



HoganTaylor

Changes Are Coming to Your Employee Benefit Plan Audit

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of SAS 136

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Overview of SAS 136

Entities Covered

Applies To

- All plans subject to ERISA that require an audit
- Regardless of audit scope
- Single Employer, Multiemployer, Multiple Employer
- 401(k), 403(b), Money Purchase Pension, Defined Benefit and Health and Welfare – if subject to ERISA

Does NOT Apply To

- Plans that are NOT subject to ERISA, such as
 - Church Plans
 - Government Plans



Terminology

ERISA Section 103(a)(3)(C) Audit

- Formerly referred to as a **limited scope** audit

ERISA Non-Section 103(a)(3)(C) Audit

- Formerly referred to as a **full scope** audit



Engagement Acceptance

Agree Upon the Terms of the Audit Engagement

Obtain the agreement of management or TCWG that it acknowledges and understands its responsibility for the following:

- 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 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

Preconditions
for an audit of
an ERISA plan



Agree Upon the Terms of the Audit Engagement

(continued)

- an ERISA Section 103(a)(3)(C) audit is **permissible** under the circumstances,
- the investment information is **prepared and certified by a qualified institution under 29 CFR 2520.103-8,**
- the certification **meets the requirements of CFR 2520.103-5,** and
- the certified investment information is **appropriately measured, presented, and disclosed in accordance with the applicable financial reporting framework**

Preconditions for
an audit of an
ERISA
103(a)(3)(C) plan



Considerations of Management

- Whether the certification is on behalf of the plan's trustee or custodian (as agent for) and, if so, whether an appropriate legal arrangement (agency agreement) exists
- Whether the certification is at the plan level rather than trust level when the plan is funded under a master trust arrangement or other similar vehicle
- Whether the certified investment information includes assets held by a separate custodian (more than one custodian and more than one certification may be required)



Considerations of Management

- Whether a change in third-party service organization occurred during the plan year
- **Whether all plan investments are covered by the certification**
- Whether management has obtained an understanding about any differences between amounts that the qualified institution certified based on its ordinary business records and amounts that should be reported in the financial statements of the plan in accordance with the applicable financial reporting framework

It is important for plan management to understand how transactions and amounts relating to the certified investment information are processed and reported.



DRAFT Form 5500

Precondition for an audit of an ERISA plan

The auditor should also obtain the agreement of management or those charged with governance to provide the auditor, **prior to the dating of the auditor's report**, a draft of Form 5500 that is **substantially complete**

The agreed-upon terms of the audit engagement should be documented in an audit engagement letter or other suitable form of written agreement



Read the Certification

Consider whether the certification:

- Is prepared and certified by a **qualified institution**;
- is on behalf of the plan's **trustee** or **custodian**, or as **agent** for, and if so, whether an appropriate legal arrangement (agency agreement) exists;
- certifies as to the **completeness** and **accuracy** of the investment information provided;
- is signed by an **authorized signer**;
- includes the **title** of the individual signing the certification;



Written Representations

Representations must cover the following:

- All ERISA Plans:
 - Management has provided the most current plan document, including all plan amendments
 - Management acknowledgement of its responsibility for administering the plan, including maintaining sufficient participant records
- ERISA 103(a)(3)(C) Audit:
 - Management acknowledgement that the election of a 103(a)(3)(C) audit is appropriate and does not affect management's responsibility for the financial statements



Relevant Plan Provisions

Example of Plan Provisions

- Plan provisions (not an all-inclusive list) often included in a plan instrument
 - Individual Participant Accounts
 - Eligibility Requirements
 - Contributions and Contribution Receivable
 - Distributions and Related Obligation Claims
 - Loans to Participants
 - Investments and Investment Income
 - Expenses

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



Reportable Findings

Identification and Evaluation of Reportable Findings

The auditor may consider the following (not an all-inclusive list):

- What gave rise to the issue or finding
- How the issue or finding was identified and corrected
- The nature of the issue or finding
- Whether the issue or finding is indicative of a lack of one or more of the following:
 - Oversight and monitoring of plan operations and service providers
 - Reporting expertise
 - Understanding of the plan or events affecting the plan



Identification and Evaluation of Reportable Findings

Examples of matters encountered in which the auditor may need to evaluate whether the matter is a reportable finding:

- Misapplication of plan provisions
- Non-timely contributions
- Census data errors
- Failure to perform relevant IRC compliance tests
- Financial reporting or disclosure misstatement
- Insufficient monitoring of the plan's service organizations, including review of relevant SOC 1 reports
- Inadequate complimentary user entity controls (CUECs)



Required Communications

Communication with TCWG

The written communication should include the following:

- A description of the reportable finding
- Sufficient information to enable those charged with governance and management to understand the context of the communication
- An explanation of the potential effects of the reportable findings on the financial statements or to the plan



No Reportable Findings

The auditor should not issue a written communication stating that no reportable findings were identified during the audit.

What if there were no reportable findings identified during the audit?



Substantially Complete Draft Form 5500

Substantially Complete Draft of Form 5500

- As part of engagement acceptance, agreement of management (or those charged with governance) to provide, prior to the dating of the auditor's report, a draft of Form 5500 that is substantially complete
- Substantially complete Form 5500
 - Forms and schedules that could have a material effect on the information in the financial statements and ERISA-required supplemental schedules
 - Both qualitatively and quantitatively
- If the auditor concludes that the draft Form 5500 is not substantially complete, then this would affect the auditor's ability to date the auditor's report



Auditor's Report

ERISA Section 103(a)(3)(C) report

The ERISA section 103(a)(3)(C) report contains the following sections:

- Scope and Nature of the ERISA Section 103(a)(3)(C) Audit (*required to be placed first*)
- Opinion (*required to follow the scope and nature section*)
- Basis for Opinion (*required to follow the opinion section*)
- Going concern (if applicable)
- Key Audit Matters (if applicable)
- Responsibilities of Management for the Financial Statements
- Auditor's Responsibilities for the Audit of the Financial Statements
- Other Matter—Supplemental Schedules Required by ERISA



Comparison Of Auditor's Reports

ERISA Non-Section 103(a)(3)(C) Opinion

Opinion

Basis of Opinion

Going Concern (if applicable)

Key Audit Matters (if applicable)

Responsibilities of Management for the Financial Statements

Auditor's Responsibilities for the Audit of the Financial Statements

Other Matter - Supplemental Schedules Required by ERISA

ERISA Section 103(a)(3)(C) Opinion

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

Opinion

Basis of Opinion

Going Concern (if applicable)

Key Audit Matters (if applicable)

Responsibilities of Management for the Financial Statements

Auditor's Responsibilities for the Audit of the Financial Statements

Other Matter - Supplemental Schedules Required by ERISA



Resources

Preparing for SAS 136

- Obtain and read *Plan Advisory* and/or *At A Glance* on SAS 136



New audit standard for employee benefit plans: An overview for plan management

AICPA

At a glance

From the Audit & Attest Standards Team

New auditing standard for employee benefit plans

What happened?

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

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



What has changed?

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

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



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

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

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

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

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

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



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