



Employee Benefit Plan  
Audit Quality Center

Plan advisory

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



The AICPA EBPAQC is a firm-based, volunteer membership center created with the goal of promoting quality employee benefit plan audits. Center members demonstrate their commitment to ERISA audit quality by joining and agreeing to adhere to the Center's membership requirements. EBPAQC member firms receive valuable ERISA audit and firm best practice tools and resources that are not available from any other source. Visit the Center website at [aicpa.org/EBPAQC](http://aicpa.org/EBPAQC) to see a list of EBPAQC member firms and find other valuable tools prepared for plan sponsors and other stakeholders. For more information, contact the EBPAQC at [ebpqac@aicpa.org](mailto:ebpqac@aicpa.org).

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# Introduction

The AICPA Employee Benefit Plan Audit Quality Center (EBPAQC) has prepared this advisory to provide plan management (the plan sponsor, administrator, or trustee) with an understanding of the changes to audits of employee benefit plan financial statements subject to the Employee Retirement Income and Security Act (ERISA) following the issuance of Statement on Auditing Standards No. 136, *Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA*, as amended. SAS No. 136 does not apply to plans not subject to ERISA, such as plans sponsored by governmental entities.

## *Why did the audit standards for employee benefit plans change?*

In July 2019, the American Institute of Certified Public Accountants (AICPA) Auditing Standards Board (ASB) issued SAS No. 136, which prescribes certain new performance requirements for ERISA plan financial statement audits, and changes the form and content of the related auditor's report. SAS No. 136, as amended, is meant to improve auditor performance and enhance the quality of employee benefit plan audits, and increase the communicative value and transparency of the auditor's report for ERISA plan financial statements. SAS No. 136, as amended, has been codified in AU-C section 703, *Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA*, in AICPA Professional Standards.

## *When will the changes be effective?*

AU-C section 703 is effective for audits of financial statements for periods ending on or after December 15, 2021, and early adoption is permitted. Discuss with your auditor their anticipated timeline for adopting AU-C section 703.

## *What has changed?*

*New requirements for plan auditors.* There are expanded requirements in all phases of an audit, including:

- engagement acceptance and obtaining additional management representations,
- performing risk assessment procedures related to the plan instrument, plan tax status and prohibited transactions, and responding to identified risks,
- communicating additional matters (reportable findings) with those charged with plan governance,
- performing certain additional audit procedures unique to auditing ERISA plans, and
- issuing a new form of the auditor's report.

*ERISA Section 103(a)(3)(C) audits.* A new name and a different audit report.

There are significant changes when management elects to instruct the auditor not to perform any additional procedures with respect to investment information certified by a qualified institution pursuant to ERISA Section 103(a)(3)(C). These audits will no longer be referred to as a "limited scope audit," but are now referred to as an "ERISA Section 103(a)(3)(C) audit." These audits will no longer be considered as having a scope limitation, and the auditor will follow new performance and reporting requirements. Accordingly, the auditor will no longer issue a disclaimer of opinion, but instead would issue an ERISA-Section 103(a)(3)(C) auditor's report in accordance with AU-C Section 703 that contains a two-pronged opinion that is based on the audit and on the procedures performed relating to the certified investment information. It provides an opinion on whether the amounts and disclosures in the financial statements not covered by the certification are presented fairly, in all material respects, in accordance with the applicable financial reporting framework, and an opinion on whether the certified investment information in the financial statements agrees to or is derived from, in all material respects, the certification.

## *How do the changes affect plan management?*

As part of the auditor's acceptance of the audit engagement, the auditor will request plan management to acknowledge in the engagement letter certain management responsibilities that are specific to audits of ERISA plans, such as for maintaining a current plan instrument, administering the plan, and providing the auditor with a draft Form 5500 that is substantially complete prior to the dating of the auditor's report. See the "Engagement acceptance" section of this plan advisory for further details. In addition, the new standard requires that the auditor obtain certain written management representations at the conclusion of the engagement regarding those responsibilities. It also includes new acknowledgements related to management's responsibilities with respect to the investment certification when management elects to have an ERISA Section 103(a)(3)(C) audit.

Your auditor may request additional information from you in order to perform the plan audit, which may require you to spend more time preparing for the audit.

## Summary of Key Changes

### *Engagement acceptance*

Before the plan's auditor can accept performing the audit under the new standard, the auditor is required to obtain management's agreement that it acknowledges and understands its responsibility for the following (these are in addition to other matters that the auditor may ask management to acknowledge):

- 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.
- When management elects to have an ERISA Section 103(a)(3)(C) audit, determining whether:
  - an ERISA Section 103(a)(3)(C) audit is permissible under the circumstances
  - the investment information is prepared and certified by a qualified institution as described in 29 CFR 2520.103-8,
  - the certification meets the requirements in 29 CFR 2520.103-5, and
  - the certified investment information is appropriately measured, presented, and disclosed in accordance with the applicable financial reporting framework.

As part of engagement acceptance when management elects to have an ERISA Section 103(a)(3)(C) audit, the auditor is required to inquire of management about how management determined that the entity preparing and certifying the investment information is a qualified institution under DOL rules and regulations.

For all ERISA audits, the auditor also is required to obtain the agreement of plan management or those charged with governance to provide to the auditor, prior to the dating of the auditor's report, a draft Form 5500 that is substantially complete. A draft of Form 5500 that is substantially complete is one that 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.

### *Reportable findings*

Under AU-C section 703, The auditor is required to evaluate whether certain matters identified during the audit result in "reportable findings," which are defined as matters that are one or more of the following:

- An identified instance of noncompliance or suspected noncompliance with laws or regulations.
- 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.
- 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.

When planning the audit engagement, the auditor may establish an understanding with management or those charged with governance about what would be considered a reportable finding.

### *Procedures for an ERISA Section 103(a)(3)(C) audit*

The EBPAQC has developed a tool, *Conditions for plan management to elect an ERISA Section 103(a)(3)(C) audit*, to assist plan management in determining whether the conditions to elect an ERISA Section 103(a)(3)(C) audit have been met. When management elects to have an ERISA Section 103(a)(3)(C) audit, the auditor is required to:

- Evaluate management's assessment of whether the entity issuing the certification is a qualified institution under DOL rules and regulations.
- Identify which investment information is certified.
- Perform the following procedures on the certified investment information:
  - Obtain from management and read the certification as it relates to investment information prepared and certified by a qualified institution.
  - Compare the certified investment information with the related information presented and disclosed in the ERISA plan financial statements and ERISA-required supplemental schedules.
  - 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.
- 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 from a qualified institution. In that case, the auditor should perform audit procedures on the investment information that has not been certified.

### *Written representations from plan management*

At the conclusion of the engagement, in addition to the requirements under AU-C section 580, *Written Representations*, the auditor will request the following written representations from management:

- That management has provided the auditor with the most current plan instrument for the audit period, including all plan amendments.
- 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.
- 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:
  - an ERISA Section 103(a)(3)(C) audit is permissible under the circumstances,
  - the investment information is prepared and certified by a qualified institution as described in 29 CFR 2520.103-8,
  - the certification meets the requirements in 29 CFR 2520.103-5, and

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

### *Considerations relating to Form 5500 filing*

Plan management will need to provide the auditor with a draft Form 5500 prior to dating the auditor's report that is substantially complete (see the "Engagement acceptance" section above).

The auditor will read the draft Form 5500 in order to identify material inconsistencies, if any, with the audited ERISA plan financial statements. If the auditor identifies a material inconsistency or a material misstatement of fact, they will determine whether the audited ERISA plan financial statements or the draft Form 5500 needs to be revised.

### *Communication of reportable findings with management or those charged with governance*

The auditor is required to communicate in writing to those charged with governance, on a timely basis, reportable findings from the audit procedures performed. 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 auditor is not permitted to issue a written communication stating that no reportable findings were identified during the audit. The written communication should include the following:

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

# New form of auditor’s reports – Illustrations

The following illustrates the new form of the auditor’s report.

## *Illustration 1 — An auditor’s report on financial statements for a defined contribution retirement plan subject to ERISA*

<b>Independent Auditor’s Report</b>		
[Appropriate Addressee]		
<b>Opinion</b>		
<p>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.</p> <p>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.</p>	<p><i>The identification of the plan as one subject to ERISA is new and unique to ERISA plan auditor’s reports.</i></p>	
<b>Basis for Opinion</b>		
<p>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.</p>		
<b>Responsibilities of Management for the Financial Statements</b>		
<p>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.</p> <p>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].</p> <p>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.</p>	<p><i>The second and third paragraphs under the “Responsibilities of Management for the Financial Statements” header are new and reflect management’s additional responsibilities under AU-C section 703 and new reporting standards for auditors.</i></p>	

**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

*This section is specific to the ERISA-required supplemental schedules as required by AU-C sections 725 and 703.*

<p>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.</p> <p>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.</p> <p>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.</p> <p>[Signature of the auditor’s firm]  [City and state where the auditor’s report is issued]  [Date of the auditor’s report]</p>	<p><i>The auditor’s opinion on the form and content of the supplemental schedules is new for non-section 103(a)(3)(C) audits.</i></p>
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*Illustration 2 — 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*

<p style="text-align: center;"><b>Independent Auditor’s Report</b></p> <p><i>[Appropriate Addressee]</i></p> <p><b>Scope and Nature of the ERISA Section 103(a)(3)(C) Audit</b></p> <p>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.</p> <p>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).</p> <p>Management has obtained certifications from a qualified institution as of December 31, 20X2 and 20X1, and for the year ended December 31, 20X2,</p>	<p><i>This paragraph communicates management’s election of an ERISA Section 103(a)(3)(C) audit.</i></p> <p><i>It is management’s responsibility for determining whether</i></p>
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<p>stating that the certified investment information, as described in Note X to the financial statements, is complete and accurate.<sup>1</sup></p> <p><b>Opinion</b></p> <p>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</p> <ul style="list-style-type: none"> <li>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.</li> <li>the information in the accompanying financial statements related to assets held by<sup>2</sup> 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).</li> </ul> <p><b>Basis for Opinion</b></p> <p>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.</p> <p><b>Responsibilities of Management for the Financial Statements</b></p> <p>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.</p> <p>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].</p> <p>Management is also responsible for maintaining a current plan instrument, including all plan amendments, administering the plan, and determining that</p>	<p><i>the certification meets these objectives.</i></p> <p><i>The two-part opinion.</i></p> <p><i>The second and third paragraphs under the “Responsibilities of Management for the Financial Statements” header are new and reflect management’s additional responsibilities under AU-C section 703 and</i></p>
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<sup>1</sup> 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.

<sup>2</sup> 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.

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.

*new reporting standards for auditors.*

*This section describes the auditor's responsibilities.*

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 and certified to by<sup>3</sup> 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*]

*This is new content required by AU-C section 703 specific to ERISA Section 103(a)(3)(C) audits relating to the ERISA-required supplemental schedules.*

<sup>3</sup> See footnote 2.