, including the following: (Ref: par. A141–A142)

a. When the auditor expresses a qualified opinion due to a material misstatement of the financial statements, the auditor should amend the "Opinion" section as required by paragraph 105, to state that, in the auditor's opinion, except for the effects of the matters described in the "Basis for Qualified Opinion" section, based on the audit and on the procedures performed as described in the "Auditor's Responsibilities for the Audit of the Financial Statements" section

i. the amounts and disclosures in the accompanying financial statements, other than those agreed to or derived from the certified investment information, are presented fairly, in all material respects, in accordance with the applicable financial reporting framework.

ii. the information in the accompanying financial statements related to assets held by and certified to by a qualified institution agrees to, or is derived from, in all material respects, the information prepared and certified by an institution that management determined meets the requirements of ERISA Section 103(a)(3)(C). (Ref: par. A140)

When the modification arises from an inability to obtain sufficient appropriate audit evidence, the auditor should use the corresponding phrase *except for the possible effects of the matter(s)…* for the modified opinion.

b. When the auditor expresses an adverse opinion, the requirements in paragraph 105 do not apply, and the auditor should state in the opinion paragraph that, in the auditor's opinion, because of the significance of the matters described in the "Basis for Adverse Opinion" section, the financial statements are not presented fairly in accordance with the applicable financial reporting framework.

c. When the auditor expresses a qualified or an adverse opinion, the auditor should amend the description in the "Basis for Opinion" section to state whether the auditor believes that the audit evidence the auditor has obtained is sufficient and appropriate to provide a basis for the auditor's modified ERISA Section 103(a)(3)(C) audit opinion.

d. When the auditor disclaims an opinion, the auditor should amend the statement required by paragraph 103*b*, which indicates that the auditor performed an audit of the financial statements, to state that the auditor was engaged to perform an audit of the financial statements. The auditor should also amend the description of the auditor's responsibility for the audit of the financial statements and the description of the scope of the audit to state only the following: "Our responsibility is to conduct an audit of the plan's financial statements in accordance with auditing standards generally accepted in the United States of America and to issue an auditor's report. However, because of the matters described in the "Basis for Disclaimer of Opinion" section of our report, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements."

e. When the auditor disclaims an opinion due to an inability to obtain sufficient appropriate audit evidence, the requirements in paragraph 105 do not apply, and the auditor should state in the "Disclaimer of Opinion" section that

i. because of the significance of the matters described in the "Basis for Disclaimer of Opinion" section, the auditor has not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion and

ii. accordingly, the auditor does not express an opinion on the financial statements.[17]

ERISA-Required Supplemental Schedules

120. The auditor's report should include an other-matter paragraph with the heading "Other Matter — Supplemental Schedules Required by ERISA."

121. The auditor should report on ERISA-required supplemental schedules in accordance with paragraph 132 of this SAS.

Other Reporting Responsibilities

122. If the auditor addresses other reporting responsibilities in the auditor's report on the ERISA plan financial statements that are in addition to the auditor's responsibility under GAAS, these other reporting responsibilities should be addressed in a separate section in the auditor's report with the heading "Report on Other Legal and Regulatory Requirements" or another heading that is appropriate to the content of the section. (Ref: par. A143–A144)

123. If the auditor's report contains a separate section that addresses other reporting responsibilities, the requirements in paragraphs 102–121 of this SAS should be included under a section with the heading "Report on the Audit of the Financial Statements." The "Report on Other Legal and Regulatory Requirements" should follow the "Report on the Audit of the Financial Statements." (Ref: par. A145)

Signature of the Auditor

124. The auditor's report should include the manual or printed signature of the auditor's firm. (Ref: par. A115–A116)

Auditor's Address

125. The auditor's report should name the city and state where the auditor's report is issued. (Ref: par. A117–A118)

Date of the Auditor's Report

126. The auditor's report should be dated no earlier than the date on which the auditor has obtained an appropriate certification and has obtained sufficient appropriate audit evidence on which to base the auditor's opinion on the ERISA plan financial statements, including evidence of the following: (Ref: par. A119)

a. All the statements and disclosures that the ERISA plan financial statements comprise have been prepared.

b. Management has asserted that they have taken responsibility for those ERISA plan financial statements. (Ref: par. A120–A121)

c. The procedures relating to the draft Form 5500 have been performed.

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[17] Paragraph .20 of AU-C section 705, *Modifications to the Opinion in the Independent Auditor's Report*.

Reporting on Supplemental Schedules

127. As discussed in paragraph 4, ERISA requires that certain supplemental schedules accompany the ERISA plan financial statements (referred to as *ERISA-required supplemental schedules*), if applicable. In addition, ERISA plan financial statements may have accompanying supplementary information that is not required by ERISA. Except as discussed in paragraph 132, when auditing ERISA plan financial statements, the auditor should report on whether the ERISA-required supplemental schedules are fairly stated, in all material respects, in relation to the financial statements as a whole, in accordance with AU-C section 725 and paragraphs 129–130 of this SAS. 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. AU-C section 725 requires the auditor to report on the supplementary information in either (*a*) an other-matter paragraph in accordance with AU-C section 706 or (*b*) in a separate report on the supplementary information. Paragraphs 22–24 address additional considerations related to reporting on the ERISA-required supplemental schedules when prohibited transactions with a party in interest exist. (Ref: par. A146–A147)

128. When the auditor is also engaged to report on supplementary information accompanying the ERISA plan financial statements that is not required by ERISA, and that is not required by the applicable financial reporting framework, AU-C section 725 applies. (Ref: par. A148)

ERISA-Required Supplemental Schedules

Reporting on ERISA-Required Supplemental Schedules When Performing an Audit of ERISA Plan Financial Statements Not Subject to ERISA Section 103(a)(3)(C)[18]

129. When reporting on the ERISA-required supplemental schedules in accordance with AU-C section 725, the reporting elements discussed in paragraph .09 of AU-C section 725 should be replaced with the following (see paragraph 132 when performing an ERISA Section 103(a)(3)(C) audit):

- *a.* A statement that the audit was conducted for the purpose of forming an opinion on the financial statements as a whole
- *b.* The title of the supplemental schedules and the periods covered
- *c.* A statement that the supplemental schedules 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 ERISA
- *d.* A statement that 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
- *e.* A statement that the information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including

[18] For ERISA Section 103(a)(3)(C) audits, paragraphs 131–132 apply instead of paragraphs 129–130.

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, and other additional procedures in accordance with auditing standards generally accepted in the United States of America

f. A statement that in forming the auditor's opinion on the supplemental schedules, the auditor evaluated whether the supplemental schedules, including their form and content, are presented in conformity with the Department of Labor's Rules and Regulations for Reporting and Disclosure under ERISA

g. When the auditor's report on the audited ERISA plan financial statements contains an unmodified opinion and the auditor has concluded that the ERISA-required supplemental schedules are fairly stated, in all material respects, in relation to the financial statements as a whole, a statement that, in the auditor's 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 ERISA. (Ref: par. A149–A152)

h. When the auditor's report on the audited ERISA plan financial statements contains a qualified opinion and the qualification has an effect on the ERISA-required supplemental schedules, a statement that, in the auditor's opinion, except for the effects or possible effects on the supplemental schedules of (refer to the paragraph in the auditor's report explaining the qualification), the information in the accompanying supplemental 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 ERISA

130. When the auditor's report on the audited ERISA plan financial statements contains an adverse opinion or a disclaimer of opinion, the auditor is precluded from expressing an opinion on the ERISA-required supplemental schedules. When permitted by law or regulation, the auditor may withdraw from the engagement to report on the ERISA-required supplemental schedules. If the auditor does not withdraw, the reporting elements in paragraph .11 of AU-C section 725 should be replaced with the following:

a. If the auditor's report on the audited ERISA plan financial statements contains an adverse opinion, a statement that the audit was conducted for the purpose of forming an opinion on the financial statements as a whole, or if the auditor's report contains a disclaimer of opinion, a statement that the auditor was engaged for the purpose of forming an opinion on the financial statements as a whole

b. A statement that the supplemental schedules are presented for the purposes of additional analysis and are not a required part of the financial statements but are supplementary information required by the DOL's Rules and Regulations for Reporting and Disclosure under ERISA.

c. A statement that because of the significance of the matter described in the auditor's report (refer to the "Basis for Adverse Opinion" or "Basis for Disclaimer of Opinion" sections, as applicable), it is inappropriate to, and the auditor does not, express an opinion on the supplemental schedules

Reporting on ERISA-Required Supplemental Schedules When Reporting Under an ERISA Section 103(a)(3)(C) Audit

131. In addition to the procedures performed during the audit of the ERISA plan financial statements (including the procedures required by paragraph 32), in order to report on the ERISA-required supplemental schedules when reporting under an ERISA Section 103(a)(3)(C) audit, the auditor should perform the following procedures using the same materiality level used in the audit of the financial statements:

a. Determine whether the form and content of the ERISA-required supplemental schedules, other than the information that agreed to or is derived from the certified investment information, is presented in conformity with the DOL's Rules and Regulations for Reporting and Disclosure under ERISA

b. Compare and reconcile the information included in the ERISA-required supplemental schedules, other than that agreed to or derived from the certified investment information, to the underlying accounting and other records used in preparing the financial statements or to the financial statements themselves

c. Obtain written representations from management

i. that it acknowledges its responsibility for the presentation of the ERISA-required supplemental schedules in accordance with the DOL's Rules and Regulations for Reporting and Disclosure under ERISA and

ii. that it believes the ERISA-required supplemental schedules, including their form and content, are presented in conformity with the DOL's Rules and Regulations for Reporting and Disclosure under ERISA

132. When management elects to have an ERISA Section 103(a)(3)(C) audit, the auditor should include an other-matter paragraph in the ERISA Section 103(a)(3(C) audit report that contains the following elements:

a. The title of the supplemental schedules and the periods covered.

b. A statement that the supplemental schedules 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 ERISA.

c. A statement that 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.

d. A statement that the information included in the supplemental schedules, other than that agreed to or derived from the certified investment information, has been subjected to auditing procedures applied in the audit 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, and other additional procedures in accordance with auditing standards generally accepted in the United States of America.

e. A statement that, for information included in the supplemental schedules that agreed to or is derived from the certified investment information, the auditor compared such information to the related certified investment information.

f. A statement that, in forming the auditor's opinion on the supplemental schedules, the auditor evaluated whether the supplemental schedules, other than the information agreed to or derived from the certified investment information, including their form and content, are presented in conformity with the Department of Labor's Rules and Regulations for Reporting and Disclosure under ERISA.

g. A statement whether, in the auditor's opinion

i. the form and content of the supplemental schedules, other than the information in the supplemental schedules that agreed to or is derived from the certified investment information, are presented, in all material respects, in conformity with the Department of Labor's Rules and Regulations for Reporting and Disclosure under ERISA.

ii. the information in the supplemental schedules related to assets held by and certified to by a qualified institution agrees to, or is derived from, in all material respects, the information prepared and certified by an institution that management determined meets the requirements of ERISA Section 103(a)(3)(C).

h. If the auditor issues a qualified ERISA Section 103(a)(3)(C) opinion on the ERISA plan financial statements and the qualification has an effect on the ERISA-required supplemental schedules, a statement that, in the auditor's opinion, except for the effects of [*describe the matters by referring to the section in the auditor's report explaining the qualification*] on the supplemental schedules of [*identify the schedules*]

i. the form and content of the supplemental schedules, other than the information in the supplemental schedules that agreed to or is derived from the certified investment information, are presented, in all material respects, in conformity with the Department of Labor's Rules and Regulations for Reporting and Disclosure under ERISA.

ii. the information in the supplemental schedules related to assets held by and certified to by a qualified institution agrees to, or is derived from, in all material respects, the information prepared and certified by an institution that management determined meets the requirements of ERISA Section 103(a)(3)(C).

When the modification arises from an inability to obtain sufficient appropriate audit evidence, the auditor should use the corresponding phrase *except for the possible effects of the matter(s)…* for the modified opinion.

i. If the auditor's report on the ERISA plan financial statements subject to ERISA Section 103(a)(3)(C) contains an adverse opinion or a disclaimer of opinion, the auditor is precluded from expressing an opinion on the supplemental schedules. When permitted by law or regulation, the auditor may withdraw from the engagement to report on the ERISA-required supplemental schedules. If the auditor does not withdraw, the auditor should do the following:

i. Include a statement that the supplemental schedules are presented for the 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 ERISA

ii. Include a statement that 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

iii. Include a statement that because of the significance of the matter described in [*refer to the Basis for Adverse Opinion or Basis for Disclaimer of Opinion sections, as applicable*], it is inappropriate to and the auditor does not express an opinion on the supplemental schedules.

Errors, Omissions, or Inconsistencies in ERISA-Required Supplemental Schedules (Ref: par. A149–A152)

133. When the auditor concludes, on the basis of the procedures performed, that the information in the ERISA-required supplemental schedules is materially inconsistent with the certified investment information, the auditor should discuss the matters with management and propose appropriate revision of the ERISA-required supplemental schedules. If management does not revise the ERISA-required supplemental schedules, the auditor should discuss the matter with those charged with governance (unless all those charged with governance are involved in managing the plan). If the ERISA-required supplemental schedules are not revised, the auditor should modify the auditor's opinion regarding the ERISA-required supplemental schedules and describe the inconsistency in the auditor's report.

134. When the auditor concludes, on the basis of the procedures performed, that the information in the ERISA-required supplemental schedules is materially misstated in relation to the financial statements, the auditor should discuss the matters with management and propose appropriate revision of the ERISA-required supplemental schedules. If management does not revise the ERISA-required supplemental schedules, the auditor should discuss the matter with those charged with governance (unless all those charged with governance are involved in managing the plan). If the ERISA-required supplemental schedules are not revised, the auditor should modify the auditor's opinion regarding the ERISA-required supplemental schedules and describe the misstatement in the auditor's report. (Ref: par. A149)

135. If a material prohibited party-in-interest[19] transaction that is not disclosed in the ERISA-required supplemental schedule is also considered a related party transaction and if that transaction is not properly disclosed in the notes to the ERISA plan financial statements, the requirements in paragraph 24 apply.

APPLICATION AND OTHER EXPLANATORY MATERIAL

Scope of This SAS (Ref: par. 1–12)

A1. The AICPA Audit and Accounting Guide *Employee Benefit Plans* provides interpretive guidance to apply this SAS, including example audit procedures for performing an audit of ERISA plan financial statements. AU-C section 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance With Generally Accepted Auditing Standards*, requires the auditor to consider applicable interpretive publications in planning and performing the audit.[20]

A2. ERISA provides for federal government oversight of management's operating and reporting practices for EBPs. 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.

A3. The plan administrator is identified in the plan document as having responsibility for managing the day-to-day administration and decisions for the plan. This SAS uses the term *management* to include the plan administrator as described in the DOL's Rules and Regulations for Reporting and Disclosure under ERISA as well as other members of management.

A4. Under ERISA, the DOL and IRS have the authority to issue regulations governing the administration of EBPs, including reporting and disclosure requirements to be included in an annual filing with the DOL. The DOL does not establish the financial reporting framework, for example, the DOL does not set generally accepted accounting principles for ERISA plan financial statements. The selection of an acceptable financial reporting framework is the responsibility of management. The PBGC guarantees participants in most private-sector defined benefit pension plans certain minimum pension benefits if the plan terminates without sufficient money to pay all benefits, and it administers terminated plans in certain circumstances. The IRS, DOL, and PBGC have consolidated their reporting and disclosure requirements into Form 5500 to minimize the filing burden for plan management.

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[19] *Party in interest* is defined in Section 3(14) of ERISA.
[20] Paragraph .27 of AU-C section 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance With Generally Accepted Auditing Standards*.

A5. ERISA contains a requirement for annual audits of EBP financial statements by an independent qualified public accountant. Generally, plans with 100 or more participants (as defined in the Form 5500 instructions) are subject to the audit requirement. ERISA and DOL regulations require additional information to be disclosed in the financial statements or presented in supplemental schedules. ERISA also contains a requirement for the auditor to report on whether certain supplemental schedules, as identified in ERISA Section 103, are presented fairly, in all material respects, in relation to the financial statements as a whole.

A6. A qualified institution is an *organization* as defined in accordance with 29 CFR 2520.103-5 and 29 CFR 2520.103-8 as a bank or similar institution that holds plan assets, or an insurance carrier which provides benefits under the plan or holds plan assets, that is regulated, supervised, and subject to periodic examination by a state or federal agency that prepares and certifies the investment information. The DOL's Rules and Regulations for Reporting and Disclosure under ERISA are outlined in 29 CFR 2520.103-1. Investment companies and broker-dealers are not considered qualified institutions as it relates to providing a certification.

A7. An ERISA Section 103(a)(3)(C) audit may be elected by management only when a qualified institution certifies both the accuracy and completeness of the investment information submitted to the plan administrator. Certifications that address only accuracy or only completeness, but not both, do not comply with the DOL's regulation and, therefore, are not adequate to allow plan management to elect an ERISA Section 103(a)(3)(C) audit.

A8. When performing an ERISA Section 103(a)(3)(C) audit, although the audit need not extend to investment information as discussed in paragraph 8, areas such as participant data; contributions; benefit payments; participant account balances, including related earnings and other allocations to such account balances; or other information would be subject to audit procedures, regardless of whether such information is included in the certified statement or information.

A9. An ERISA Section 103(a)(3)(C) audit may relate to the audit of the plan's investment in an entity, as permitted by 29 CFR 2520.103-12 (a 103-12 investment entity), provided the 103-12 investment entity properly filed its report with the DOL. Accordingly, the guidance in this SAS is applicable whether an ERISA Section 103(a)(3)(C) audit is being performed pursuant to 29 CFR 2520.103-8 or 29 CFR 2520.103-12. However, the wording in the auditor's report may need to be revised to adapt to the circumstances of the engagement.

A10. Sometimes, the plan's recordkeeper certifies the investment information on behalf of the plan's qualified institution as "agent for." In this situation, such certification generally would be acceptable when there is a contractual arrangement between a qualified institution and the recordkeeper such that the recordkeeper is able to provide the certification on the qualified institution's behalf.

A11. ERISA requires certain comparative financial statements to be presented.

A12. Paragraph 32 describes the auditor's responsibilities with respect to the disclosures in the financial statements covered by the certification.

A13. As discussed in paragraph A47, an ERISA Section 103(a)(3)(C) audit is unique to EBPs and is not considered a scope limitation as discussed in AU-C section 705. For an ERISA Section

103(a)(3)(C) audit, paragraph 119 requires the auditor to apply the requirements in AU-C section 705, adapted as necessary in the circumstances of the engagement, and provides further guidance on how AU-C section 705 should be adapted.

A14. AU-C section 800 also addresses the auditor's responsibilities when the auditor is reporting on financial statements prepared in accordance with a special purpose framework and is required by law or regulation to use a specific layout, form, or wording of the auditor's report. When reporting on financial statements prepared in accordance with a general purpose framework, and law or regulation requires a specific layout, form, or wording of the auditor's report, the auditor may adapt and apply the requirements in AU-C section 800.

A15. Other AU-C sections that also contain reporting requirements include, but are not limited to, the following:

- AU-C section 510, *Opening Balances — Initial Audit Engagements, Including Reaudit Engagements*
- AU-C section 570, *The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern*
- AU-C section 725, *Supplementary Information in Relation to the Financial Statements as a Whole*
- AU-C section 730, *Required Supplementary Information*

Engagement Acceptance (Ref: par. 15)

A16. 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" interpretation (ET sec 1.295) under the "Independence Rule" (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 the auditor's 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.

A17. A draft of Form 5500 that is substantially complete includes the forms and schedules that could have a material effect, involving both qualitative and quantitative considerations, on the information in the financial statements and ERISA-required supplemental schedules.

Audit Risk Assessment and Response in an Audit of ERISA Plan Financial Statements (Ref: par. 18–20)

A18. AU-C section 300, *Planning an Audit*, 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.[21] The audit plan should include a description of the nature and extent of planned

[21] Paragraph .07 of AU-C section 300, *Planning an Audit*.

risk assessment procedures as determined under AU-C section 315; the nature, timing, and extent of planned further audit procedures at the relevant assertion level as determined under AU-C section 330; and other planned audit procedures that are required to be carried out so that the engagement complies with GAAS.[22]

A19. Obtaining an understanding of the plan and its environment, including its internal control, is a continuous, dynamic process of gathering, updating, and analyzing information throughout the audit. The auditor's understanding of the plan establishes a frame of reference for planning the audit and exercising professional judgment throughout the audit when the auditor does the following:

- Assesses the risks of material misstatement of the financial statements, including the related disclosures
- Determines materiality in accordance with AU-C section 320, *Materiality in Planning and Performing an Audit*
- Considers the appropriateness of the selection and application of accounting policies and the adequacy of financial statement disclosures
- Identifies areas for which special audit consideration may be necessary
- Develops expectations for use when performing analytical procedures
- Responds to the assessed risks of material misstatement, including designing and performing further audit procedures to obtain sufficient appropriate audit evidence
- Evaluates the sufficiency and appropriateness of audit evidence obtained[23]

A20. AU-C section 315 requires the auditor to perform risk assessment procedures to provide a basis for the identification and assessment of risks of material misstatement at the financial statement and relevant assertion levels.[24] The consideration of risks of material misstatement at the relevant assertion level for classes of transactions, account balances, and disclosures directly assists in determining the nature, timing, and extent of further audit procedures at the assertion level necessary to obtain sufficient appropriate audit evidence.

A21. AU-C section 330 requires the auditor to design and perform further audit procedures whose nature, timing, and extent are based on, and are responsive to, the assessed risks of material misstatement at the relevant assertion level.[25] Further audit procedures consist of tests of the operating effectiveness of controls and substantive procedures. Additionally, AU-C section 330 requires the auditor to evaluate whether the overall presentation of the financial statements, including the related disclosures, is in accordance with the applicable financial reporting framework.[26]

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[22] Paragraph .09 of AU-C section 300.
[23] Paragraph .A1 of AU-C section 315, *Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement*.
[24] Paragraph .05 of AU-C section 315.
[25] Paragraph .06 of AU-C section 330.
[26] Paragraph .26 of AU-C section 330.

A22. ERISA Section 402 requires that EBPs be established and maintained pursuant to a written plan instrument. The IRC requires that the provisions in the plan document satisfy the requirements of the IRC; therefore, the plan provisions are required to be followed. The plan instrument for defined benefit pension plans and defined contribution pension plans is generally referred to as a *plan document*. Multiple documents for such plans, as well as health and welfare plans, may comprise the plan instrument. Among other requirements, for a plan to be qualified, the plan instrument must be in writing and communicated to employees. The terms of the plan instrument generally deal with matters such as eligibility of participants, entitlement to benefits, funding, plan amendments, operation and administration of plan provisions, identification of the plan's fiduciary, allocation of responsibilities among those who serve in a capacity as a fiduciary, and delegation of fiduciary duties in connection with the administration of the plan.

A23. Management is responsible for determining that the plan's transactions that are presented and disclosed in the ERISA plan financial statements are in accordance with the plan instrument. Although some of the provisions of the plan instrument may not relate directly to accounts that are presented as financial statement account balances, they could affect matters such as disclosures, the tax qualified status of the plan, or the benefits that will be paid to participants when they become eligible for a distribution. For example, participant account balances are an accumulation of transactions and represent the amount that the participant is entitled to receive as a benefit payment. Overstated or understated participant account balances may result in errors in allocations or benefits paid to participants.

A24. Participant data plays an important role in determining many of the account balances in the financial statements. The types of participant data that are tested in an ERISA plan audit will vary from plan to plan, depending upon the bases on which contributions, participant elections, participant allocations, and benefits are determined. In general, the data tested may include demographic data, such as birth date, marital status, date of hire, date of termination, and other demographic data that determines eligibility and vesting; payroll data, such as hours worked, earnings, and contributions to the plan; benefit data for participants receiving benefits; and participant elections for salary deferral percentage and investment elections. The procedures for testing payroll and participant data may be coordinated with those for plan contributions.

A25. Many of the financial statement amounts in ERISA plan financial statements are determined from provisions specified in the plan instrument. For example, conditions relating to participation and eligibility provisions need to be met for employees to participate in the plan and receive contributions. Participation and eligibility provisions may be tested as part of the auditor's testing of contributions and individual participant accounts.

A26. Other typical plan provisions include types of contributions and distributions, timing of the contributions, contribution limitations, investment of contributions, forms of distributions, benefit commencement dates, vesting and forfeitures, service requirements and credits, participant loans, transfers, and administration of plan.

A27. Because of the nature of ERISA plan engagements, it would be rare for the auditor, based upon the assessed risks of material misstatement at the relevant assertion level, not to test any relevant plan provisions.

A28. Appendix A to this SAS provides some examples of plan provisions often included in a plan instrument by audit area.

Plan Tax Status **(Ref: par. 21)**

A29. When plans are granted special tax status for the contributions and earnings on plan investments to be exempt from taxation (tax-exempt status), such plans are required to be designed and operated in accordance with IRC requirements in order to maintain their tax-exempt status. Accordingly, the plan's tax status is fundamental to the plan.

A30. To determine if a plan is operating within the specific guidelines established by the plan instrument in accordance with the IRC, management is responsible for conducting certain nondiscrimination and other compliance tests, which are required to be performed at least annually, unless otherwise provided by the IRC.

A31. The auditor's consideration of whether the plan has performed and passed, corrected, or intends to correct failures of relevant IRC compliance tests may include inquiry and inspection.

A32. The AICPA Audit and Accounting Guide *Employee Benefit Plans* discusses the tax status of EBPs, including nondiscrimination and other operating tests for plan qualification.

Prohibited Transactions **(Ref: par. 22–24)**

A33. A *party in interest* is defined in Section 3(14) of ERISA. The AICPA Audit and Accounting Guide *Employee Benefit Plans* contains common examples of parties that may be related parties, parties in interest, or both.

A34. Certain plan transactions with parties in interest are prohibited under Sections 406 and 407 of ERISA (referred to as *prohibited transactions*) and are required, without regard to their materiality, to be disclosed to the DOL in the plan's Form 5500 if they occur.

A35. Evaluating whether identified prohibited transactions have been appropriately reported in the ERISA-required supplemental schedule is often performed in conjunction with reading the draft Form 5500 and performing procedures on the ERISA-required supplemental schedule as discussed in paragraphs 127–135.

A36. ERISA requires that all transactions with parties in interest (excluding any transactions exempted from prohibited transaction rules) be disclosed in the ERISA-required supplemental schedule without regard to their materiality. For example, information on all delinquent participant contributions are required to be reported on Schedule H of Form 5500. Large plans with delinquent participant contributions are required to attach a Schedule of Delinquent Participant Contributions. All other prohibited transactions are reported on the Schedule of Nonexempt Transactions.

Evaluation and Documentation **(Ref: par. 25)**

A37. Paragraph 27 of this SAS requires the auditor to communicate to those charged with governance the reportable findings from the audit procedures performed relating to the plan provisions. AU-C section 230[27] requires the auditor to prepare audit documentation that is

[27] Paragraph .08 of AU-C section 230, *Audit Documentation*.

sufficient to enable an experienced auditor, having no previous connection with the audit, to understand

a. the nature, timing, and extent of the audit procedures performed to comply with GAAS and applicable legal and regulatory requirements;

b. the results of the audit procedures performed and the audit evidence obtained; and

c. significant findings or issues arising during the audit, the conclusions reached thereon, and significant professional judgments made in reaching those conclusions.

Communication With Management or Those Charged With Governance (Ref: par. 27–28)

A38. The requirements of AU-C section 250 are designed to assist the auditor in identifying material misstatement of the financial statements due to noncompliance with laws and regulations. AU-C section 250 requires the auditor to communicate with those charged with governance matters involving noncompliance with laws and regulations that come to the auditor's attention during the course of the audit, other than when the matters are clearly inconsequential, unless all those charged with governance are involved in management of the entity and aware of matters involving identified or suspected noncompliance already communicated by the auditor.[28]

A39. AU-C section 260[29] 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. For an ERISA plan, this may include operational errors that have been identified by the auditor as part of the audit when testing the plan provisions of the plan instrument.

A40. It is important for the plan administrator, as part of his or her fiduciary responsibilities, to be informed about reportable findings identified during the audit so that the plan administrator can decide whether to participate in the IRS or DOL correction programs, if applicable. The auditor may want to discuss his or her reportable findings with the plan administrator prior to the written communication so that the plan administrator can take corrective action in a timely manner.

A41. For the purposes of communications with those charged with governance, AU-C section 260 requires the auditor to determine the appropriate person or persons within the entity's governance structure with whom to communicate. When the appropriate person or persons with whom to communicate is not clearly identifiable, the auditor and the engaging party may need to discuss and agree on the relevant persons within the entity's governance structure with whom the auditor will communicate.

A42. For an ERISA plan, the appropriate person or persons with whom to communicate may not be clearly identifiable from the engagement circumstances. Some plans have a formal board of trustees (or other formal governing body), and others do not. For a single-employer employee benefit plan, the individual charged with governance may include the individual with the level of authority and responsibility equivalent to an audit committee, such as the named fiduciary, which

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[28] Paragraph .21 of AU-C section 250, *Consideration of Laws and Regulations in an Audit of Financial Statements*.

[29] Paragraph .12 of AU-C section 260.

is often the plan sponsor or an officer thereof; the sponsor's board of directors or audit committee; or a committee overseeing the activities of the employee benefit plan, such as the employee benefit committee, employee benefit administrative committee, employee benefit investment committee, plan administrator, or other responsible party.

A43. AU-C section 265 requires the auditor to communicate in writing to those charged with governance on a timely basis significant deficiencies and material weaknesses identified during the audit, including those that were remediated during the audit.[30] The auditor is required to communicate to management at an appropriate level of responsibility, on a timely basis, in writing or orally, other deficiencies in internal control identified during the audit that have not been communicated to management by other parties and that, in the auditor's professional judgment, are of sufficient importance to merit management's attention.[31]

A44. For an ERISA plan, instances identified by the auditor in which the plan is not operating in accordance with the plan's provisions may be indicative of a deficiency in internal control at the plan. If this is the case, the auditor is required to communicate such deficiency in accordance with AU-C section 265 when, in the auditor's professional judgment, the deficiency is of such importance to merit management's attention.

A45. The communication of reportable findings relating to audit work performed that involved the testing of plan provisions may describe the plan provision relating to the reportable finding and may provide more details, or an explanation, about the reportable finding and its effect on the financial statements, if any. When explaining the potential effect of the reportable finding, the auditor need not quantify those effects.

A46. Written communication indicating that no reportable findings were identified during the audit is precluded by paragraph 28 because such a communication has the potential to be misunderstood or misused.

Procedures for an ERISA Section 103(a)(3)(C) Audit (Ref: par. 29–35)

A47. The ERISA Section 103(a)(3)(C) audit is unique to EBPs and, as set forth in this standard, is not considered a scope limitation under AU-C section 705. The ability of management to make this election is dependent on the qualifications of the institution preparing and certifying the investment information. However, if the institution is not qualified, the auditor is precluded from performing the ERISA Section 103(a)(3)(C) audit.

A48. The nature of procedures necessary to evaluate management's assessment may vary depending upon the auditor's knowledge of the plan and types of investments held. In some instances, inquiry of management may be sufficient.

A49. Implications for the audit, as discussed in paragraph 30, may include withdrawing from the audit when withdrawal is possible under applicable law or regulation or considering a change in the terms of the audit engagement in accordance with AU-C section 210 because the auditor is precluded from performing an ERISA Section 103(a)(3)(C) audit.

[30] Paragraph .11 of AU-C section 265, *Communicating Internal Control Related Matters Identified in an Audit*.
[31] Paragraph .12 of AU-C section 265.

A50. When planning and performing the audit procedures for an ERISA Section 103(a)(3)(C) audit, the materiality considerations apply to the financial statements as a whole.

A51. A qualified institution may certify all plan activity. However, as discussed in paragraph A8, the ERISA Section 103(a)(3)(C) audit and corresponding required procedures in paragraph 32 extend only to investment information certified by a qualified institution.

A52. The certification and results of the procedures performed by the auditor in paragraphs 32–33 are considered part of audit evidence relating to the certified investment information when determining whether the form of opinion required by paragraphs 98–126 is appropriate.

A53. Comparing involves agreeing or reviewing reconciliations of the certified investment information with the amounts included in the ERISA plan financial statements and related investment disclosures as well as the investment information included in the ERISA-required supplemental schedules. To the extent that the investment information in the ERISA plan financial statements and related disclosures and ERISA-required supplemental schedules cannot be agreed to or derived from the certified information, appropriate audit procedures would need to be performed on such information.

A54. Additional procedures typically include further inquiry, which might result in additional testing. The auditor may want to consider the implications such additional procedures may have on the nature, timing, and extent of other audit procedures, including consideration for revisions to the engagement letter and risk assessment. Depending upon how the matter is resolved, the additional procedures may result in a modification to the auditor's opinion in accordance with AU-C section 705.

A55. If the auditor becomes aware that the certified investment information has not been appropriately measured, presented, or disclosed and, therefore, the financial statements may not be prepared in accordance with the applicable financial reporting framework, it is important for the auditor to communicate the matter to management. It is management's responsibility to prepare the financial statements and disclosures in conformity with the applicable financial reporting framework and with the DOL Rules and Regulations for Reporting and Disclosure under ERISA. Management may request that the trustee or custodian recertify or amend the certification to exclude investments that are not appropriately measured or to reflect the appropriate investment valuation.

A56. If the trustee or custodian amends the certification to exclude such investments from the certification, management is responsible for valuing such investments as of the plan year-end, and the auditor would need to perform audit procedures on the investments excluded from the certification.

A57. If the certified information is inaccurate, incomplete, or otherwise unsatisfactory and the certification is not amended, management is still responsible for determining whether the financial statements and disclosures related to such investment information are prepared in accordance with the applicable financial reporting framework and in conformity with the DOL Rules and Regulations for Reporting and Disclosure under ERISA and may need to engage the auditor to perform audit procedures on such information.

A58. Performing an ERISA Section 103(a)(3)(C) audit of ERISA plan financial statements does not eliminate the requirement for the auditor to plan and perform the audit in accordance with GAAS.

Written Representations (Ref: par. 36)

A59. The AICPA Audit and Accounting Guide *Employee Benefit Plans* provides interpretative guidance on representations that may be appropriate when auditing ERISA plan financial statements. AU-C section 725 requires specific written representations from management.[32]

A60. Administering the plan is covered by ERISA Sections 401–404, which establish responsibilities and imposes restrictions on plan fiduciaries. ERISA Section 209 (29 USC 1027 *Retention of Records*) requires the maintenance of records by employers relating to individual benefit reporting. ERISA Section 107 (29 USC 1059 *Recordkeeping and Reporting Requirements*) provides general record retention requirements for EBPs. ERISA requires that records be maintained in sufficient detail to permit the benefits to be properly calculated and paid when due.

Forming an Opinion on the ERISA Plan Financial Statements (Ref: par. 37)

A61. As described in AU-C section 200, a financial reporting framework is a set of criteria used to determine measurement, recognition, presentation, and disclosure of all material items appearing in the financial statements.

Qualitative Aspects of the Entity's Accounting Practices **(Ref: par. 39)**

A62. Management makes a number of judgments about the amounts and disclosures in the ERISA plan financial statements.

A63. AU-C section 260 contains a discussion of the qualitative aspects of accounting practices.[33] In considering the qualitative aspects of the plan's accounting practices, the auditor may become aware of possible bias in management's judgments. The auditor may conclude that the cumulative effect of a lack of neutrality, together with the effect of uncorrected misstatements, causes the financial statements as a whole to be materially misstated. Indicators of a lack of neutrality that may affect the auditor's evaluation of whether the financial statements as a whole are materially misstated include the following:

a. The selective correction of misstatements brought to management's attention during the audit

b. Possible management bias in the making of accounting estimates

A64. AU-C section 540, *Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures*, addresses possible management bias in making accounting estimates. Indicators of possible management bias themselves do not constitute misstatements for purposes of drawing conclusions on the reasonableness of individual accounting estimates. They

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[32] Paragraph .07 of AU-C section 725, *Supplementary Information in Relation to the Financial Statements as a Whole*.

[33] See the appendix, "Qualitative Aspects of Accounting Practices," in AU-C section 260.

may, however, affect the auditor's evaluation of whether the financial statements as a whole are free from material misstatement.

Accounting Policies Appropriately Disclosed in the ERISA Plan Financial Statements (Ref: par. 40a)

A65. In evaluating whether the ERISA plan financial statements appropriately disclose the significant accounting policies selected and applied, the auditor's consideration may include matters such as the following:

- Whether the financial statements include all disclosures related to the significant accounting policies that are required by the applicable financial reporting framework
- Whether the information about the significant accounting policies that has been disclosed is relevant and therefore reflects how the recognition, measurement, and presentation criteria in the applicable financial reporting framework have been applied to classes of transactions, account balances, and disclosures in the financial statements in the particular circumstances of the plan's operations and its environment
- The clarity with which the significant accounting policies have been presented

Information Presented in the Financial Statements Is Relevant, Reliable, Comparable, and Understandable (Ref: par. 40d)

A66. Evaluating the understandability of the ERISA plan financial statements may include consideration of whether the information in the ERISA plan financial statements is presented in a manner that facilitates users' ability to identify necessary information. This may include whether the disclosures are appropriately labeled and cross-referenced.

***Disclosure of the Effect of Material Transactions and Events on the Information Conveyed in the ERISA Plan Financial Statements* (Ref: par. 40)**

A67. It is common for ERISA plan financial statements prepared in accordance with a general purpose framework to present a plan's net assets available for benefits and changes in net assets available for benefits. For defined benefit pension plans, the financial statements may also present accumulated plan benefits and changes in accumulated plan benefits. For defined benefit health and welfare plans, the financial statements may also present plan benefit obligations and changes in plan benefit obligations. Evaluating whether, in view of the applicable financial reporting framework, the financial statements provide adequate disclosures to enable the intended users to understand the effect of material transactions and events on (*a*) the plan's net assets available for benefits, (*b*) changes in net assets available for benefits, (*c*) accumulated plan benefits and changes in accumulated plan benefits (for defined benefit pension plans), and (*d*) plan benefit obligations and changes in plan benefit obligations (for defined benefit health and welfare plans) may include consideration of such matters as the following:

- The extent to which the information in the ERISA plan financial statements is relevant and specific to the circumstances of the plan

- Whether the disclosures are adequate to assist the intended users in understanding the following:
  - The nature and extent of the plan's assets and liabilities arising from transactions or events that do not meet the criteria for recognition (or the criteria for derecognition) established by the applicable financial reporting framework
  - The methods used and the assumptions and judgments made, and changes to them, that affect amounts presented or otherwise disclosed, including relevant sensitivity analyses

Evaluating Whether the ERISA Plan Financial Statements Achieve Fair Presentation **(Ref: par. 41)**

A68. Some financial reporting frameworks acknowledge explicitly or implicitly the concept of fair presentation. As noted in AU-C section 200, a *fair presentation financial reporting framework*[34] not only requires compliance with the requirements of the framework but also acknowledges explicitly or implicitly that it may be necessary for management to provide disclosures beyond those specifically required by the framework.

A69. The auditor's evaluation about whether the ERISA plan financial statements achieve fair presentation, considering both presentation and disclosure, is a matter of professional judgment. This evaluation takes into account such matters as the facts and circumstances of the plan, including changes thereto, based on the auditor's understanding of the plan and the audit evidence obtained during the audit. The evaluation also may include consideration, for example, of the disclosures needed to achieve a fair presentation arising from matters that could be material, such as the effect of evolving financial reporting requirements or the changing economic environment. In general, misstatements are considered material if they could reasonably be expected to influence the economic decisions of the users taken on the basis of the financial statements as a whole.[35]

A70. Evaluating whether the ERISA plan financial statements achieve fair presentation may include, for example, discussions with management and those charged with governance about their views on why a particular presentation was chosen, as well as alternatives that may have been considered. The discussions may include, for example, the following:

- The degree to which the amounts in the ERISA plan financial statements are aggregated or disaggregated, and whether the presentation of amounts or disclosures obscures useful information, or results in misleading information
- Consistency with appropriate industry practice, or whether any departures are relevant to the entity's circumstances and therefore warranted

A71. The auditor's professional judgment concerning the fairness of the presentation of the financial statements is applied within the context of the financial reporting framework. Without that framework, the auditor would have no consistent standard for evaluating the presentation of the following in the financial statements:

[34] Paragraph .14 of AU-C section 200.
[35] See AU-C section 320.

- Net assets available for benefits
- Accumulated plan benefits (for defined benefit pension plans)
- Plan benefit obligations (for defined benefit health and welfare plans)
- Changes in net assets available for benefits
- Changes in accumulated plan benefits (for defined benefit pension plans)
- Changes in plan benefit obligations (for defined benefit health and welfare plans)

***Description of the Applicable Financial Reporting Framework* (Ref: par. 42)**

A72. As explained in AU-C section 200, the preparation and fair presentation of the financial statements by management and, when appropriate, those charged with governance requires the inclusion of an adequate description of the applicable financial reporting framework in the financial statements.[36] That description is important because it advises users of the financial statements of the framework on which the financial statements are based.

A73. The description may indicate that the financial statements have been prepared in accordance with that framework. Such a statement is appropriate only when the financial statements comply with all the requirements of that framework that are effective during the period covered by the financial statements.

A74. Financial statements that are prepared in accordance with one financial reporting framework and that contain a note or supplementary statement reconciling the results to those that would be shown under another framework are not prepared in accordance with that other framework. This is because the financial statements do not include all the information in the manner required by that other framework.

A75. The financial statements may, however, be prepared in accordance with one applicable financial reporting framework and, in addition, describe in the notes to the financial statements the extent to which the financial statements comply with another framework. Such information may not be required by the applicable financial reporting framework but may be presented as part of the basic financial statements. As discussed in paragraph 97, such information is considered an integral part of the financial statements if it cannot be clearly differentiated and, accordingly, is covered by the auditor's opinion.

Form of Opinion

***Fair Presentation* (Ref: par. 46)**

A76. In some instances, the ERISA plan financial statements, although prepared in accordance with the requirements of a fair presentation framework, do not achieve fair presentation. When this is the case, it may be possible for management to include additional disclosures in the financial statements beyond those specifically required by the framework or, in unusual circumstances, to

[36] Paragraphs .A2–.A3 of AU-C section 200.

depart from a requirement in the framework in order to achieve fair presentation of the financial statements, which would be extremely rare.

A77. The "Accounting Principles Rule" (ET sec. 1.320.001) of the AICPA Code of Professional Conduct states the following:

> A member shall not (1) express an opinion or state affirmatively that the financial statements or other financial data of any entity are presented in conformity with generally accepted accounting principles or (2) state that he or she is not aware of any material modifications that should be made to such statements or data in order for them to be in conformity with generally accepted accounting principles, if such statements or data contain any departure from an accounting principle promulgated by bodies designated by Council to establish such principles that has a material effect on the statements or data taken as a whole. If, however, the statements or data contain such a departure and the member can demonstrate that due to unusual circumstances the financial statements or data would otherwise have been misleading, the member can comply with the rule by describing the departure, its approximate effects, if practicable, and the reasons why compliance with the principle would result in a misleading statement.

Considerations Relating to Form 5500 Filing

Reading the Draft Form 5500 (Ref: par. 47–49)

A78. Paragraph 47 requires the auditor to obtain and read the draft Form 5500 prior to dating the auditor's report. Obtaining a draft Form 5500 prior to dating the auditor's report enables the auditor to resolve possible material inconsistencies and apparent material misstatements of facts with management on a timely basis. An agreement with management regarding when the Form 5500 will be filed may be helpful. A *misstatement of fact* is information contained in the Form 5500 unrelated to matters appearing in the audited ERISA plan financial statements that is incorrectly stated or presented. *Misstatements of fact* may be identified by the auditor upon reading the draft Form 5500 for the purpose of identifying material inconsistencies, as discussed in paragraph 57.

A79. Information in the draft Form 5500 may be relevant to an independent audit or the continuing propriety of the auditor's report. Information contained in the Form 5500 that conflicts with information contained in the audited ERISA plan financial statements is considered an inconsistency. 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 ERISA plan financial statements.

A80. Certain differences may exist between the Form 5500 Schedule H, *Financial Information*, and the ERISA plan financial statements. DOL rules and regulations require the notes to the ERISA plan financial statements to include an explanation of differences, if any, between the information contained in the separate ERISA plan financial statements and the net assets, liabilities, income, expense, and changes in net assets as required to be reported on the Form 5500 Schedule H, *Financial Information*. There are some differences that are not considered inconsistencies with Form 5500, for example, differences resulting from accruals recorded in the ERISA plan financial statements that are not reported in Form 5500 when Form 5500 is on a cash basis or benefits payable required to be reported on Form 5500 but not recorded in the ERISA plan financial statements. In contrast, a difference in investment categories may be due to a misclassification that may require correction in either the ERISA plan financial statements or Form 5500.

Material Inconsistencies With the Draft Form 5500 Identified Prior to the Report Release Date That Require Revision of the Draft Form 5500 (Ref: par. 53)

A81. When management refuses to revise the information in the draft Form 5500, the auditor may base any decision on what further action to take on advice from the auditor's legal counsel.

Material Inconsistencies Identified Subsequent to the Report Release Date (Ref: par. 54–56)

A82. When revision of the information in 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 ERISA plan financial statements, the auditor's report thereon, and Form 5500 are informed of the need for revision.

A83. 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.

Material Misstatement of Fact* (Ref: par. 57–59*)

A84. When discussing an apparent material misstatement of fact in the draft Form 5500 with management, the auditor may not be able to evaluate the validity of some disclosures included within the draft Form 5500 and management's responses to the auditor's inquiries and may conclude that valid differences of judgment or opinion exist.

A85. 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 from the auditor's legal counsel, withholding the auditor's report if such report has not been released, or withdrawing from the engagement when withdrawal is possible under applicable law or regulation.

Auditor's Report on ERISA Plan Financial Statements (Other Than for an ERISA Section 103(a)(3)(C) Audit) (Ref: par. 60–82)

A86. A written report encompasses reports issued in hard copy format and those using an electronic medium.

A87. The exhibit, "Illustrations of Auditor's Reports on ERISA Plan Financial Statements," contains illustrations of auditor's reports on financial statements for ERISA plans. With the exception of the "Opinion"[37] and "Basis for Opinion" sections, this SAS does not establish requirements for ordering the elements of the auditor's report. However, this SAS requires the use of specific headings, which are intended to assist in making auditor's reports that refer to audits that have been conducted in accordance with GAAS more recognizable, particularly in situations

[37] For an ERISA Section 103(a)(3)(C) audit this relates to the "Scope and Nature of the ERISA Section 103(a)(3)(C) Audit" section, the "Opinion" section, and the "Basis for Opinion" section of the report.

in which the elements of the auditor's report are presented in an order that differs from the illustrative auditor's reports in the exhibit to this SAS.

Title **(Ref: par. 61 and 100)**

A88. AU-C section 200 provides guidance on reporting when the auditor is not independent.[38]

Addressee **(Ref: par. 62 and 101)**

A89. The auditor's report is normally addressed to those for whom the report is prepared. The report may be addressed to the entity whose financial statements are being audited or to those charged with governance. Occasionally, an auditor may be retained to audit the financial statements of an entity that is not a client; in such a case, the report may be addressed to the client and not to those charged with governance of the entity whose financial statements are being audited.

A90. For ERISA plans, the report may be addressed to the plan or trust whose ERISA plan financial statements are being audited, the plan administrator or board of trustees, or participants and beneficiaries.

Auditor's Opinion **(Ref: par. 64)**

A91. The auditor's report states, for example, that the auditor has "audited the financial statements of ABC Plan, an employee benefit plan subject to the Employee Retirement Income Security Act of 1974 (ERISA), which comprise the statements of net assets available for benefits as of December 31, 20X1 and 20X2, 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."

A92. The identification of the title and the dates of, or periods covered by, each statement that the financial statements comprise may also be achieved by referencing the table of contents in a document bound with or accompanying the financial statements and auditor's report thereon.

A93. When the auditor is aware that the audited financial statements will be included in a document that contains information in addition to the financial statements and the auditor's report thereon, the auditor may consider, if the form of presentation allows, identifying the page numbers on which the audited financial statements are presented. This helps users identify the financial statements to which the auditor's report relates.

A94. When the auditor expresses an unmodified opinion, it is not appropriate to use phrases such as "with the foregoing explanation" or "subject to" in relation to the opinion because these suggest a conditional opinion or a weakening or modification of the opinion.

A95. The auditor's opinion covers the complete set of ERISA plan financial statements, as defined by the applicable financial reporting framework. For example, in the case of many general purpose frameworks, the ERISA plan financial statements include statements of net assets available for benefits and a statement of changes in net assets available for benefits; for defined benefit pension plans, a statement of accumulated plan benefits and a statement of changes in

[38] Paragraph .A18 of AU-C section 200.

accumulated plan benefits; and for a defined benefit health and welfare plan, a statement of benefit obligations and statement of changes in benefit obligations, including related notes. In some circumstances, additional or different statements, schedules, or information also might be considered to be an integral part of the ERISA plan financial statements.

A96. The reports in exhibit A, "Illustrations of Auditor's Reports on Financial Statements of Employee Benefit Plans Subject to ERISA" include example wording that may be used to replace the […] based on the applicable financial reporting framework.

A97. The title of the financial statements identified in the "Opinion" section (see paragraph 64*c*) describes the information that is the subject of the auditor's opinion. For example, in the case of ERISA plan financial statements prepared in accordance with U.S. GAAP, these may include statements of net assets available for benefits (and of accumulated plan benefits) as of the end of the period and the statement of changes in net assets available for benefits (and of changes in accumulated plan benefits) for the period then ended. For defined benefit pension plans, the accumulated plan benefits and changes in accumulated plan benefits may be presented in the notes to the financial statements. The notes to the financial statements are an integral part of the financial statements, so the auditor's opinion covers these amounts regardless of whether they are presented in separate statements or in the notes to the financial statements. Therefore, the auditor is not required to make specific reference to the benefit information in the opinion paragraph of the auditor's report when the benefit information is presented in the notes to the financial statements.

A98. *Description of the applicable financial reporting framework and how it may affect the auditor's opinion (Ref: par. 66).* The identification of the applicable financial reporting framework in the auditor's opinion is intended to advise users of the auditor's report of the context in which the auditor's opinion is expressed; it is not intended to limit the evaluation required in paragraph 41. For example, the applicable financial reporting framework may be identified as accounting principles generally accepted in the United States of America or U.S. generally accepted accounting principles.

Basis for Opinion (Ref: par. 67 and 107)

A99. The "Basis for Opinion" section provides important context about the auditor's opinion. Accordingly, this SAS requires the "Basis for Opinion" section to directly follow the "Opinion" section in the auditor's report.

A100. The reference to the standards used conveys to the users of the auditor's report that the audit has been conducted in accordance with established standards. For example, the auditor's report may refer to auditing standards generally accepted in the United States of America or U.S. GAAS.

A101. In accordance with AU-C section 200, the auditor does not represent compliance with GAAS in the auditor's report unless the auditor has complied with the requirements of AU-C section 200 and all other AU-C sections relevant to the audit.[39]

Relevant Ethical Requirements (Ref: par. 67c and 107c)

[39] Paragraph .22 of AU-C section 200.

A102. AU-C section 200 explains that ethical requirements consist of the AICPA Code of Professional Conduct together with rules of state boards of accountancy and applicable regulatory agencies that are more restrictive.[40] When the AICPA Code of Professional Conduct applies, the auditor's other ethical responsibilities relate to the principles of professional conduct (ET sec. 0.300, *Principles of Professional Conduct*). ERISA Section 103(a)(3)(A) requires that the accountant retained by an employee benefit plan be "independent" for purposes of examining plan financial information and rendering an opinion on the financial statements schedules required to be contained in the annual report. The DOL has issued guidelines (29 CFR 2509.75-9) for determining when an auditor is independent for purposes of auditing and rendering an opinion on the annual report.

A103. Relevant ethical requirements may exist in several different sources, such as ethical codes and additional rules and requirements within law and regulation. When independence and other relevant ethical requirements are contained in a limited number of sources, the auditor may choose to name the relevant sources (for example, the AICPA Code of Professional Conduct, when applicable, the rule or applicable regulation, or *Government Auditing Standards* promulgated by the Comptroller General of the United States) or may refer to a term that appropriately describes those sources.

Key Audit Matters (Ref: par. 69 and 109)

A104. AU-C section 210 requires the audit engagement letter or other suitable form of written agreement to include reference to the expected form and content of any reports to be issued by the auditor.[41]

***Responsibilities of Management for the Financial Statements* (Ref: par. 70–72 and 110–112)**

A105. AU-C section 200 explains the premise relating to the responsibilities of management and, when appropriate, those charged with governance on which an audit in accordance with GAAS is conducted.[42] Management and, when appropriate, those charged with governance accept responsibility for the preparation of the financial statements in accordance with the applicable financial reporting framework, including their fair presentation. Management also accepts responsibility for 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. The description of management's responsibilities in the auditor's report includes reference to both of these responsibilities because it helps explain to users the premise on which an audit is conducted. AU-C section 260 uses the term *those charged with governance* to describe the persons or organizations with responsibility for overseeing the plan, and provides a discussion about the diversity of governance structures among entities.

A106. Management has additional responsibilities when arranging for an audit of ERISA plan financial statements due to the regulatory nature of such plans.

[40] Paragraph .A15 of AU-C section 200.
[41] Paragraph .10 of AU-C section 210, *Terms of Engagement*.
[42] Paragraphs .05 and .A2 of AU-C section 200.

A107. In some instances, a document containing the auditor's report may include a separate statement by management or those charged with governance regarding their responsibility for the preparation of the financial statements. Any elaboration in the auditor's report about the responsibilities of management or those charged with governance regarding the preparation of the financial statements, or reference to a separate statement by management or those charged with governance about such responsibilities if one is included in a document containing the auditor's report, may lead users to erroneously believe that the auditor is providing assurances about representations made by management or those charged with governance about their responsibility for financial reporting, internal control, and other matters that might be discussed in the management report.

Auditor's Responsibilities for the Audit of the Financial Statements **(Ref: par. 73–76 and 113–118)**

A108. The description of the auditor's responsibilities as required by paragraphs 73–76 or 113–118 of this SAS may be tailored to reflect the specific nature of the plan.

Objectives of the Auditor (Ref. par. 74 and 114)

A109. The auditor's report explains that the objectives of the auditor are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes the auditor's opinion.[43] These objectives are in contrast to management's responsibilities for the preparation and fair presentation of the financial statements.

A110. Because the auditor's opinion is based on obtaining reasonable assurance, the auditor's report does not constitute a guarantee. Because of the inherent limitation of an audit, there is an unavoidable risk that some material misstatements of the financial statements may not be detected, even though the audit is properly planned and performed in accordance with GAAS. Accordingly, the subsequent discovery of a material misstatement of the financial statements resulting from fraud or error does not by itself indicate a failure to conduct an audit in accordance with GAAS.[44]

A111. When the applicable financial reporting framework defines materiality differently from the definition in AU-C section 320, the auditor's report may need to reflect the definition or description of materiality from the applicable financial reporting framework.

Other Reporting Responsibilities **(Ref: par. 78–79)**

A112. In some circumstances, the auditor may have additional responsibilities to report on other matters that are supplementary to the auditor's responsibility under GAAS to report on the financial statements. The form and content of the "Other Reporting Responsibilities" section of the auditor's report described in paragraph 78 will vary depending on the nature of the auditor's other reporting responsibilities.

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[43] For an ERISA Section 103(a)(3)(C) audit, the auditor's report explains that, except as described in the Scope and Nature of the ERISA Section 103(a)(3)(C) Audit section of the auditor's report, the objectives of the auditor are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatements, whether due to fraud or error, and to issue an auditor's report that includes the auditor's opinion.

[44] Paragraph .A56 of AU-C section 200 and paragraph .10*d* of AU-C section 210.

A113. In some cases, the relevant law or regulation may require or permit the auditor to report on these other responsibilities within the auditor's report on the financial statements. In other cases, the auditor may be required or permitted to report on them in a separate report.

A114. These other reporting responsibilities are addressed in a separate section of the auditor's report in order to clearly distinguish them from the auditor's responsibility under GAAS to report on the financial statements. When relevant, this section of the auditor's report may contain subheadings that describe the content of the other reporting responsibility paragraphs.

Signature of the Auditor **(Ref: par. 80 and 124)**

A115. In certain situations, the auditor's report may be required by law or regulation to include the personal name and signature of the auditor, in addition to the auditor's firm.

A116. The DOL's Rules and Regulations for Reporting and Disclosure under ERISA contain requirements for how the accountant's report is to be signed for filing with the DOL.

Auditor's Address **(Ref: par. 81 and 125)**

A117. In the United States, the location of the issuing office is the city and state. In another country, it may be the city and country.

A118. In accordance with 29 CFR 2520.103-1(b)(5)(i)(C) of the DOL's Rules and Regulations for Reporting and Disclosure under ERISA, the auditor's report is required to indicate the city and state where it is issued.

Date of the Auditor's Report **(Ref: par. 82 and 126)**

A119. AU-C section 220, *Quality Control for an Engagement Conducted in Accordance With Generally Accepted Auditing Standards*, requires that, on or before the date of the auditor's report, the engagement partner, through a review of the audit documentation and discussion with the engagement team, be satisfied that sufficient appropriate audit evidence has been obtained to support the conclusions reached and for the auditor's report to be issued.[45] When an engagement quality control review is performed, AU-C section 220 requires that the auditor's report not be released prior to the completion of the engagement quality control review.[46]

A120. The date of the auditor's report informs the user of the auditor's report that the auditor has considered the effect of events and transactions of which the auditor became aware and that occurred up to that date. The auditor's responsibility for events and transactions after the date of the auditor's report is addressed in AU-C section 560.

A121. Because the auditor's opinion is provided on the ERISA plan financial statements, and the financial statements are the responsibility of management, the auditor is not in a position to conclude that sufficient appropriate audit evidence has been obtained until evidence is obtained that all the statements and disclosures that the financial statements comprise have been prepared, and management has accepted responsibility for them.

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[45] See paragraph .19 of AU-C section 220, *Quality Control for an Engagement Conducted in Accordance With Generally Accepted Auditing Standards,* for further discussion.
[46] Paragraph .21 of AU-C section 220.

Comparative Financial Statements (Ref: par. 85)

A122. The level of information included for the prior periods in comparative financial statements is comparable with that of the financial statements of the current period.

A123. Because the auditor's report on comparative financial statements applies to the financial statements for each of the periods presented, the auditor may express a qualified opinion or an adverse opinion, disclaim an opinion, use the ERISA Section 103(a)(3)(C) audit report, or include an emphasis-of-matter paragraph with respect to one or more financial statements for one or more periods while expressing a different auditor's opinion on one or more financial statements of another period presented.

A124. ERISA requires a statement of assets and liabilities of the plan to be displayed in comparative form. This may be achieved by presenting the statement of net assets available for benefits in comparative form.

Updating the Report (Ref: par. 86)

A125. An updated report on prior period financial statements is distinguished from a reissuance of a previous report.[47] When issuing an updated report, the information considered by the continuing auditor is that which the auditor has become aware of during the audit of the current period financial statements. In addition, an updated report is issued in conjunction with the auditor's report on the current period financial statements.

Other Considerations Relating to Comparative Financial Statements (Ref: par. 86)

A126. If one firm of independent auditors merges with another firm, and the new firm becomes the auditor of a former client of one of the two former firms, the new firm may accept responsibility and express an opinion on the financial statements for the prior periods, as well as on those for the current period. In such circumstances, paragraphs 85–96 of this SAS apply. The new firm may indicate in the auditor's report or as part of the signature that a merger took place and may name the firm of independent auditors that was merged with it. If the new firm decides not to express an opinion on the prior period financial statements, the guidance for the reissuance of reports in AU-C section 560 would apply.

Written Representations (Ref: par. 91)

A127. In the case of comparative financial statements, the written representations are requested for all periods referred to in the auditor's opinion because management needs to reaffirm that the written representations it previously made with respect to the prior period remain appropriate.

Opinion on Prior Period Financial Statements Different From Previous Opinion (Ref: par. 92)

A128. When reporting on the prior period financial statements in connection with the current period's audit, the opinion expressed on the prior period financial statements may be different from the opinion previously expressed if, during the course of the audit of the current period, the auditor

[47] See AU-C section 560.

becomes aware of circumstances or events that materially affect the financial statements of a prior period. In some circumstances, the auditor may have additional reporting responsibilities designed to prevent future reliance on the auditor's previously issued report on the prior period financial statements.[48]

***Prior Period Financial Statements Audited by a Predecessor Auditor* (Ref: par. 94)**

A129. The predecessor auditor may be unable or unwilling to reissue the auditor's report on the prior period financial statements that have been restated. In this situation, provided that the auditor has audited the adjustments to the prior period financial statements, the auditor may include an other-matter paragraph[49] in the auditor's report indicating that the predecessor auditor reported on the financial statements of the prior period before restatement. In addition, if the auditor is engaged to audit the adjustments and obtains sufficient appropriate audit evidence to be satisfied about the appropriateness of the restatement, the auditor's report may also include the following paragraph within the other-matter paragraph:

> As part of our audit of the 20X2 financial statements, we also audited the adjustments described in Note X that were applied to restate the 20X1 financial statements. In our opinion, such adjustments are appropriate and have been properly applied. We were not engaged to audit, review, or apply any procedures to the 20X1 financial statements of the Plan other than with respect to the adjustments and, accordingly, we do not express an opinion or any other form of assurance on the 20X1 financial statements as a whole.

***Prior Period Financial Statements Not Audited* (Ref: par. 95–96)**

A130. When the auditor is auditing a plan that previously was not subject to audit, AU-C section 510 applies.

A131. The following is an example of an other-matter paragraph when a review was performed on the prior period financial statements:

> Other Matter
>
> The 20X1 financial statements were reviewed by us (other accountants) and our (their) report thereon, dated March 1, 20X2, stated we (they) were not aware of any material modifications that should be made to those statements for them to be in accordance with accounting principles generally accepted in the United States of America. A review is substantially less in scope than an audit and does not provide a basis for the expression of an opinion on the financial statements as a whole.

A132. The following is an example of an other-matter paragraph when a compilation was performed on the prior period financial statements:

> Other Matter
>
> We (other accountants) performed a compilation engagement with respect to the 20X1 financial statements and our (their) report thereon, dated March 1, 20X2, stated we (they) did not audit

[48] See footnote 47.
[49] See AU-C section 706.

or review those financial statements and, accordingly, express no opinion or other form of assurance on them.

A133. If the prior period financial statements were not audited, reviewed, or compiled, the following is an example of an other-matter paragraph:

Other Matter

The accompanying statement of net assets available for benefits of XYZ Plan as of December 31, 20X1, and the related statement of changes in net assets available for benefits for the year then ended were not audited, reviewed, or compiled by us and, accordingly, we do not express an opinion or any other form of assurance on them.

Information Presented in the Financial Statements (Ref: par. 97)

A134. In some circumstances, the plan may be required by law, regulation, or standards, or may voluntarily choose, to include in the basic financial statements information that is not required by the applicable financial reporting framework. The auditor's opinion covers information that cannot be clearly differentiated from the financial statements because of its nature and how it is presented.

A135. ERISA requires certain items to be disclosed in the notes to the financial statements that may not also be required to be disclosed by the applicable financial reporting framework. Appendix A of the AICPA Audit and Accounting Guide *Employee Benefit Plans* contains a list of the disclosure items required by ERISA.

A136. If the information included in the basic financial statements is not required by the applicable financial reporting framework and is not necessary for fair presentation but is clearly differentiated, then such information may be identified as *unaudited* or as *not covered by the auditor's report*.

Auditor's Report for an ERISA Section 103(a)(3)(C) Audit (Ref: par. 98–126*)*

A137. ERISA requires certain comparative financial statements to be presented; therefore, paragraphs 85–96 apply even when performing an ERISA Section 103(a)(3)(C) audit.

***Scope and Nature of the ERISA Section 103(a)(3)(C) Audit* (Ref: par. 103)**

A138. The auditor's report states, for example, that the auditor has "performed audits of the financial statements of ABC 401(k) Plan, an employee benefit plan subject to the Employee Retirement Income Security Act of 1974 (ERISA), as permitted by ERISA Section 103(a)(3)(C) (ERISA Section 103(a)(3)(C) audit). The financial statements comprise the statements of net assets available for benefits as of December 31, 20X1 and 20X2, 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."

A139. Management may also elect to have an ERISA Section 103(a)(3)(C) audit when management has elected to file its audited financial statements in accordance with 29 CFR 2520.103-12 of the DOL's Rules and Regulations for Reporting and Disclosure under ERISA. In such circumstances, the report wording may need to be changed to reflect the circumstances of the engagement.

A140. In accordance with ERISA, insurance entities may provide benefits under the plan or hold plan assets. Accordingly, the wording in the "Scope and Nature of the ERISA Section 103(a)(3)(C) Audit" section in paragraph 103*g* and the opinion in paragraph 104*b* may need to be revised.

Modifications to the Opinion **(Ref: par. 119)**

A141. As discussed in paragraphs A13 and A47, an ERISA Section 103(a)(3)(C) audit is unique to EBPs and is not considered a scope limitation as discussed in AU-C section 705.

A142. When performing an ERISA Section 103(a)(3)(C) audit, the auditor may encounter situations in which the financial statements are materially misstated or a limitation on the scope of the audit exists. For example, if the plan has not maintained sufficient accounting records and supporting documents and the auditor is unable to apply certain auditing procedures, the auditor may need to disclaim an opinion on the ERISA plan financial statements and ERISA-required supplemental schedules.

Other Reporting Responsibilities **(Ref: par. 122–123)**

A143. In some circumstances, the auditor may have additional responsibilities to report on other matters that are supplementary to the auditor's responsibility under GAAS to report on the financial statements. The form and content of the "Other Reporting Responsibilities" section of the auditor's report described in paragraph 123 will vary depending on the nature of the auditor's other reporting responsibilities.

A144. In some cases, the relevant law or regulation may require or permit the auditor to report on these other responsibilities within the auditor's report on the financial statements. In other cases, the auditor may be required or permitted to report on them in a separate report.

A145. These other reporting responsibilities are addressed in a separate section of the auditor's report in order to clearly distinguish them from the auditor's responsibility under GAAS to report on the financial statements. When relevant, this section of the auditor's report may contain subheadings that describe the content of the other reporting responsibility paragraphs.

Reporting on Supplemental Schedules (Ref: par. 127–135)

A146. 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 in the instructions to Form 5500, include as part of the annual report certain separate financial schedules.

A147. Such schedules are required to be attached to the Form 5500 filing.[50] These schedules are covered by the auditor's report on whether such ERISA-required supplemental schedules are fairly stated, in all material respects, in relation to the financial statements as a whole, in accordance with AU-C section 725. Form 5500 is updated annually and, therefore, Form 5500 contains the most current information about the required schedules.

A148. The requirements in paragraphs 129–135 apply only to the ERISA-required supplemental schedules, as applicable. When supplementary information that is not required by ERISA

[50] Appendix A of the AICPA Audit and Accounting Guide *Employee Benefit Plans* provides a listing of the required ERISA schedules.

accompanies the financial statements, the auditor may also be engaged to report on whether the supplementary information not required by ERISA is fairly stated, in all material respects, in relation to the financial statements as a whole. In such circumstances, the auditor is required to follow the requirements in AU-C section 725 in its entirety, and the requirements in paragraphs 129–135 of this SAS do not apply. This may result in the inclusion of an other-matter paragraph in the auditor's report relating to the ERISA-required supplemental schedules in accordance with paragraphs 129–135 of this SAS and a separate other-matter paragraph relating to the other supplementary information accompanying the ERISA plan financial statements presented in accordance with AU-C section 725.

Errors, Omissions, or Inconsistencies in ERISA-Required Supplemental Schedules

A149. When the auditor concludes, on the basis of the procedures performed, that the ERISA-required supplemental schedules are materially misstated in relation to the financial statements as a whole, AU-C section 725 requires the auditor to discuss the matters with management and propose appropriate revision of the ERISA-required supplemental schedules. If management does not revise the ERISA-required supplemental schedules, the auditor is required to modify the auditor's opinion on the ERISA-required supplemental schedules and describe the misstatement in the auditor's report. If a separate report is being issued on the ERISA-required supplemental schedules, the auditor is required to withhold the auditor's report on the supplemental schedules.[51]

A150. During the audit, the auditor may become aware of a departure from DOL requirements relating to the ERISA-required supplemental schedules that is not also a departure from the applicable financial reporting framework. In such circumstances, the auditor may consider including an additional discussion in the other-matter paragraph relating to the ERISA-required supplemental schedules that describes the error, omission, or inconsistency. When the departure relates to a prohibited transaction with a party in interest, see paragraphs 22–24.

A151. When the auditor concludes that the supplemental schedules do not contain all required information or contain information that is inaccurate or inconsistent with the ERISA plan financial statements and the omission or inconsistency is not considered a material misstatement, the auditor may decide to include a discussion in the other-matter paragraph relating to the ERISA-required supplemental schedules that describes the omission or inconsistency of the information.

A152. Departures from the DOL requirements relating to the ERISA-required supplemental schedules includes omitted required information, information that is inaccurate or inconsistent with the ERISA plan financial statements, or an omitted ERISA-required supplemental schedule.

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[51] Paragraph .13 of AU-C section 725.

A153.

Appendix A — Examples of Plan Provisions by Audit Area (Not All-Inclusive)

Paragraph 20 of this SAS requires the auditor to consider relevant plan provisions that affect the risk of material misstatement at the relevant assertion level for classes of transactions, account balances, and disclosures when designing and performing audit procedures. The relevant plan provisions will vary for each type of plan and the circumstances of each engagement. When designing audit procedures, the testing of relevant plan provisions may be coordinated among the various audit areas to which they relate.

The following are some examples of plan provisions often included in a plan instrument by audit area (this list is not all-inclusive).

- *Individual Participant Accounts*
  - — Participation and eligibility requirements
  - — Types of contributions and distributions
  - — Timing of contributions
  - — Contribution limitations
  - — Investment of contributions
  - — Allocations to participant accounts
  - — Forms of distributions
  - — Benefit commencement dates
  - — Vesting and forfeitures
  - — Service requirements and credits
  - — Participant loans
  - — Transfers
  - — Administration of the plan
- *Contributions and Contributions Receivable*
  - — Participation and eligibility requirements
  - — Types of contributions
  - — Timing of contributions
  - — Contribution limitations
  - — Investment of contributions
  - — Use of forfeitures
  - — Service requirements and credits
  - — Allocations to participant accounts

- *Distributions and Related Obligations*
    - — Eligibility requirements (distributable events)
    - — Types of distributions
    - — Forms of distribution
    - — Benefit commencement dates
    - — Determination of benefits
    - — Vesting
    - — Service requirements and credits
    - — Allocations to participant accounts
- *Claims* (in a health and welfare plan)
    - — Eligibility requirements
    - — Types of claims
    - — Claims coverage
    - — Determination of claims
- *Loans to Participants*
    - — Eligibility requirements
    - — Loan terms
    - — Allocations to participant accounts
- *Investments and Investment Income*
    - — Investment of contributions
    - — Administrative provisions
    - — Direction of investments
    - — Allocations to participant accounts
- *Expenses*
    - — Administrative provisions
    - — Allocations to participant accounts

A154.

Appendix B — Amendments to Statement on Auditing Standards (SAS) No. 119, *Supplementary Information in Relation to the Financial Statements as a Whole,* as Amended (AU-C sec. 725), and SAS No. 132, *The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern* (AU-C sec. 570)

(***Boldface italics*** denotes new language. Deleted text is in ~~strikethrough~~.)

Amendment to AU-C Section 570, *The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern*

[No amendment to paragraphs .01–.A36.]

.A37 In accordance with section 700, *Forming an Opinion and Reporting on Financial Statements*, ***or section 703,*** **Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA,** the auditor is required to date the auditor's report 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.[31] Accordingly, the support letter or the written confirmation defines a specific date so as to cover the assessment period required by the applicable financial reporting framework. For example, for financial statements prepared in accordance with the FASB standards, the date would be a year and a day beyond the date that the financial statements are issued (or available to be issued, when applicable). Specifying a date in the support letter that is later than the expected date that the financial statements will be issued (or will be available to be issued, when applicable) may obviate the need to obtain updated information from the supporting parties. The period covered by the support letter may be shorter if there is another source of support that management intends to utilize in order to continue as a going concern through the assessment period. Such other support would be subjected to the same auditing procedures discussed in this section.

[31] Paragraph .43 of section 700, *Forming an Opinion and Reporting on Financial Statements****, or paragraphs .82 and .126 of section 703,*** **Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA**.

[No amendment to paragraphs .A39–.A58.]

Comparative Presentations

.A59 Substantial doubt about the entity's ability to continue as a going concern for a reasonable period of time that arose in the current period does not imply that a basis for such doubt existed in the prior period and, therefore, does not affect the auditor's report on the financial statements of the prior period that are presented on a comparative basis. AU-C section 700, *Forming an Opinion and Reporting on Financial Statements*, ***and section 703,***

Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA, provide~~s~~ guidance on reporting when financial statements of one or more prior periods are presented on a comparative basis with financial statements of the current period.

[No further amendment to AU-C section 570.]

1. This amendment is effective for audits of financial statements for periods ending on or after December 15, 2020.

Amendment to AU-C Section 725, *Supplementary Information in Relation to the Financial Statements as a Whole*

Introduction

Scope of This Section

.01 This section addresses the auditor's responsibility when engaged to report on whether supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole. The information covered by this section is presented outside the basic financial statements and is not considered necessary for the financial statements to be fairly presented in accordance with the applicable financial reporting framework. This section also may be applied, with the report wording adapted as necessary, when an auditor has been engaged to report on whether required supplementary information[1] is fairly stated, in all material respects, in relation to the financial statements as a whole. ***When the auditor is performing an audit of an employee benefit plan subject to the Employee Retirement Income Security Act of 1974 (ERISA), section 703,* Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA, applies. *Accordingly, the requirements in paragraph .09 of this section are replaced by the requirements in section 703, for such audits only.*** (Ref: par. .A1–.A6)

[1][Footnote omitted for purposes of this SAS.]

[No further amendment to AU-C section 725.]

2. This amendment is effective for audits of financial statements for periods ending on or after December 15, 2020.

A155.

Appendix C — Amendments to Various Sections in SAS No. 122, *Statements on Auditing Standards: Clarification and Recodification*, as Amended

(***Boldface italics*** denotes new language. Deleted text is in ~~strikethrough~~.)

AU-C Section 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance With Generally Accepted Auditing Standards*

[No proposed amendment to paragraphs .01–.A48. Paragraph .A49 is provided for contextual information only.]

Inherent Limitations of an Audit

.A49 The auditor is not expected to, and cannot, reduce audit risk to zero and cannot, therefore, obtain absolute assurance that the financial statements are free from material misstatement due to fraud or error. This is because inherent limitations of an audit exist, which result in most of the audit evidence on which the auditor draws conclusions and bases the auditor's opinion being persuasive rather than conclusive. The principal inherent limitations of an audit arise from

- the nature of financial reporting;
- the nature of audit procedures; and
- the need for the audit to be conducted within a reasonable period of time and so as to achieve a balance between benefit and cost.

The Nature of Financial Reporting

.A50 The preparation and fair presentation of financial statements involves judgment by management in applying the requirements of the entity's applicable financial reporting framework to the facts and circumstances of the entity. In addition, many financial statement items involve subjective decisions or assessments or a degree of uncertainty, and a range exists of acceptable interpretations or judgments that may be made. Consequently, some financial statement items are subject to an inherent level of variability that cannot be eliminated by the application of additional auditing procedures. For example, this is often the case with respect to certain accounting estimates that are dependent on predictions of future events. Nevertheless, GAAS require the auditor to give specific consideration to whether accounting estimates are reasonable in the context of the applicable financial reporting framework and to related disclosures, and to the qualitative aspects of the entity's accounting practices, including indicators of possible bias in management's judgments.[15]

[15] See section 540, *Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures*, and section 700, *Forming an Opinion and Reporting on*

*Financial Statements***, *or section 703,* Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA**.

[No further amendment to section AU-C section 200.]

1. This amendment is effective for audits of financial statements for periods ending on or after December 15, 2020.

AU-C Section 220, *Quality Control for an Engagement Conducted in Accordance With Generally Accepted Auditing Standards*

[No amendment to paragraphs .01–.A22. Paragraphs .A23–.A24 are provided for contextual information only.]

Engagement Quality Control Review

Completion of the Engagement Quality Control Review Before Releasing the Auditor's Report (Ref: par. .21c)

.A23 Conducting the engagement quality control review in a timely manner at appropriate stages during the engagement allows significant findings or issues to be promptly resolved to the engagement quality control reviewer's satisfaction.

.A24 *Completion of the engagement quality control review* means the completion by the engagement quality control reviewer of the requirements in paragraph .22 and, when applicable, compliance with paragraph .23. Documentation of the engagement quality control review may be completed after the report release date as part of the assembly of the final audit file. Section 230 establishes requirements and provides guidance in this regard.[11]

[11][Footnote omitted for purposes of this proposed SAS.]

.A25 When the engagement quality control review is completed after the auditor's report is dated and identifies instances where additional procedures or additional evidence is necessary, the date of the report is changed to the date when the additional procedures have been satisfactorily completed or the additional evidence has been obtained, in accordance with section 700, *Forming an Opinion and Reporting on Financial Statements***, *or section 703,* Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA**.

[No further amendments to AU-C section 220.]

2. This amendment is effective for audits of financial statements for periods ending on or after December 15, 2020.

AU-C Section 240, *Consideration of Fraud in a Financial Statement Audit*

[No amendments to paragraphs .01–.A58. Paragraphs .A59–.A60 and .A62 are provided for contextual information only.]

Consideration of Identified Misstatements (Ref: par. .35–.37)

.A59 Because fraud involves incentive or pressure to commit fraud, a perceived opportunity to do so, or some rationalization of the act, an instance of fraud is unlikely to be an isolated occurrence. Accordingly, misstatements, such as numerous misstatements at a specific location even though the cumulative effect is not material, may be indicative of a risk of material misstatement due to fraud.

.A60 The implications of identified fraud depend on the circumstances. For example, an otherwise insignificant fraud may be significant if it involves senior management. In such circumstances, the reliability of evidence previously obtained may be called into question because there may be doubts about the completeness and truthfulness of representations made and the genuineness of accounting records and documentation. There may also be a possibility of collusion involving employees, management, or third parties.

.A61 Section 450, *Evaluation of Misstatements Identified During the Audit*, ~~and~~ section 700, *Forming an Opinion and Reporting on Financial Statements*, ***and section 703,*** **Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA,** address the evaluation and disposition of misstatements and the effect on the auditor's opinion in the auditor's report.

.A62 Section 580, *Written Representations*, addresses obtaining appropriate representations from management in the audit. In addition to acknowledging its responsibility for the financial statements, it is important that, irrespective of the size of the entity, management acknowledges its responsibility for internal control designed, implemented, and maintained to prevent and detect fraud.

[No further proposed amendments to AU-C section 240.]

3. This amendment is effective for audits of financial statements for periods ending on or after December 15, 2020.

AU-C Section 330, *Performing Audit Procedures in Response to Assessed Risks and Evaluating the Audit Evidence Obtained*

Introduction

Scope of This Section

.01 This section addresses the auditor's responsibility to design and implement responses to the risks of material misstatement identified and assessed by the auditor in accordance with section 315, *Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement*, and to evaluate the audit evidence obtained in an audit of financial statements. Section 700, *Forming an Opinion and Reporting on Financial*

Statements, ***and section 703*, Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA**, address~~es~~ the auditor's responsibility to form an opinion on the financial statements based on the evaluation of the audit evidence obtained.

[No further amendment to AU-C section 330.]

4. This amendment is effective for audits of financial statements for periods ending on or after December 15, 2020.

AU-C Section 450, *Evaluation of Misstatements Identified During the Audit*

Introduction

Scope of This Section

.01 This section addresses the auditor's responsibility to evaluate the effect of identified misstatements on the audit and the effect of uncorrected misstatements, if any, on the financial statements. Section 700, *Forming an Opinion and Reporting on Financial Statements*, ***and section 703*, Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA**, address~~es~~ the auditor's responsibility in forming an opinion on the financial statements based on the evaluation of the audit evidence obtained. The auditor's conclusion, required by section 700 ***or section 703***, takes into account the auditor's evaluation of uncorrected misstatements, if any, on the financial statements, in accordance with this section. Section 320, *Materiality in Planning and Performing an Audit*, addresses the auditor's responsibility to appropriately apply the concept of materiality in planning and performing an audit of financial statements.

[No amendment to paragraphs .02–.06. Paragraphs .07–.09 are provided for contextual information only.]

Communication and Correction of Misstatements

.07 The auditor should communicate on a timely basis with the appropriate level of management all misstatements accumulated during the audit. The auditor should request management to correct those misstatements. (Ref: par. .A6–.A8)

.08 If, at the auditor's request, management has examined a class of transactions, account balance, or disclosure and corrected misstatements that were detected, the auditor should perform additional audit procedures to determine whether misstatements remain. (Ref: par. .A9–.A11)

.09 If management refuses to correct some or all of the misstatements communicated by the auditor, the auditor should obtain an understanding of management's reasons for not making the corrections and should take that understanding into account when evaluating whether the financial statements as a whole are free from material misstatement.[2] (Ref: par. .A12–.A15)

[2] Paragraph .13 of section 700, *Forming an Opinion and Reporting on Financial Statements****, or paragraph .38 of section 703,*** **Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA**.

[No amendment to paragraphs .10–.A5.)

Communication and Correction of Misstatements (Ref: par. .07–.09)

[No amendment to paragraphs .A6–.A11.)

.A12 ***Sections 700 and 703***~~Section 700~~ ***require*** ~~requires~~ the auditor to evaluate whether the financial statements are presented fairly, in all material respects, in accordance with the requirements of the applicable financial reporting framework.[9] This evaluation includes consideration of the qualitative aspects of the entity's accounting practices, including indicators of possible bias in management's judgments, which may be affected by the auditor's understanding of management's reasons for not making the corrections (see section 700).[10]

[9] Paragraph .12 of section 700 ***and paragraph .37 of section 703, as applicable***.
[10] Paragraph .14 of section 700 ***and paragraph .39 of section 703, as applicable***.

[No further amendment to AU-C section 450.]

5. This amendment is effective for audits of financial statements for periods ending on or after December 15, 2020.

AU-C Section 501, *Audit Evidence — Specific Considerations for Selected Items*

[No amendment to paragraphs .01–.A45.]

Communication With the Entity's Legal Counsel (Ref: par. .18–.24)

[No amendment to paragraphs .A46–.A52.]

.A53 In accordance with section 700, *Forming an Opinion and Reporting on Financial Statements,* ***or section 703,*** **Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA,** the auditor is required to date the auditor's report 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.[13] Accordingly, it is preferable that the entity's legal counsel's response be as close to the date of the auditor's report as is practicable in the circumstances. Specifying the effective date of the entity's legal counsel's response to reasonably approximate the expected date of the auditor's report may obviate the need to obtain updated information from the entity's legal counsel.

[13] Paragraph .43 of section 700, *Forming an Opinion and Reporting on Financial Statements****, or paragraphs .82 and .126 of section 703,*** **Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA**.

[No amendments to paragraphs .A54–.A64.]

Evaluation of the Outcome of Litigation, Claims, or Assessment (Ref: par. .22d(ii))

.A65 Although paragraph 5 of the ABA statement states that the legal counsel "may in appropriate circumstances communicate to the auditor his view that an unfavorable outcome is 'probable' or 'remote,'" the legal counsel is not required to use those terms in communicating the evaluation to the auditor. The auditor may find other wording sufficiently clear, as long as the terms can be used to classify the outcome of the uncertainty under one of the three probability classifications established in FASB ASC 450. Some examples of evaluations concerning litigation that may be considered to provide sufficient clarity that the likelihood of an unfavorable outcome is remote, even though they do not use that term, are the following:

- "We are of the opinion that this action will not result in any liability to the company."
- "It is our opinion that the possible liability to the company in this proceeding is nominal in amount."
- "We believe the company will be able to defend this action successfully."
- "We believe that the plaintiff's case against the company is without merit."
- "Based on the facts known to us, after a full investigation, it is our opinion that no liability will be established against the company in these suits."

Absent any contradictory information obtained by the auditor either in other parts of the legal counsel's letter or otherwise, the auditor need not obtain further clarification of evaluations such as the foregoing. Because of inherent uncertainties described in paragraph .A57 and the ABA statement, an evaluation furnished by the legal counsel may indicate significant uncertainties or stipulations about whether the client will prevail. The following are examples of the legal counsel's evaluations that are unclear about the likelihood of an unfavorable outcome:

- "This action involves unique characteristics wherein authoritative legal precedents do not seem to exist. We believe that the plaintiff will have serious problems establishing the company's liability under the act; nevertheless, if the plaintiff is successful, the award may be substantial."
- "It is our opinion that the company will be able to assert meritorious defenses to this action." (The term *meritorious defenses* indicates that the entity's defenses will not be summarily dismissed by the court; it does not necessarily indicate the legal counsel's opinion that the entity will prevail.)
- "We believe the action can be settled for less than the damages claimed."

- “We are unable to express an opinion as to the merits of the litigation at this time. The company believes there is absolutely no merit to the litigation.” (If the entity’s legal counsel, with the benefit of all relevant information, is unable to conclude that the likelihood of an unfavorable outcome is remote, it is unlikely that management would be able to form a judgment to that effect.)

- “In our opinion, the company has a substantial chance of prevailing in this action.” (A *substantial chance*, a *reasonable opportunity*, and similar terms indicate more uncertainty than an opinion that the company will prevail.)

If the auditor is uncertain about the meaning of the legal counsel’s evaluation, clarification either in a follow-up letter or conference with the legal counsel and entity, appropriately documented, may be appropriate. If the legal counsel is still unable to give an unequivocal evaluation of the likelihood of an unfavorable outcome in writing or orally, the auditor is required by section 700**, or section 703,** to determine the effect, if any, of the legal counsel’s response on the auditor’s report.

[No further proposed amendments to AU-C section 501.]

6. This amendment is effective for audits of financial statements for periods ending on or after December 15, 2020.

AU-C Section 510, *Opening Balances — Initial Audit Engagements, Including Reaudit Engagements*

Scope of This Section

.01 This section addresses the auditor’s responsibilities relating to opening balances in an initial audit engagement, including a reaudit engagement. In addition to financial statement amounts, opening balances include matters requiring disclosure that existed at the beginning of the period, such as contingencies and commitments. When comparative financial statements are presented, the relevant requirements and guidance for comparative financial statements in section 700, *Forming an Opinion and Reporting on Financial Statements*, ***or section 703,*** **Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA,** also apply. Section 300, *Planning an Audit*, includes additional requirements and guidance regarding activities prior to starting an initial audit. Section 708, *Consistency of Financial Statements*, also applies with respect to the auditor’s evaluation of the consistency of accounting principles between the periods presented and covered by the auditor’s opinion. Section 210, *Terms of Engagement*, includes requirements and guidance with respect to communications with a predecessor auditor before accepting an initial audit engagement, including a reaudit engagement.

[No amendment to paragraphs .02–.A14.]

Discovery of Possible Material Misstatements in Financial Statements Reported on by a Predecessor Auditor

.A15 Section 560 provides reporting guidance to the predecessor auditor who is requested to reissue a previously issued report on financial statements of a prior period when those financial statements are to be presented on a comparative basis with audited financial statements of a subsequent period.[2] Section 700 ***and section 703, as applicable,*** provide~~s~~ reporting guidance to the auditor reporting on comparative financial statements when the predecessor auditor is unable or unwilling to reissue the auditor's report on prior period financial statements that have been restated.[3] (Ref: par. .12)

[2] [Footnote omitted for purposes of this SAS.]

[3] Paragraph .A75 of section 700, *Forming an Opinion and Reporting on Financial Statements****, and paragraph .A129 of section 703,*** **Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA.**

[No further amendment to AU-C section 510.]

7. This amendment is effective for audits of financial statements for periods ending on or after December 15, 2020.

AU-C Section 540*, Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures*

[No amendment to paragraphs .01–.A132.]

Indicators of Possible Management Bias (Ref: par. .21)

.A133 During the audit, the auditor may become aware of judgments and decisions made by management that give rise to indicators of possible management bias (see paragraph .A9). Such indicators may affect the auditor's conclusion about whether the auditor's risk assessment and related responses remain appropriate, and the auditor may need to consider the implications for the rest of the audit. Further, they may affect the auditor's evaluation of whether the financial statements as a whole are free from material misstatement, as discussed in section 700, *Forming an Opinion and Reporting on Financial Statements****, and section 703,*** **Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA*****, as applicable***.

[No further amendment to AU-C section 540.]

8. This amendment is effective for audits of financial statements for periods ending on or after December 15, 2020.

AU-C Section 550*, Related Parties*

Introduction

Scope of This Section

[No amendment to paragraph .01.]

.02 Section 700, *Forming an Opinion and Reporting on Financial Statements*, ***and section 703,* Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA*,* *as applicable*,** require~~s~~ the auditor to evaluate whether the financial statements achieve fair presentation.[1] Section 800, *Special Considerations — Audits of Financial Statements Prepared in Accordance With Special Purpose Frameworks*, requires that, in audits of special purpose financial statements that contain related party transactions, the auditor evaluate whether the financial statements include informative disclosures similar to those required by generally accepted accounting principles (GAAP).[2] Section 800 also requires the auditor to evaluate whether additional disclosures beyond those specifically required by the framework and related to matters that are not specifically identified on the face of the financial statements or other disclosures may be necessary for the financial statements to achieve fair presentation.[3] Thus, this section applies to all audits of financial statements. (Ref: par. .A1–.A3)

1 Paragraph .16 of section 700, *Forming an Opinion and Reporting on Financial Statements****, and paragraph .41 of section 703,*** **Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA*,* *as applicable***.

2 [Footnote omitted for purposes of this proposed SAS.]

3 [Footnote omitted for purposes of this proposed SAS.]

[No proposed amendments to paragraphs .03–.25.]

Evaluation of the Accounting for, and Disclosure of, Identified Related Party Relationships and Transactions

.26 In forming an opinion on the financial statements, in accordance with section 700***, or section 703***, the auditor should evaluate the following: (Ref: par. .A50)

a. Whether the identified related party relationships and transactions have been appropriately accounted for and disclosed (Ref: par. .A51)

b. Whether the effects of the related party relationships and transactions prevent the financial statements from achieving fair presentation (Ref: par. .A3)

16 Paragraphs .12–.17 of section 700***, or paragraphs .37–.42 of section 703, as applicable***.

[No further amendment to AU-C section 550.]

9. This amendment is effective for audits of financial statements for periods ending on or after December 15, 2020.

AU-C Section 560*, Subsequent Events and Subsequently Discovered Facts*

[No amendment to paragraph .01.]

Subsequent Events and Subsequently Discovered Facts

[No amendment to paragraph .02.]

.03 Section 700, *Forming an Opinion and Reporting on Financial Statements, **and section 703,*** **Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA,** explain~~s~~ that the date of the auditor's report informs the user of the auditor's report that the auditor has considered the effect of events and transactions of which the auditor becomes aware and that occurred up to that date.[1] Accordingly, this section addresses the auditor's responsibilities relating to subsequent events occurring between the date of the financial statements and the date of the auditor's report that require adjustment of, or disclosure in, the financial statements. It also addresses the auditor's responsibilities relating to subsequently discovered facts that become known to the auditor after the date of the auditor's report.

[1] Paragraph .A55 of section 700, *Forming an Opinion and Reporting on Financial Statements**, and paragraph .A119 of section 703,*** **Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA*****, as applicable.***

[No amendment to paragraphs .04–.06.]

Definitions

.07 For purposes of generally accepted auditing standards, the following terms have the meanings attributed as follows:

Date of the auditor's report. The date that the auditor dates the report on the financial statements, in accordance with ***sections*** ~~section~~ 700 ***or 703***.[2] (Ref: par. .A14)

Date of the financial statements. The date of the end of the latest period covered by the financial statements.

Subsequent events. Events occurring between the date of the financial statements and the date of the auditor's report.

Subsequently discovered facts. Facts that become known to the auditor after the date of the auditor's report that, had they been known to the auditor at that date, may have caused the auditor to revise the auditor's report.

[2] Paragraph .43 of section 700***, or paragraphs .82 and .126 of section 703***.

[No amendment to paragraphs .08–.A8.]

Written Representations

[No amendment to paragraph .A9.]

.A10 The applicable financial reporting framework may require management to evaluate subsequent events through the date the financial statements are issued or available to be issued and to disclose the date through which subsequent events were evaluated in the financial statements. In most cases, this will result in the date that management discloses as the date through which management has evaluated subsequent events being the same date as the auditor's report. This is because section 700 ***or section 703*** requires the auditor's report to be 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, including evidence that the audit documentation has been reviewed; that all the statements that comprise the financial statements, including related notes, have been prepared; and that management has asserted that they have taken responsibility for those financial statements.[9] Also, the auditor is concerned with subsequent events that require adjustment of, or disclosure in, the financial statements through the date of the auditor's report or as near as practicable thereto. Therefore, management's representations concerning events occurring subsequent to the date of the financial statements and for which the applicable financial reporting framework requires adjustment or disclosure are required to be made as of the date of the auditor's report on the financial statements.[10] To align the date disclosed by management in the financial statements, the representation letter date, and the auditor's report date, the auditor may discuss the dating requirements with management and may also include, in the terms of the audit engagement,[11] that management will not date the subsequent event disclosure earlier than the date of the representation letter (also the date of the auditor's report).

[9] Paragraph .43 of section 700***, or paragraphs .82 and .126 of section 703***.

[10] [Footnote omitted for purposes of this proposed SAS.]

[11] [Footnote omitted for purposes of this proposed SAS.]

Subsequently Discovered Facts That Become Known to the Auditor Before the Report Release Date (Ref: par. .12–.14)

Dating the Auditor's Report on the Revised Financial Statements (Ref: par. .13)

[No amendment to paragraphs .A11–.A13.]

.A14 As discussed in paragraph .A10, section 700 ***or section 703, as applicable,*** requires the auditor's report to be 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.[12] When management revises the financial statements and the auditor reports on the revised financial statements, the new date (or the dual date) included in the auditor's report cannot be earlier than the date on which the auditor carried out the audit procedures necessary in the circumstances on the revision, including that the documentation has been reviewed and management has prepared and asserted that they have taken responsibility for the revised financial statements.

[12]Paragraph .43 of section 700***, or paragraphs .82 and .126 of section 703***.

[No amendment to paragraphs .A15–.A28.]

Predecessor Auditor's Report Reissued

[No amendment to paragraph .A29.]

.A30 Section 700 ***and section 703, as applicable,*** address~~es~~ the auditor's responsibilities when the auditor is engaged to audit and report on a revision to prior period financial statements audited by the predecessor auditor.[14] It also addresses the auditor's responsibilities when the predecessor auditor's report will not be presented.[15]

[14]Paragraph .A75 of section 700***, and paragraph .A129 of section 703, as applicable***.

[15]Paragraph .57 of section 700***, and paragraph .93 of section 703, as applicable***.

[No further amendment to AU-C section 560.]

10. This amendment is effective for audits of financial statements for periods ending on or after December 15, 2020.

AU-C Section 580*, Written Representations*

[No amendment to paragraphs .01–.A37.]

.A38

Exhibit D — List of AU-C Sections Containing Requirements for Written Representations

This exhibit identifies paragraphs in other AU-C sections that require specific written representations that may not be required for every audit. The list is not a substitute for considering the requirements and related application and other explanatory material in AU-C sections:

- Paragraph .19 of section 560, *Subsequent Events and Subsequently Discovered Facts*
- Paragraph .55 of section 700, *Forming an Opinion and Reporting on Financial Statements****, or paragraphs .36, .91, and .131 of section 703,*** **Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA,** ***as applicable***

- Paragraph .07*g* of section 725, *Supplementary Information in Relation to the Financial Statements as a Whole*

- Paragraph .23 of section 935, *Compliance Audits*

In addition, certain AICPA Audit and Accounting Guides suggest written representations concerning matters that are unique to a particular industry.

[No further amendment to AU-C section 580.]

11. This amendment is effective for audits of financial statements for periods ending on or after December 15, 2020.

AU-C Section 708*, Consistency of Financial Statements*

[No amendment to paragraphs .01–.A6.]

Reporting on Changes in Accounting Principles (Ref: par. .08–.11)

[No amendment to paragraphs .A7–.A8.]

.A9 If a change in accounting principle does not have a material effect on the financial statements in the current year but the change is expected to have a material effect in later years, the auditor is not required to recognize the change in the auditor's report in the current year. The applicable financial reporting framework may include a requirement for the entity to disclose such situations in the notes to the financial statements. Section 700, *Forming an Opinion and Reporting on Financial Statements*, ***section 703,* Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA, *as applicable,*** and section 705 require the auditor to evaluate the appropriateness and adequacy of disclosures in connection with forming an opinion and reporting on the financial statements.[3]

[3] Paragraph .15 of section 700, *Forming an Opinion and Reporting on Financial Statements*, ***paragraph .40 of section 703,* Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA*,*** and paragraphs .07 and .A7 of section 705.

[No further amendment to AU-C section 708.]

15. This amendment is effective for audits of financial statements for periods ending on or after December 15, 2020.

A156.

Exhibit A — Illustrations of Auditor’s Reports on Financial Statements of Employee Benefit Plans Subject to ERISA

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 statements of net assets available for benefits and a single-year statement of changes in net assets available for benefits).
- Management is responsible for the preparation of the financial statements in accordance with accounting principles generally accepted in the United States of America as promulgated by the Financial Accounting Standards Board.
- The terms of the audit engagement reflect the description of management’s responsibility for the financial statements in AU-C section 210, *Terms of Engagement*.
- The auditor has concluded that an unmodified (that is, “clean”) opinion on the ERISA plan financial statements is appropriate based on the audit evidence obtained.
- Based on the audit evidence obtained, the auditor has concluded that there are no conditions or events, considered in the aggregate, that raise substantial doubt about the plan’s ability to continue as a going concern for a reasonable period of time in accordance with AU-C section 570, *The Auditor’s Consideration of an Entity’s Ability to Continue as a Going Concern*.
- The auditor has not been engaged to communicate key audit matters.
- The report on the ERISA-required supplemental schedules is presented as an other-matter paragraph in accordance with paragraphs 129–130. The auditor has concluded that the information in the ERISA-required supplemental 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 ERISA.

<u>Independent Auditor’s Report</u>

[*Appropriate Addressee*]

Opinion

We have audited the financial statements of ABC 401(k) Plan, an employee benefit plan subject to the Employee Retirement Income Security Act of 1974 (ERISA), 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.

In our opinion, the accompanying financial statements 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of ABC 401(k) Plan and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about ABC 401(k) Plan's ability to continue as a going concern for [*insert the time period set by the applicable financial reporting framework*].

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, to determine the benefits due or which may become due to such participants.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users made on the basis of these financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks.

Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

- Obtain an understanding of internal control relevant to the audit 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 ABC 401(k) Plan's internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about ABC 401(k) Plan's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Other Matter—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 supplemental schedules and periods 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 ERISA. 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, and other additional procedures in accordance with GAAS.

In forming our opinion on the supplemental schedules, we evaluated whether the supplemental schedules, including their form and content, are presented in conformity with the Department of Labor's Rules and Regulations for Reporting and Disclosure under ERISA.

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 ERISA.

[*Signature of the auditor's firm*]
[*City and state where the auditor's report is issued*]
[*Date of the auditor's report*]

Illustration 2 — An Auditor's Report on Financial Statements for a Defined Benefit Pension Plan Subject to ERISA

Circumstances include the following:

- Audit of a complete set of general purpose financial statements for a defined benefit pension plan subject to ERISA (comparative statements of net assets available for benefits and accumulated plan benefits [end-of-year benefit information date] and a single-year statement of changes in net assets available for benefits and changes in accumulated plan benefits).
- The information regarding the actuarial present value of accumulated plan benefits and changes therein is presented in separate statements within the financial statements (paragraph A91 provides guidance when the accumulated plan benefit information is presented in the notes to the financial statements).
- Management is responsible for the preparation of the financial statements in accordance with accounting principles generally accepted in the United States of America as promulgated by Financial Accounting Standards Board.
- The terms of the audit engagement reflect the description of management's responsibility for the financial statements in AU-C section 210, *Terms of Engagement*.
- The auditor has concluded that an unmodified (that is, "clean") opinion on the ERISA plan financial statements is appropriate based on the audit evidence obtained.
- Based on the audit evidence obtained, the auditor has concluded that there are no conditions or events, considered in the aggregate, that raise substantial doubt about the entity's ability to continue as a going concern for a reasonable period of time in accordance with AU-C section 570, *The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern*.
- The auditor has not been engaged to communicate key audit matters.
- The report on the ERISA-required supplemental schedules is presented as an other-matter paragraph in accordance with paragraphs 129–130. The auditor has concluded that the information in the ERISA-required supplemental 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 ERISA.

Independent Auditor's Report

[*Appropriate Addressee*]

Opinion

We have audited the financial statements of XYZ Pension Plan, an employee benefit plan subject to the Employee Retirement Income Security Act of 1974 (ERISA), 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.

In our opinion, the accompanying financial statements present fairly, in all material respects, the net assets available for benefits and accumulated plan benefits of XYZ Pension Plan as of December 31, 20X2 and 20X1, and the changes in its net assets available for benefits and changes in its accumulated plan benefits for the year ended December 31, 20X2, in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of XYZ Pension Plan and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about ABC 401(k) Plan ability to continue as a going concern for [*insert the time period set by the applicable financial reporting framework*].

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, to determine the benefits due or which may become due to such participants.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users made on the basis of these financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

- Obtain an understanding of internal control relevant to the audit 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 XYZ Pension Plan's internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about XYZ Pension Plan's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Other Matter — 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 supplemental schedules and periods 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 ERISA. 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, and other additional procedures in accordance with GAAS.

In forming our opinion on the supplemental schedules, we evaluated whether the supplemental schedules, including their form and content, are presented in conformity with the Department of Labor's Rules and Regulations for Reporting and Disclosure under ERISA.

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 ERISA.

[*Signature of the auditor’s firm*]
[*City and state where the auditor’s 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 Elects an ERISA Section 103(a)(3)(C) Audit

Circumstances include the following:

- Management elected an ERISA Section 103(a)(3)(C) audit, as permitted by Code of Federal Regulations (CFR), *Labor*, Title 29, Section 2520.103-8 of the Department of Labor's Rules and Regulations for Reporting and Disclosure under ERISA.[1]
- The auditor performed an ERISA Section 103(a)(3)(C) audit of a complete set of general purpose financial statements for a 401(k) plan subject to ERISA (comparative statements of net assets available for benefits and a single-year statement of changes in net assets available for benefits).
- Management is responsible for the preparation of the financial statements in accordance with accounting principles generally accepted in the United States of America, as promulgated by Financial Accounting Standards Board.
- The terms of the audit engagement reflect the description of management's responsibility for the financial statements in AU-C section 210, *Terms of Engagement*.
- There are no limitations on the scope of the audit, and the auditor has not identified any material misstatements of the ERISA plan financial statements.
- The auditor has concluded that the ERISA Section 103(a)(3)(C) report is appropriate based on the audit evidence obtained.
- Based on the audit evidence obtained, the auditor has concluded that there are no conditions or events, considered in the aggregate, that raise substantial doubt about the plan's ability to continue as a going concern for a reasonable period of time in accordance with AU-C section 570, *The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern*.
- The auditor has not been engaged to communicate key audit matters.
- The report on the ERISA-required supplemental schedules is presented as an other-matter paragraph in accordance with paragraph 132. The auditor has concluded that the form and content of the supplemental schedules, other than the information in the supplemental schedules that agreed to or is derived from the certified investment information, is presented, in all material respects, in conformity with the Department of Labor's Rules and Regulations for Reporting and Disclosure under ERISA. The information in the supplemental schedules related to assets held by and certified to by a qualified institution agreed to or is derived from, in all material respects, the information prepared and certified by an institution that management determined meets the requirements of ERISA Section 103(a)(3)(C).

Independent Auditor's Report

[1] Although not as common, an ERISA Section 103(a)(3)(C) audit may relate to the audit of a 103-12 entity as permitted by 29 CFR 2520.103-12. Accordingly, the wording in this illustrative report may need to be revised to fit the circumstances of the engagement.

[*Appropriate Addressee*]

Scope and Nature of the ERISA Section 103(a)(3)(C) Audit

We have performed audits of the financial statements of ABC 401(k) Plan, an employee benefit plan subject to the Employee Retirement Income Security Act of 1974 (ERISA), as permitted by ERISA Section 103(a)(3)(C) (ERISA Section 103(a)(3)(C) audit). 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, having determined it is permissible in the circumstances, has elected to have the audits of ABC 401(k) Plan's financial statements performed in accordance with ERISA Section 103(a)(3)(C) pursuant to 29 CFR 2520.103-8 of the Department of Labor's Rules and Regulations for Reporting and Disclosure under ERISA. As permitted by ERISA Section 103(a)(3)(C), our audits need not extend to any statements or information related to assets held for investment of the plan (investment information) by a bank or similar institution or insurance carrier that is regulated, 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 similar institution or insurance carrier in accordance with 29 CFR 2520.103-5 of the Department of Labor's Rules and Regulations for Reporting and Disclosure under ERISA (qualified institution).

Management has obtained certifications from a qualified institution as of December 31, 20X2 and 20X1, and for the year ended December 31, 20X2, stating that the certified investment information, as described in Note X to the financial statements, is complete and accurate.[2]

Opinion

In our opinion, based on our audits and on the procedures performed as described in the Auditor's Responsibilities for the Audit of the Financial Statements section

- the amounts and disclosures in the accompanying financial statements, other than those agreed to or derived from the certified investment information, are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America.
- the information in the accompanying financial statements related to assets held by[3] and certified to by a qualified institution agrees to, or is derived from, in all material respects, the information prepared and certified by an institution that management determined meets the requirements of ERISA Section 103(a)(3)(C).

Basis for Opinion

[2] If the note to the financial statements does not identify the names of the qualified certifying institutions and periods covered, then such information may be included in the auditor's report.

[3] This sentence may need to be modified when the certification is provided by an insurance entity, which provides benefits under the plan or holds plan assets.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of ABC 401(k) Plan and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our ERISA Section 103(a)(3)(C) audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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's election of the ERISA Section 103(a)(3)(C) audit does not affect management's responsibility for the financial statements.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about ABC 401(k) Plan's ability to continue as a going concern for [*insert the time period set by the applicable financial reporting framework*].

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, to determine the benefits due or which may become due to such participants.

Auditor's Responsibilities for the Audit of the Financial Statements

Except as described in the Scope and Nature of the ERISA Section 103(a)(3)(C) Audit section of our report, our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users made on the basis of these financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

- Obtain an understanding of internal control relevant to the audit 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 ABC 401(k) Plan's internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about ABC 401(k) Plan's ability to continue as a going concern for a reasonable period of time.

Our audits did not extend to the certified investment information, except for obtaining and reading the certification, comparing the certified investment information with the related information presented and disclosed in the financial statements, and reading the disclosures relating to the certified investment information to assess whether they are in accordance with the presentation and disclosure requirements of accounting principles generally accepted in the United States of America.

Accordingly, the objective of an ERISA Section 103(a)(3)(C) audit is not to express an opinion about whether the financial statements as a whole are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Other Matter — Supplemental Schedules Required by ERISA

The supplemental schedules of [*identify the title of supplemental schedules and periods 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 ERISA. 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 included in the supplemental schedules, other than that agreed to or derived from the certified investment information, has been subjected to 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, and other additional procedures in accordance with GAAS. For information included in the supplemental schedules that agreed to or is derived from the certified investment information, we compared such information to the related certified investment information.

In forming our opinion on the supplemental schedules, we evaluated whether the supplemental schedules, other than the information agreed to or derived from the certified investment information, including their form and content, are presented in conformity with the Department of Labor's Rules and Regulations for Reporting and Disclosure under ERISA.

In our opinion

- the form and content of the supplemental schedules, other than the information in the supplemental schedules that agreed to or is derived from the certified investment information, are presented, in all material respects, in conformity with the Department of Labor's Rules and Regulations for Reporting and Disclosure under ERISA.
- the information in the supplemental schedules related to assets held by[4] and certified to by a qualified institution agrees to, or is derived from, in all material respects, the information prepared and certified by an institution that management determined meets the requirements of ERISA Section 103(a)(3)(C).

[*Signature of the auditor's firm*]
[*City and state where the auditor's report is issued*]
[*Date of the auditor's report*]

[4] See footnote 3.

Illustration 4 — An Auditor's Report Containing a Qualified Opinion on Financial Statements for a Defined Contribution Retirement Plan Subject to ERISA When Management Elects an ERISA Section 103(a)(3)(C) Audit

Circumstances include the following:

- Management elected an ERISA Section 103(a)(3)(C) audit, as permitted by 29 CFR 2520.103-8 of the Department of Labor's Rules and Regulations for Reporting and Disclosure under ERISA.[5]
- The auditor performed an ERISA Section 103(a)(3)(C) audit of a complete set of general purpose financial statements for a 401(k) plan subject to ERISA (comparative statements of net assets available for benefits and a single-year statement of changes in net assets available for benefits).
- Management is responsible for the preparation of the financial statements in accordance with accounting principles generally accepted in the United States of America, as promulgated by Financial Accounting Standards Board.
- The terms of the audit engagement reflect the description of management's responsibility for the financial statements in AU-C section 210, *Terms of Engagement*.
- The financial statements have inadequate disclosures. The auditor has concluded that (*a*) it is not practicable to present the required information, and (*b*) the effects are such that an adverse opinion is not appropriate. Accordingly, the auditor's report contains a qualified ERISA Section 103(a)(3)(C) audit opinion. [Note: For this example, the form of modified opinion is appropriate in the circumstances; however, generally, the DOL will reject Form 5500 filings that contain modified opinions.]
- There are no limitations on the scope of the audit.
- The auditor has concluded that a qualified ERISA Section 103(a)(3)(C) report is appropriate based on the audit evidence obtained.
- Based on the audit evidence obtained, the auditor has concluded that there are no conditions or events, considered in the aggregate, that raise substantial doubt about the plan's ability to continue as a going concern for a reasonable period of time in accordance with AU-C section 570, *The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern*.
- The auditor has not been engaged to communicate key audit matters.
- The report on the ERISA-required supplemental schedules is presented as an other-matter paragraph in accordance with paragraph 132. The auditor has concluded that the qualification has an effect on the supplemental schedules because it is information also required by DOL Rules and Regulations for Reporting and Disclosure under ERISA. The auditor has included a discussion in the other-matter paragraph that describes the matter as discussed in paragraph A151 of this SAS.

[5] See footnote 1.

Independent Auditor's Report

[*Appropriate Addressee*]

Scope and Nature of the ERISA Section 103(a)(3)(C) Audit

We have performed audits of the financial statements of ABC 401(k) Plan, an employee benefit plan subject to the Employee Retirement Income Security Act of 1974 (ERISA), as permitted by ERISA Section 103(a)(3)(C) (ERISA Section 103(a)(3)(C) audit). 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, having determined it is permissible in the circumstances, has elected to have the audits of ABC 401(k) Plan's financial statements performed in accordance with ERISA Section 103(a)(3)(C) pursuant to 29 CFR 2520.103-8 of the Department of Labor's Rules and Regulations for Reporting and Disclosure under ERISA. As permitted by ERISA Section 103(a)(3)(C), our audits need not extend to any statements or information related to assets held for investment of the plan (investment information) by a bank or similar institution or insurance carrier that is regulated, 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 similar institution or insurance carrier in accordance with 29 CFR 2520.103-5 of the Department of Labor's Rules and Regulations for Reporting and Disclosure under ERISA (qualified institution).

Management has obtained certifications from a qualified institution as of December 31, 20X2 and 20X1, and for the year ended December 31, 20X2, stating that the certified investment information, as described in Note X to the financial statements, is complete and accurate.[6]

Qualified Opinion

In our opinion, except for the omission of the information described in the Basis for Qualified Opinion section of our report, based on our audits and on the procedures performed as described in the Auditor's Responsibilities for the Audit of the Financial Statements section

- the amounts and disclosures in the accompanying financial statements, other than those agreed to or derived from the certified investment information, are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America.
- the information in the accompanying financial statements related to assets held by[7] and certified to by a qualified institution agrees to, or is derived from, in all material respects, the information prepared and certified by an institution that management determined meets the requirements of ERISA Section 103(a)(3)(C).

Basis for Qualified Opinion

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[6] See footnote 2.
[7] See footnote 3.

ABC 401(k) Plan's financial statements do not disclose [*describe the nature of the omitted information that is not practicable to present in the auditor's report*]. In our opinion, disclosure of this information is required by accounting principles generally accepted in the United States of America.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of ABC 401(k) Plan and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified ERISA Section 103(a)(3)(C) audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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's election of the ERISA Section 103(a)(3)(C) audit does not affect management's responsibility for the financial statements.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about ABC 401(k) Plan's ability to continue as a going concern for [*insert the time period set by the applicable financial reporting framework*].

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, to determine the benefits due or which may become due to such participants.

Auditor's Responsibilities for the Audit of the Financial Statements

Except as described in the Scope and Nature of the ERISA Section 103(a)(3)(C) Audit section of our report, our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users made on the basis of these financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

- Obtain an understanding of internal control relevant to the audit 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 ABC 401(k) Plan's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about ABC 401(k) Plan's ability to continue as a going concern for a reasonable period of time.

Our audits did not extend to the certified investment information, except for obtaining and reading the certification, comparing the certified investment information with the related information presented and disclosed in the financial statements, and reading the disclosures relating to the certified investment information to assess whether they are in accordance with the presentation and disclosure requirements of accounting principles generally accepted in the United States of America.

Accordingly, the objective of an ERISA Section 103(a)(3)(C) audit is not to express an opinion about whether the financial statements as a whole are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Other Matter — Supplemental Schedules Required by ERISA

The supplemental schedules of [*identify title of supplemental schedules and periods 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 ERISA. 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 included in the supplemental schedules, other than that agreed to or derived from the certified investment information, has been subjected to 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, and other additional procedures in accordance with GAAS. For information included in the supplemental schedules that agreed to or is derived from the certified investment information, we compared such information to the related certified investment information.

In forming our opinion on the supplemental schedules, we evaluated whether the supplemental schedules, other than the information agreed to or derived from the certified investment information, including their form and content, are presented in conformity with the Department of Labor's Rules and Regulations for Reporting and Disclosure under ERISA.

Schedule [*identify supplemental schedule*] that accompanies ABC 401(k) Plan's financial statements does not disclose [*describe the nature of the omitted information*]. Disclosure of this information is required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under ERISA.

In our opinion, except for the effects of [*describe the nature of the omitted information*] as described in the Basis for Qualified Opinion section, on Schedule [*identify the schedule*]

- the form and content of the supplemental schedules, other than the information in the supplemental schedules that agreed to or is derived from the certified investment information, are presented, in all material respects, in conformity with the Department of Labor's Rules and Regulations for Reporting and Disclosure under ERISA.
- the information in the supplemental schedules related to assets held by[8] and certified to by a qualified institution agrees to, or is derived from, in all material respects, the information prepared and certified by an institution that management determined meets the requirements of ERISA Section 103(a)(3)(C).

[*Signature of the auditor's firm*]
[*City and state where the auditor's report is issued*]
[*Date of the auditor's report*]

[8] See footnote 3.

Illustration 5 — An Auditor's Report Containing an Adverse Opinion on Financial Statements for a Defined Contribution Retirement Plan Subject to ERISA When Management Elects an ERISA Section 103(a)(3)(C) Audit

Circumstances include the following:

- Management elected an ERISA Section 103(a)(3)(C) audit, as permitted by 29 CFR 2520.103-8 of the Department of Labor's (DOL) Rules and Regulations for Reporting and Disclosure under ERISA.[9]
- The auditor performed an ERISA Section 103(a)(3)(C) audit of a complete set of general purpose financial statements for a 401(k) plan subject to ERISA (comparative statements of net assets available for benefits and a single-year statement of changes in net assets available for benefits).
- Management is responsible for the preparation of the financial statements in accordance with accounting principles generally accepted in the United States of America, as promulgated by Financial Accounting Standards Board.
- The terms of the audit engagement reflect the description of management's responsibility for the financial statements in AU-C section 210, *Terms of Engagement*.
- The financial statements are materially misstated. The material misstatement is deemed to be pervasive to the financial statements. Accordingly, the auditor's report contains an adverse opinion. The effects of the misstatement on the financial statements have not been determined because it was not practicable to do so. [Note: For this example, the form of modified opinion is appropriate in the circumstances; however, generally, the DOL will reject Form 5500 filings that contain modified opinions.]
- There are no limitations on the scope of the audit.
- The auditor has concluded that an adverse ERISA Section 103(a)(3)(C) report is appropriate based on the audit evidence obtained.
- Based on the audit evidence obtained, the auditor has concluded that there are no conditions or events, considered in the aggregate, that raise substantial doubt about the plan's ability to continue as a going concern for a reasonable period of time in accordance with AU-C section 570, *The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern*.
- The auditor is precluded from communicating key audit matters when issuing an adverse opinion.
- The report on the ERISA-required supplemental schedules is presented as an other-matter paragraph in accordance with paragraph 132. Because the auditor has issued an adverse ERISA Section 103(a)(3)(C) audit opinion, the auditor is precluded from issuing an opinion on the supplemental schedules.

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[9] See footnote 1.

Independent Auditor's Report

[*Appropriate Addressee*]

Scope and Nature of the ERISA Section 103(a)(3)(C) Audit

We have performed audits of the financial statements of ABC 401(k) Plan, an employee benefit plan subject to the Employee Retirement Income Security Act of 1974 (ERISA), as permitted by ERISA Section 103(a)(3)(C) (ERISA Section 103(a)(3)(C) audit). 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, having determined it is permissible in the circumstances, has elected to have the audits of ABC 401(k) Plan's financial statements performed in accordance with ERISA Section 103(a)(3)(C) pursuant to 29 CFR 2520.103-8 of the Department of Labor's Rules and Regulations for Reporting and Disclosure under ERISA. As permitted by ERISA Section 103(a)(3)(C), our audits need not extend to any statements or information related to assets held for investment of the plan (investment information) by a bank or similar institution or insurance carrier that is regulated, 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 similar institution or insurance carrier in accordance with 29 CFR 2520.103-5 of the Department of Labor's Rules and Regulations for Reporting and Disclosure under ERISA (qualified institution).

Management has obtained certifications from a qualified institution as of December 31, 20X2 and 20X1, and for the year ended December 31, 20X2, stating that the certified investment information, as described in Note X to the financial statements, is complete and accurate.[10]

Adverse Opinion

In our opinion, because of the significance of the matter described in the Basis for Adverse Opinion section of our report, the accompanying financial statements do not present fairly 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.

Basis for Adverse Opinion

As described in Note X, ABC 401(k) Plan [*describe the material misstatement of the financial statements*]. Under accounting principles generally accepted in the United States of America [*describe how the matter should have been accounted for in accordance with accounting principles generally accepted in the United States of America*]. The effects on the financial statements have not been determined.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our

[10] See footnote 2.

report. We are required to be independent of ABC 401(k) Plan and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our adverse ERISA Section 103(a)(3)(C) audit opinion.

Responsibilities of Management for the 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, and for 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's election of the ERISA Section 103(a)(3)(C) audit does not affect management's responsibility for the financial statements.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about ABC 401(k) Plan's ability to continue as a going concern for [*insert the time period set by the applicable financial reporting framework*].

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, to determine the benefits due or which may become due to such participants.

Auditor's Responsibilities for the Audit of the Financial Statements

Except as described in the Scope and Nature of the ERISA Section 103(a)(3)(C) Audit section of our report, our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users made on the basis of these financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

- Obtain an understanding of internal control relevant to the audit 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 ABC 401(k) Plan's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about ABC 401(k) Plan's ability to continue as a going concern for a reasonable period of time.

Our audits did not extend to the certified investment information, except for obtaining and reading the certification, comparing the certified investment information with the related information presented and disclosed in the financial statements, and reading the disclosures relating to the certified investment information to assess whether they are in accordance with the presentation and disclosure requirements of accounting principles generally accepted in the United States of America.

Accordingly, the objective of an ERISA Section 103(a)(3)(C) audit is not to express an opinion about whether the financial statements as a whole are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Other Matter — ERISA-Required Supplemental Schedules

The supplemental schedules of [*identify title of supplemental schedules and periods 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 ERISA. 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. Because of the significance of the matter described in the Basis for Adverse Opinion section of our report, it is inappropriate to and we do not express an opinion on the supplemental schedules referred to above.

[*Signature of the auditor's firm*]
[*City and state where the auditor's report is issued*]
[*Date of the auditor's report*]

Illustration 6 — An Auditor's Report Containing a Disclaimer of Opinion, Due to the Auditor's Inability to Obtain Sufficient Appropriate Audit Evidence Because the Plan Has Not Maintained Sufficient Accounting Records, on Financial Statements of a Defined Contribution Retirement Plan Subject to ERISA When Management Elects an ERISA Section 103(a)(3)(C) Audit

Circumstances include the following:

- Management elected an ERISA Section 103(a)(3)(C) audit, as permitted by 29 CFR 2520.103-8 of the Department of Labor's Rules and Regulations for Reporting and Disclosure under ERISA.[11]
- The auditor was engaged to perform an ERISA Section 103(a)(3)(C) audit of a complete set of general purpose financial statements for a 401(k) plan subject to ERISA (comparative statements of net assets available for benefits and a single-year statement of changes in net assets available for benefits).
- Management is responsible for the preparation of the financial statements in accordance with accounting principles generally accepted in the United States of America.
- The terms of the audit engagement reflect the description of management's responsibility for the financial statements in AU-C section 210, *Terms of Engagement*.
- There are no known material misstatements to the financial statements.
- The auditor was unable to obtain sufficient appropriate audit evidence for certain participant account balances that merged into the plan in 20XX. This is a limitation on the scope of the audit in accordance with AU-C section 705. The possible effects of this inability to obtain sufficient appropriate audit evidence are deemed to be both material and pervasive to the financial statements. Accordingly, the auditor's report contains a disclaimer of opinion. [Note: For this example, the form of modified opinion is appropriate in the circumstances; however, generally, the DOL will reject Form 5500 filings that contain modified opinions.]
- The auditor has concluded that a disclaimer of opinion relating to the ERISA Section 103(a)(3)(C) audit is appropriate based on the audit evidence obtained.
- The auditor is precluded from communicating key audit matters when issuing a disclaimer of opinion.
- A more limited description of the Auditor's Responsibilities section is required because of the disclaimer of opinion.
- The report on the ERISA-required supplemental schedules is presented as an other-matter paragraph in accordance with paragraph 132. Because the auditor has disclaimed an opinion on the ERISA plan financial statements, the auditor is precluded from issuing an opinion on the supplemental schedules.

[11] See footnote 1.

Independent Auditor's Report

[*Appropriate Addressee*]

Scope and Nature of the ERISA Section 103(a)(3)(C) Audit

We were engaged to perform audits of the financial statements of ABC 401(k) Plan, an employee benefit plan subject to the Employee Retirement Income Security Act of 1974 (ERISA), as permitted by ERISA Section 103(a)(3)(C) (ERISA Section 103(a)(3)(C) audit). 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, having determined it is permissible in the circumstances, has elected to have the audits of ABC 401(k) Plan's financial statements performed in accordance with ERISA Section 103(a)(3)(C) pursuant to 29 CFR 2520.103-8 of the Department of Labor's Rules and Regulations for Reporting and Disclosure under ERISA. As permitted by ERISA Section 103(a)(3)(C), our audits need not extend to any statements or information related to assets held for investment of the plan (investment information) by a bank or similar institution or insurance carrier that is regulated, 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 similar institution or insurance carrier in accordance with 29 CFR 2520.103-5 of the Department of Labor's Rules and Regulations for Reporting and Disclosure under ERISA (qualified institution).

Management has obtained certifications from a qualified institution as of December 31, 20X2 and 20X1, and for the year ended December 31, 20X2, stating that the certified investment information, as described in Note X to the financial statements, is complete and accurate.[12]

Disclaimer of Opinion

We do not express an opinion on the accompanying financial statements of ABC 401(k) Plan. Because of the significance of the matter described in the Basis for Disclaimer of Opinion section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the financial statements.

Basis for Disclaimer of Opinion

ABC 401(k) Plan does not have sufficient accounting records and supporting documents relating to certain participant account balances that merged into ABC 401(k) Plan in 20XX. Accordingly, we were unable to apply auditing procedures sufficient to determine the extent to which the accompanying financial statements may have been affected by these conditions.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States

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[12] See footnote 2.

of America, and for 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's election of the ERISA Section 103(a)(3)(C) audit does not affect management's responsibility for the financial statements.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about ABC 401(k) Plan's ability to continue as a going concern for [*insert the time period set by the applicable financial reporting framework*].

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, to determine the benefits due or which may become due to such participants.

Auditor's Responsibilities for the Audit of the Financial Statements

Our responsibility is to conduct an audit of ABC 401(k) Plan's financial statements in accordance with auditing standards generally accepted in the United States of America and to issue an auditor's report. However, because of the matter described in the Basis for Disclaimer of Opinion section of our report, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

We are required to be independent of ABC 401(k) Plan, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits.

Other Matter — Supplemental Schedules Required by ERISA

The supplemental schedules of [*identify the title of supplemental schedules and periods 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 ERISA. 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. Because of the significance of the matter described in the Basis for Disclaimer of Opinion section, it is inappropriate to and we do not express an opinion on the supplemental schedules referred to above.

[*Signature of the auditor's firm*]
[*City and state where the auditor's report is issued*]
[*Date of the auditor's report*]

A157.

Exhibit B — Implementation Guidance for ERISA Section 103(a)(3)(C) Audits

ERISA requires a statement of assets and liabilities of the plan to be displayed in comparative form. Typically, a plan will present comparative statements of net assets available for benefits and a single-year statement of changes in net assets available for benefits (see paragraph A95 for typical plan financial statements by type of plan). Accordingly, when this SAS is adopted, the auditor may be asked to perform an ERISA Section 103(a)(3)(C) audit for the current year when the auditor disclaimed an opinion on the financial statements in the prior year.

Paragraphs A123–A125 explain that because the auditor's report on comparative financial statements applies to the financial statements for each of the periods presented, the auditor may express a qualified opinion or an adverse opinion, disclaim an opinion, use the ERISA Section 103(a)(3)(C) audit report, or include an emphasis-of-matter paragraph with respect to one or more financial statements for one or more periods while expressing a different auditor's opinion on one or more financial statements of another period presented. Further, when issuing an updated report, the information considered by the continuing auditor is that which the auditor has become aware of during the audit of the current period financial statements. In addition, an updated report is issued in conjunction with the auditor's report on the current period financial statements.

The following illustration contains example reports for when the auditor has adopted this SAS for the first time and is performing an ERISA Section 103(a)(3)(C) audit for the current year and updating their audit from the prior year.

Illustration B-1 — Auditor's Reports on Financial Statements for a Defined Contribution Retirement Plan Subject to ERISA When Management Elects an ERISA Section 103(a)(3)(C) Audit in the Current Year (2020) and the Auditor Disclaimed an Opinion on the Financial Statements in the Prior Year (2019)

Circumstances include the following:

- Management elected an ERISA Section 103(a)(3)(C) audit for the 2020 plan financial statements, as permitted by Code of Federal Regulations (CFR), *Labor*, Title 29, Section 2520.103-8 of the Department of Labor's Rules and Regulations for Reporting and Disclosure under ERISA.[1]
- The audit is for a complete set of general purpose financial statements for a 401(k) plan subject to ERISA that is presenting comparative statements of net assets available for benefits and a single-year statement of changes in net assets available for benefits.

[1] Although not as common, an ERISA Section 103(a)(3)(C) audit may relate to the audit of a 103-12 entity as permitted by 29 CFR 2520.103-12. Accordingly, the wording in this illustrative report may need to be revised to fit the circumstances of the engagement.

- The auditor performed an ERISA Section 103(a)(3)(C) audit as of and for the year ended December 31, 2020.
- The auditor disclaimed an opinion on the prior year financial statements (for the year ended December 31, 2019).
- The auditor is issuing two separate reports.
- Management is responsible for the preparation of the financial statements in accordance with accounting principles generally accepted in the United States of America, as promulgated by the Financial Accounting Standards Board.
- The terms of the audit engagement reflect the description of management's responsibility for the financial statements in AU-C section 210, *Terms of Engagement*.
- There are no limitations on the scope of the audit for the current year, and the auditor has not identified any material misstatements of the ERISA plan financial statements in accordance with AU-C section 705, *Modifications to the Opinion in the Independent Auditor's Report*.
- The auditor has concluded that the ERISA Section 103(a)(3)(C) report is appropriate as of and for the year ended December 31, 2020 based on the audit evidence obtained.
- Based on the audit evidence obtained, the auditor has concluded that there are no conditions or events, considered in the aggregate, that raise substantial doubt about the plan's ability to continue as a going concern for a reasonable period of time in accordance with AU-C section 570, *The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern*.
- The auditor has not been engaged to communicate key audit matters.
- The report on the ERISA-required supplemental schedules is presented as an other-matter paragraph for the year ended December 31, 2020.

Independent Auditor's Report

[*Appropriate Addressee*]

Scope and Nature of the ERISA Section 103(a)(3)(C) Audit

We have performed an audit of the financial statements of ABC 401(k) Plan, an employee benefit plan subject to the Employee Retirement Income Security Act of 1974 (ERISA), as permitted by ERISA Section 103(a)(3)(C) (ERISA Section 103(a)(3)(C) audit). The financial statements comprise the statement of net assets available for benefits as of December 31, 2020, and the related statement of changes in net assets available for benefits for the year then ended, and the related notes to the financial statements.

Management, having determined it is permissible in the circumstances, has elected to have the audit of ABC 401(k) Plan's financial statements performed in accordance with ERISA Section 103(a)(3)(C) pursuant to 29 CFR 2520.103-8 of the Department of Labor's Rules and Regulations for Reporting and Disclosure under ERISA. As permitted by ERISA Section 103(a)(3)(C), our audit need not extend to any statements or information related to assets held for investment of the plan (investment information) by a bank or similar institution or insurance carrier that is regulated, 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 similar institution or insurance carrier in accordance with 29 CFR 2520.103-5 of the Department of Labor's Rules and Regulations for Reporting and Disclosure under ERISA (qualified institution).

Management has obtained a certification from a qualified institution as of and for the year ended December 31, 2020, stating that the certified investment information, as described in Note X to the financial statements, is complete and accurate. [2]

Opinion

In our opinion, based on our audit and on the procedures performed as described in the Auditor's Responsibilities for the Audit of the Financial Statements section

- the amounts and disclosures in the financial statements, other than those agreed to or derived from the certified investment information, are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America.
- the information in the financial statements related to assets held by[3] and certified to by a qualified institution agrees to, or is derived from, in all material respects, the information prepared and certified by an institution that management determined meets the requirements of ERISA Section 103(a)(3)(C).

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of ABC 401(k) Plan and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our ERISA Section 103(a)(3)(C) audit opinion.

Responsibilities of Management for the 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, and for 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's election of the ERISA Section 103(a)(3)(C) audit does not affect management's responsibility for the financial statements.

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[2] If the note to the financial statements does not identify the names of the qualified certifying institutions and periods covered, then such information may be included in the auditor's report.

[3] This sentence may need to be modified when the certification is provided by an insurance entity, which provides benefits under the plan or holds plan assets.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about ABC 401(k) Plan's ability to continue as a going concern for [*insert the time period set by the applicable financial reporting framework*].

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, to determine the benefits due or which may become due to such participants.

Auditor's Responsibilities for the Audit of the Financial Statements

Except as described in the Scope and Nature of the ERISA Section 103(a)(3)(C) Audit section of our report, our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users made on the basis of these financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

- Obtain an understanding of internal control relevant to the audit 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 ABC 401(k) Plan's internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about ABC 401(k) Plan's ability to continue as a going concern for a reasonable period of time.

Our audit did not extend to the certified investment information, except for obtaining and reading the certification, comparing the certified investment information with the related information presented and disclosed in the financial statements, and reading the disclosures relating to the certified investment information to assess whether they are in accordance with the presentation and disclosure requirements of accounting principles generally accepted in the United States of America.

Accordingly, the objective of an ERISA Section 103(a)(3)(C) audit is not to express an opinion about whether the financial statements as a whole are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Other Matter — Supplemental Schedules Required by ERISA

The supplemental schedules of [*identify the title of supplemental schedules and periods 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 ERISA. 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 included in the supplemental schedules, other than that agreed to or derived from the certified investment information, has been subjected to auditing procedures applied in the audit 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, and other additional procedures in accordance with GAAS. For information included in the supplemental schedules that agreed to or is derived from the certified investment information, we compared such information to the related certified investment information.

In forming our opinion on the supplemental schedules, we evaluated whether the supplemental schedules, other than the information agreed to or derived from the certified investment information, including their form and content, are presented in conformity with the Department of Labor's Rules and Regulations for Reporting and Disclosure under ERISA.

In our opinion

- the form and content of the supplemental schedules, other than the information in the supplemental schedules that agreed to or is derived from the certified investment information, are presented, in all material respects, in conformity with the Department of Labor's Rules and Regulations for Reporting and Disclosure under ERISA.
- the information in the supplemental schedules related to assets held by[4] and certified to by a qualified institution agrees to, or is derived from, in all material respects, the

[4] See footnote 3.

information prepared and certified by an institution that management determined meets the requirements of ERISA Section 103(a)(3)(C).

[*Signature of the auditor's firm*]
[*City and state where the auditor's report is issued*]
[*Date of the auditor's report*]

Independent Auditor's Report

[*Appropriate Addressee*]

We were engaged to audit the accompanying statement of net assets available for benefits of ABC 401(k) Plan, as of December 31, 2019, and the related notes to the financial statement.

Management's Responsibility for the Financial Statement

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 a financial statement that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the 2019 financial statement based on conducting the audit in accordance with auditing standards generally accepted in the United States of America. Because of the matter described in the Basis for Disclaimer of Opinion paragraph, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Basis for Disclaimer of 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 information summarized in Note X, which was certified by ABC Bank, the trustee of the Plan, except for comparing such information with the related information included in the financial statement. We have been informed by the plan administrator that the trustee (or custodian) holds the Plan's investment assets and executes investment transactions. The plan administrator has obtained a certification from the trustee (or custodian) as of December 31, 2019 that the information provided to the plan administrator by the trustee (or custodian) is complete and accurate.

Disclaimer of Opinion

Because of the significance of the matter described in the Basis for Disclaimer of Opinion paragraph, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the 2019 financial statement. Accordingly, we do not express an opinion on the 2019 financial statement.

Report on Form and Content in Compliance With DOL Rules and Regulations for 2019 Financial Statement

The form and content of the information included in the 2019 financial statement, other than that derived from the information certified by the trustee, have been audited by us in accordance with auditing standards generally accepted in the United States of America and, in our opinion, are presented in compliance with the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974.

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[*Signature of the auditor's firm*]
[*City and state where the auditor's report is issued*]
[*Date of the auditor's report*]