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



On April 20, 2017, the AICPA Auditing Standards Board issued an exposure draft, Proposed Statement on Auditing Standards (SAS), *Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA*. This proposed SAS is specific to audits of financial statements of employee benefit plans (EBPs) subject to the Employee Retirement Income Security Act of 1974 (ERISA), hereinafter referred to as an ERISA plan, and would be codified as AU-C section 703 in AICPA *Professional Standards*.

The proposed SAS includes the form and content of the auditor's report for an unmodified opinion, a new form of opinion when an ERISA-permitted audit scope limitation exists and reporting requirements on findings from procedures performed on specific plan provisions relating to the financial statements (either included in the auditor's report on the ERISA plan financial statements or issued as a separate report).

The proposed SAS would apply to audits of single employer, multiple employer, and multiemployer plans subject to ERISA. The ASB specifically asks for feedback, including for respondents to identify any unintended consequences or if procedures will result in additional costs. While the overall changes proposed are extensive, one new area to consider is the *Reporting on Specific Plan Provisions Relating to the Financial Statements*. This will require the auditor to perform certain procedures to test whether the plan and plan transactions are in accordance with specific plan provisions and to report in the auditor's report or a separate report referenced in the auditor's report) and list any findings.

Effective Date

The proposed SAS would be effective for audits of financial statements for periods ending on or after December 15, 2018.

Excerpts from the Proposed Standard are as follows:

Background

In January 2015, a special task force (the task force) of the Auditing Standards Board (ASB) was formed to consider a proposal to improve the quality of EBP audits by strengthening the EBP auditor's report.

The Chief Accountant of the Department of Labor (DOL) requested the ASB take a fresh look at the auditor reporting model for ERISA plan audits to provide better insight to the public regarding the scope of the responsibilities of management and the auditor, including when management imposes a limitation on the scope of the audit, as permitted by the DOL's Rules and Regulations for Reporting and Disclosure under ERISA (ERISA-permitted audit scope limitation). The Chief Accountant of the DOL and DOL staff participated in the task force and ASB deliberations and provided the task force with insights and recommendations as to areas where the DOL believes the auditor's report can be strengthened. The task force considered this information as this proposed SAS was developed.

In May 2015, the Employee Benefits Security Administration (EBSA) of the DOL issued a report, *Assessing the Quality of Employee Benefit Plan Audits*, of its assessment of audit quality of 400 plan audits performed by 232 CPA firms. EBSA found that 39 percent of the audits had one or more major deficiencies with respect to one or more relevant requirements of generally accepted auditing standards (GAAS). EBSA also found that 17 percent of the auditor's reports reviewed in their study failed to comply with one or more of ERISA's reporting and disclosure requirements.

The AICPA had also previously initiated a holistic effort to enhance audit quality through multiple touch points, including potential changes to auditing standards, new tools, guidance

and training, and focused Peer Review efforts. Included in the overall goals of these initiatives is the AICPA's efforts to improve ERISA plan audit performance across each of those areas of focus.

With respect to possible new or revised auditing standards, the ASB considered whether audit quality could be enhanced by a redesigned auditor reporting model for audits of ERISA plan financial statements, taking into consideration the specialized nature of plan operations. The proposed SAS reflects a proposed new reporting model for audits of ERISA plans that, among other things, changes the form and content of the auditor's report when management imposes a limitation on the scope of the audit, as permitted by ERISA (ERISA-permitted audit scope limitation). In addition, this proposed SAS includes a requirement to report findings from procedures performed on specific plan provisions relating to the financial statements.

Early in the development process, the task force concluded that the reporting model changes in this proposed SAS would also require performance requirements to effect certain of the proposed new reporting requirements in addition to those currently set forth in the existing AU-C sections. Questions relating to those proposed new requirements are included in the Issues for Consideration that follows.

Current Regulatory Environment

In considering the scope of this proposed SAS, the task force considered the current regulatory oversight responsibilities and related requirements for audits of ERISA plan financial statements, including the following:

- ERISA provides for federal government oversight of plan fiduciaries.
- ERISA contains a requirement for annual audits of EBP financial statements by an independent qualified public

accountant in accordance with GAAS.

- Under ERISA, the DOL and Internal Revenue Service (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 preparing ERISA plan financial statements, nor does it set professional standards for auditing those financial statements.
- ERISA and DOL regulations require additional information to be disclosed in the financial statements or presented in the supplemental schedules.
- The IRS, DOL, and Pension Benefit Guaranty Corporation (PBGC) have consolidated their reporting and disclosure requirements into the Form 5500, *Annual Return/Report for Employee Benefit Plans*.
- ERISA requires 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.

Potential Reporting Models

The task force noted that the previously mentioned DOL recommendations contained many similarities to generally accepted government auditing standards (GAGAS). GAGAS, also known as the Yellow Book, provides a framework for conducting audits of governmental entities, entities that receive government awards, and other audit organizations performing Yellow Book audits. Under the Yellow Book a financial statement audit consists of an audit performed in accordance with GAAS and also includes reports on internal control over financial reporting and on compliance with provisions of laws, regulations, contracts, and grant agreements that have a material effect on the financial statements. GAGAS incorporates by reference the American Institute of Certified

Public Accountants (AICPA) Statements on Auditing Standards (SAS).

Accordingly, the task force considered adopting certain elements of the Yellow Book model as a potential reporting framework to enhance reporting for audits of ERISA plan financial statements. The task force provided various alternatives to the ASB for consideration, including models that required reporting on internal control over financial reporting and reporting on compliance.

At the October 2016 ASB meeting, the ASB discussed whether the auditor's report should include the details of the communications the auditor makes to those charged with governance about significant deficiencies and material weaknesses identified in an audit as part of its broader project on the auditor reporting model, and concluded that this should remain a communication with management and those charged with governance, as required by AU-C section 265, *Communicating Internal Control Related Matters Identified in an Audit* (AICPA, *Professional Standards*). This conclusion is also consistent with the final standard issued by the International Auditing and Assurance Standards Board (IAASB) and preliminary positions advanced by the Public Company Accounting Oversight Board (PCAOB) in their exposure drafts related to auditor reporting. Therefore, the proposed SAS does not include a requirement to include a separate report on internal control over financial reporting in the auditor's report on ERISA plan financial statements.

Report on Findings

The task force also discussed creating a reporting requirement for ERISA plans similar to the report on compliance in a Yellow Book audit. The ASB has supported exploring the development of new requirements in order to support the reporting of findings from procedures performed on specific plan provisions relating to the financial statements but also

acknowledged that adopting such requirements will result in the need for implementation guidance and could lead to possible unintended consequences (see specific questions in the Issues for Consideration). The specific plan provisions relating to the financial statement areas to be tested under the proposed SAS are based on information provided by the DOL related to areas of audit quality concern, along with other factors, that could have a direct effect on the financial statements. The new procedures are intended to leverage procedures performed as part of the financial statement audit. However, because procedures specific to these areas would be required irrespective of the risk of material misstatement it is possible that they would result in additional audit work effort. It should be noted that the proposed SAS does not contain all the requirements necessary to provide an opinion and report on the ERISA plan financial statements because the requirements from other AU-C sections in AICPA *Professional Standards* continue to apply, unless specifically scoped out by the proposed SAS.

ERISA-Permitted Audit Scope Limitation

The ASB was asked to consider developing a specific auditor reporting model in situations when management imposes a limitation on the scope of the audit as permitted by ERISA. The DOL requested the ASB to consider ways to provide more transparency and address certain audit quality concerns when an ERISA-permitted audit scope limitation exists. In response to this request, the task force determined that the auditor's report should better explain the auditor's responsibilities when such an audit engagement is being conducted. The task force was also asked to consider the audit evidence that is obtained from management who provides the auditor with a certification from a bank or similar institution or insurance carrier which 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 a bank or similar institution, or insurance carrier, in accordance with Title 29 U.S. Code of Federal Regulations (CFR) Part 2520.103-5 and CFR 2520.103-8 (or CFR 2520.103-12).

The proposed SAS would require a new form of report specific to an audit of an ERISA plan when management imposes an ERISA-permitted audit scope limitation. The proposed form of report would result in a significant change in reporting.

Current practice with respect to the form of the auditor's report on the ERISA plan financial statements with the ERISA-permitted audit scope limitation (assuming no other scope limitations or material misstatements) is as follows:

1. A disclaimer of opinion on the financial statements
2. An other-matter paragraph with an opinion on whether the form and content of the information included in the financial statements and supplemental schedules, other than that derived from the certified information, are presented in compliance with the DOL's rules and regulations for reporting and disclosure under ERISA

The new form of report in the proposed SAS would require the following:

1. *A new Basis for Limitation on the Scope of the Audit section*
2. Expanded management and auditor responsibilities sections
3. A special form of opinion on the ERISA plan financial statements that is based on the audit and on the use of the certification of the investment information that the auditor was instructed not to audit. This includes
    - the audit procedures performed on the information not covered by the certification,
    - management's obtaining of an appropriate certification that is provided to the auditor, and

    - the procedures performed on the certified information, as required by the proposed SAS.
4. An other-matter paragraph that provides an opinion on whether the supplemental schedules are fairly stated in all material respects in relation to the financial statements as a whole, and an opinion on whether the form and content of the supplemental schedules are presented in conformity with the DOL's rules and regulation for reporting and disclosure under ERISA. The opinion provided in the other-matter paragraph is based on the audit and based on the use of the certification of the investment information that the auditor was instructed not to audit
5. A by-product report that reports findings on specific plan provisions relating to the financial statements (as discussed in *Report on Findings* section)

Certain aspects of the new form of report would be precluded when a scope limitation (other than the ERISA-permitted audit scope limitation) or an uncorrected material misstatement exists.

DOL's Proposed Revisions to the Form 5500

In July 2016, the DOL's EBSA, the IRS, and the PBGC asked for public comments on proposed revisions to modernize and improve the Form 5500, *Annual Return/Report for Employee Benefit Plans* filed by private-sector EBPs. One of the proposal's objectives is to improve the reliability and transparency of information reported regarding EBP investments and other financial transactions. The proposed form revisions would be effective for plan year 2019 Form 5500 returns/reports. The task force will continue to monitor this project for changes that may conflict with the proposed SAS.

Summary

The proposed SAS includes the form and content of the

auditor’s report for an unmodified opinion, a new form of opinion when an ERISA-permitted audit scope limitation exists and reporting requirements on findings from procedures performed on specific plan provisions relating to the financial statements (either included in the auditor’s report on the ERISA plan financial statements or issued as a separate report).

The proposed SAS would apply to audits of single employer, multiple employer, and multiemployer plans subject to ERISA.

Effective Date

The proposed SAS would be effective for audits of financial statements for periods ending on or after December 15, 2018.

Amendments to Existing Standards

The following is a summary of the more significant amendments to existing standards if the proposed SAS is issued. In particular, the proposed SAS would apply in place of AU-C section 700 for audits of ERISA plan financial statements. As a result, the proposed SAS contains many of the same requirements as AU-C section 700 as well as enhancements to the auditor reporting model for ERISA plans including these:

- Engagement acceptance requirements in addition to AU-C section 210
- New performance requirements that serve as a basis for a new reporting requirement, *Report on Specific Plan Provisions Relating to the Financial Statements*
- New required procedures when the ERISA-permitted audit scope limitation is imposed
- Written management representations in addition to AU-C section 580.
- Considerations relating to the Form 5500 filing, which the auditor’s report accompanies
- Expanded description of management’s responsibilities
- Expanded communication on the ERISA supplemental

schedules
- New form and content requirements of the auditor's report when management instructs the auditor to limit the scope of the audit, as permitted by ERISA, including expanded auditor's responsibilities relating to the certified information
- Required emphasis-of-matter paragraphs

Issues for Consideration

In drafting the proposed SAS, the ASB identified the following issues for which feedback is specifically requested:

Issue 1—Required Procedures When an ERISA-Permitted Audit Scope Limitation is Imposed

Paragraph 20 of the proposed SAS requires audit procedures to be performed relating to the information certified by a qualified institution as permitted by ERISA. In particular, paragraph .20(d) of the proposed SAS requires the auditor to evaluate whether the form and content of the ERISA plan financial statement disclosures related to the information prepared and certified by a qualified institution are in accordance with the applicable financial reporting framework.

The objectives of the proposed procedures are to improve the execution and consistency in audit procedures related to limited scope audits as current practice varies resulting in inconsistent audit quality. The proposed SAS also provides examples of ways the auditor can evaluate the financial statement presentation and disclosures relating to the certified information, such as obtaining an understanding of management's selection and application of accounting principles which would include concluding on the appropriateness of selected investment valuation methodologies, and determining whether relevant fair value disclosures are in accordance with the financial reporting framework.

Respondents are asked to provide their views on whether

- the procedures and guidance will achieve the objectives of enhancing execution and consistency in these engagements and if not, why; and
- any procedures that should be required are missing, and if so, describe them.

Issue 2—The Form and Content of the Auditor's Report on ERISA Plan Financial Statements with the ERISA-permitted Audit Scope Limitation

As noted in the Background discussion, the DOL had requested the ASB to explore different reporting models in these circumstances, expressing a concern that the wording of the current limited scope auditor's report, and resulting disclaimer of opinion typically issued, may be a contributing factor to audit quality deficiencies because of potential confusion regarding the auditor's responsibilities in performing these engagements. The proposed SAS is intended to provide more transparency into the audit procedures that are required by requiring a new form and content of the auditor's report when the ERISA-permitted audit scope limitation is imposed by management and there are no other limitations on the scope of the audit and no identified material misstatements of the ERISA plan financial statements. Should either of the latter conditions exist (scope limitation or material misstatement) the auditor would be precluded from using the format of the new proposed report and would apply the requirements in AU-C section 705, *Modifications to the Opinion in the Independent Auditor's Report* (AICPA, *Professional Standards*).

This new form of opinion includes a statement that in the auditor's opinion, based on the audit and based on the use of the certification of the investment information which the auditor was instructed not to audit, the financial statements are fairly stated in all material respects in accordance with

the applicable financial reporting framework.

Respondents are asked to provide feedback on whether the form and content of the proposed auditor's report, including the form and proposed content of the new form of opinion

- provide improved transparency with respect to reporting on an audit of ERISA plan financial statements when an ERISA-permitted audit scope limitation exists, and if not, how could it be revised;
- will improve the auditor's understanding of his or her responsibilities in a limited scope audit resulting in potential improvements in audit quality, and if not, why;
- better describe management's responsibilities for the financial statements, and if not, why;
- provide sufficient clarity to users with respect to the auditor's responsibilities and matters reported, and if not, why.

Issue 3—Modifications to the Opinion in the Independent Auditor's Report

The proposed SAS addresses the interaction of the new proposed reporting model for audits of ERISA plans when the ERISA-permitted audit scope limitation is imposed, with existing requirements in AU-C section 705. Specifically, the proposed SAS indicates that AU-C section 705 does not apply unless there is another limitation on the scope of the audit other than the ERISA-permitted audit scope limitation or there is a material misstatement of the ERISA plan financial statements. For example, an auditor engaged to perform an audit of an ERISA plan with an ERISA-permitted audit scope limitation may determine that there is insufficient evidence to conclude on assertions relevant to benefit payments. In this circumstance, the auditor's report with the ERISA-permitted audit scope limitation in the proposed SAS would not be suitable. Instead, the auditor would consider the requirements and guidance for

modified opinions set forth in AU-C section 705, including the modification for the scope limitation with respect to the certified information.

Respondents are asked for their views about the proposed interaction of AU-C section 705 and the proposed SAS when the ERISA-permitted audit scope limitation is imposed by management including

- whether the guidance in paragraphs 31 and 34 of the proposed SAS (*a*) is clear with respect to the auditor's responsibilities for addressing the circumstances described previously, and (*b*) achieves the objective of providing transparent reporting to the users, and if not, suggested revisions.
- the form and content of the example reports (nos. 5–7) illustrating qualified and disclaimers of opinion regarding the application of the guidance in paragraphs 31 and 34.

Issue 4—Required Emphasis-of-Matter Paragraphs

Paragraph 116 of the proposed SAS requires the auditor to include an emphasis-of-matter paragraph in the auditor's report when certain situations exist and are disclosed in the notes to the financial statements under U.S. generally accepted accounting principles. The required emphasis-of-matter paragraphs are intended to highlight certain situations that, when they occur, are considered fundamental to the users' understanding of the financial statements.

Respondents are asked to consider whether the situations identified are appropriate for requiring the inclusion of emphasis-of-matters paragraphs in the auditor's report. Respondents are also asked to consider whether there are additional situations that should result in a required emphasis-of-matter paragraph.

Issue 5—Reporting Internal Control Deficiencies

As noted in the Background discussion, the ASB concluded that the proposed SAS should not include a requirement to disclose, in a separate section of the auditor's report, a description of significant deficiencies or material weaknesses in internal control identified as part of the audit engagement and that it is sufficient for the auditor to communicate those matters to those charged with governance as required by AU-C section 265.

Respondents are asked to provide feedback on whether

- the current reporting of internal control deficiencies to those charged with governance is sufficient; and/or
- there are other reporting considerations the ASB should evaluate.

Issue 6—Certain Requirements for Audits of ERISA Plan Financial Statements and Related Required Report on Specific Plan Provisions Relating to the Financial Statements

Paragraphs 15—16 of the proposed SAS require the auditor to perform audit procedures on certain provisions relating to ERISA plan financial statements that are the basis for a new reporting element. The new requirements are focused on plan instrument provisions based on information provided by the DOL, along with other feedback, that could have a direct effect on the financial statements. As noted in the Background discussion, the auditor would be required to perform audit procedures with respect to the specified plan provision irrespective of the assessed risks of material misstatement.

Respondents are asked to provide feedback about the required procedures discussed in paragraphs 15—16, and the reporting of findings discussed in paragraphs 119—124 of the proposed SAS, including views regarding the following:

With respect to the required procedures in paragraphs 15—16

1. Will these requirements enhance the consistency and quality of the audit work performed relating to matters that could have a direct effect on the financial statements, including related disclosures, and if not, why?
2. Does the proposed SAS provide appropriate guidance on achieving these requirements, including
    - .which provisions of the plan instrument should be tested; and
    - to what extent testing should be performed?
3. What procedures related to other plan provisions or specific areas of the financial statements should be included in the required testing to enhance the usefulness of the proposed reporting of the findings?

With respect to reporting on the findings resulting from performing procedures related to the areas in paragraphs 119-124, whether there are opportunities to enhance the proposed requirement and guidance including whether:

1. Including the list of individual areas tested is appropriate and if so whether there are other items that should also be included (if not, why not).
2. The requirement to exclude findings that are "clearly inconsequential" is appropriate, and if so is there guidance the ASB can consider to drive consistency in application in practice?
3. The findings should also include any matters identified by management or the plan administrator? [Note: As currently drafted, the proposed SAS requires the auditor to include findings that were noted as part of the auditor's work performed in relation to paragraphs 15–16.]
4. The reporting illustrations included in the Exhibits to the proposed SAS specific to reporting the findings are clear and result in sufficient information to the user of the report?

5. There may be unintended consequences from including the findings in the auditor's report, and if so, what those unintended consequences may be and how might they be mitigated?
6. there are alternatives to reporting the findings in the auditor's report that would achieve the objectives related to enhancing audit quality?

Whether the required additional procedures and reporting of findings will result in additional costs, and if so, views as to the extent of those costs and whether they outweigh the potential benefits of enhanced audit quality?

Issue 7—Required Procedures Relating to the Form 5500

The DOL's audit quality study identified that the auditors are inconsistent in the procedures performed regarding the Form 5500 as well as consideration of the reconciliation between the Form 5500 and the financial statements that is an ERISA requirement. In response, the ASB concluded that the procedures in paragraphs 36–48 would improve consistency as the auditor's report on the financial statements that accompany the Form 5500 filing. The proposed procedures are based on AU-C section 720, *Other Information (AICPA, Professional Standards)*, however the Form 5500 is not deemed to be an annual report as defined in AU-C section 720.

Respondents are asked for their views about whether the proposed procedures in paragraphs 36–48 of the proposed SAS would achieve the objective of increased consistency with respect to identifying information in the Form 5500 that may be relevant to the audit of ERISA plan financial statements, and if not, why?

Issue 8—Proposed New Reporting Standard and Amendments to Other AU-C Sections

The proposed SAS would create a separate, stand-alone reporting section (intended as AU-C section 703) within the

Audit Conclusions and Reporting section of the AU-Cs that would include new requirements for reporting on ERISA plan financial statements including a new opinion when an ERISA-permitted audit scope limitation is imposed by management. As such, this proposed SAS, if issued as a final SAS, would apply in place of AU-C section 700, *Forming an Opinion and Reporting on Financial Statements* (AICPA, *Professional Standards*) and therefore repeats much of the requirements and guidance currently in AU-C section 700. In addition, appendix A and B to the proposed SAS include amendments to various other AU-C sections in AICPA *Professional Standards* to properly scope the proposed SAS including amendments to reference both AU-C section 700 and AU-C section 703 in other areas of GAAS as appropriate.

Respondents are asked whether

1. the proposed approach of creating a new reporting model for reporting on ERISA plan audits (AU-C section 703) will better describe management's and the auditor's responsibilities in these engagements;
2. the proposed amendments to the other AU-C sections are appropriate; and
3. whether there are other sections of AICPA *Professional Standards* that might need to reflect the provisions of this proposed SAS.

Issue 9—Proposed Effective Date

The proposed effective date for the proposed SAS is for ERISA plan audits of financial statements for periods ending on or after December 15, 2018. Respondents are asked whether the proposed effective date provides sufficient time for preparers, auditors, and others to adopt the new standard and related conforming amendments.

Guide for Respondents

Respondents are asked to provide comments on Issues 1–9 as

well as on the content of the proposed SAS.

Written comments on the exposure draft will become part of the public record of the AICPA and will be available on the AICPA's website after August 21, 2017 until a final standard is issued.

Comment Period

The public comment period on the proposed SAS is extended from the original August 21, 2017 deadline to September 29, 2017. This will result in a period of over 150 days for interested persons to prepare and submit comments.

Example Auditor's Report:

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

Circumstances include the following:

- Audit of a complete set of general purpose financial statements for a 401(k) plan subject to ERISA (comparative statement of net assets available for benefits and a single year statement of changes in net assets available for benefits)
- The financial statements are prepared in accordance with U.S. GAAP
- The Plan merged with another plan. The merger was disclosed in the notes to the financial statements and the auditor included an emphasis-of-matter paragraph in the auditor's report.
- The *Report on Specific Plan Provisions Relating to Financial Statements* is included with the auditor's report and includes findings. The auditor performed procedures relating to participant eligibility, benefit payments, participant vesting provisions, employer and employee contributions, disclosure of prohibited transactions, IRC compliance tests, participant asset

allocations, use of forfeitures, and recording of account activity.

Independent Auditor’s Report

[Appropriate Addressee]

We have audited the accompanying financial statements of ABC 401(k) Plan, which comprise the statements of net assets available for benefits as of December 31, 20X2 and 20X1, and the related statement of changes in net assets available for benefits for the year ended December 31, 20X2, and the related notes to the financial statements.

Management’s Responsibility for the Financial Statements of an Employee Benefit Plan Subject to ERISA

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

Management is also responsible for maintaining a current plan instrument including all plan amendments, administering the plan and determining that the plan’s transactions that are presented and disclosed in the financial statements are in conformity with the plan’s provisions, including maintaining sufficient records with respect to each of the participants, in accordance with sections 107 and 209 of the Employee Retirement Income Security Act of 1974, to determine the benefits due or which may become due to such participants.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above, present fairly, in all material respects, the net assets available for benefits of ABC 401(k) Plan as of December 31, 20X2 and 20X1, and the changes in its net assets available for benefits for the year ended December 31, 20X2, in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter Relating to Plan Merger

As discussed in Note X to the financial statements, XYZ Plan was merged into ABC 401(k) Plan effective December 31, 20X2. Our opinion has not been modified with respect to this matter.

Other Matter Relating to the Supplemental Schedules Required by ERISA

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The supplemental schedules of [*identify title of schedules and period covered*] are presented for purposes of additional analysis and are not a required part of the financial statements but are supplementary information required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial

statements or to the financial statements themselves, performing procedures to test the completeness and accuracy of the information presented in the supplemental schedules, and other additional procedures in accordance with auditing standards generally accepted in the United States of America.

In forming our opinion on the supplemental schedules, we evaluated whether the supplementary information, including its form and content, is presented in conformity with the Department of Labor’s Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974.

In our opinion, the information in the accompanying schedules is fairly stated in all material respects in relation to the financial statements as a whole, and the form and content are presented in conformity with the Department of Labor’s Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974.

Report on Specific Plan Provisions Relating to the Financial Statements

As part of obtaining reasonable assurance about whether ABC 401(k) Plan’s financial statements are free from material misstatement, we are required to perform certain procedures to test whether the plan and plan transactions are in accordance with specific plan provisions. We performed procedures relating to participant eligibility, benefit payments, participant vesting provisions, employer and employee contributions, disclosure of prohibited transactions, Internal Revenue Code compliance tests, participant asset allocations, use of forfeitures, and recording of account activity for the

year ended December 31, 20X2 as required by generally accepted auditing standards for audits of employee benefit plans subject to the Employee Retirement Income Security Act of 1974 as set forth in AU-C section 703, *Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA*. However, these procedures were not performed for the purpose of providing an opinion on compliance with those provisions and, accordingly, we do not express such an opinion.

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

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

Purpose of this Report

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

any other purpose.

[Auditor’s signature]

[*City and state report is issued*]

[Date of the auditor’s report]

Phone:

Email:

Address:

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	_____

Who We Are

Torrillo & Associates, LLC specializes in employee benefit plan audits including 401k audits, 403b audits, pension plan

audits, and other retirement plan audits. We are licensed in 10 states including Pennsylvania, New Jersey, Delaware, New York and Florida. We are also able to practice in additional states that have passed firm mobility.

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