Statements of Auditing Standards No.134- No.140: Changes to Auditors' Report, Materiality, and EBP Audits

TUESDAY, JUNE 21, 2022, 1:00-2:50 pm Eastern

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June 21, 2022

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Statements of Auditing Standards No. 134 - 140: Changes to Auditors' Report, Materiality, and EBP Audits

Overview

- No. 134, *Auditor Reporting and Amendments, Including Amendments Addressing Disclosures in the Audit of Financial Statements*
- No. 135, *Omnibus Statement on Auditing Standards*
- No. 136, *Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA*
- No. 137, *The Auditor's Responsibilities Relating to Other Information Included in Annual Reports*
- No. 138, *Amendments to the Description of the Concept of Materiality*

Overview (con't)

- No. 139, *Amendments to AU-C Sections 800, 805, and 810 to Incorporate Auditor Reporting Changes From SAS No. 134*
- No. 140, *Amendments to AU-C Sections 725, 730, 930, 935, and 940 to Incorporate Auditor Reporting Changes From SAS Nos. 134 and 137*

Overview (con't)

- SAS No. 134 – 140 were originally effective for fiscal years ending on or after December 15th, 2020
- Due to COVID-19 pandemic, SAS No. 141, Amendment to the Effective Dates of SAS Nos. 134—140, was issued to allow for a one-year delay of effective dates
- New effective date is for FYs ending after December 15, 2021
- Early implementation is allowed
- Simultaneous implementation is required

Michelle Brumfield, CPA
Practice Leader
Pension Assurance LLP

Ms. Brumfield recently joined Pension Assurance LLP as a Practice Leader. Michelle has 30 years of experience in accounting and financial audits for various industries. For the past 17 years, she has planned, led, and provided technical support to numerous employee benefit plan audits, including defined contribution retirement plans, defined benefit retirement plans, and health and welfare plans. Ms. Brumfield has a proven track record building a team and the EBP practice, and she has a knack for client retention and a love of service. Ms. Brumfield is also an advocate for staff and client education and has spoken at various CPA organizations, online learning platforms, and the AICPA Employee Benefit Plan Conference.

PENSION ASSURANCE LLP

401(k) / 403(b) / DEFINED BENEFIT / PENSION PLAN AUDITS

SAS No. 134, Auditor Reporting and Amendments

- Issued in May 2019
- Main goal is to overhaul the audit report and converge with International standards
- Customizes the report for the auditee as a value-added service
- Objective
- Form an opinion based on an evaluation of audit evidence
- Clearly express and opinion – by reordering report paragraphs

What the auditor's report used to look like.

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors

Washington, D.C.

Report on the Financial Statements

We have audited the accompanying financial statements of the (the ACRONYM), which comprise the statement of financial position as of December 31, 2019, and the related statements of activities and change in net assets, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility 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; 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 financial position of the ACRONYM as of December 31, 2019, and the change in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

The New Auditor's Report

INDEPENDENT AUDITOR'S REPORT

[Appropriate Addressee]

[City and State]

Opinion

We have audited the financial statements of ABC Company, which comprise the balance sheets as of December 31, 20X1 and 20X0, and the related statements of income, changes in stockholders' equity, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of ABC Company as of December 31, 20X1 and 20X0, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Opinion

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 independent of ABC Company, and have fulfilled 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 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 Company's ability to continue as a going concern for [insert the time period set by the applicable financial reporting framework].

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 generally accepted auditing standards 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.

Auditor's Responsibilities for the Audit of the Financial Statements (cont.)

In performing an audit in accordance with GAAS, we:

- Use professional judgment and exercise 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 Company's internal control. Accordingly, no such opinion is expressed.

Auditor's Responsibilities for the Audit of the Financial Statements (cont.)

In performing an audit in accordance with GAAS, we:

- 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 consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about ABC Company's ability to continue as a going concern within one year after the date that the financial statements are issued.

Auditor's Responsibilities for the Audit of the Financial Statements (cont.)

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 internal control related matters identified during our audit.

Report on Other Legal and Regulatory Requirements

[Form and content of this section of the auditor's report will vary depending on the nature of the auditor's other reporting responsibilities.]

[Auditor's signature]

[Auditor's city and state] [Date of the auditor's report]

Key Audit Matters - KAM (Section 701)

- Defined as those matters that, in the auditor's professional judgement, were of most
- significance in the audit of the financial statements.
- When engaged to include key audit matters (KAMs), section 701 addresses both the auditor's judgement about what to communicate in the auditor's report and the form and content of such communication.
- GAAS does not require the communication of KAMs.

Key Audit Matters - KAM (Section 701) (cont.)

- Communicating key audit matters is not a substitute for:
  - Disclosures in the financial statements
  - A modified opinion
  - Communication of substantial doubt about an entities ability to continue as a going concern
  - A separate opinion on individual matters

- KAM should not be communicated when there is an adverse or disclaimer of opinion

Key Audit Matters - KAM (Section 701) (cont.)

Key audit matters are those matters that were communicated with those charged with governance and, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate on these matters.

[description of each key audit matter in accordance with section 701, Communicating Key Audit Matters in the Independent Auditor's Report of this SAS]

SAS 135 - Omnibus Statements on Auditing Standards

Purpose

- SAS 135 is intended to more closely align AICPA guidance with the PCAOB's standards by primarily amending AU-C section 260, Communications With Those Charged With Governance, AU-C section 550, Related Parties, and AU-C section 240, Consideration of Fraud in a Financial Statement Audit, in AICPA Professional Standards
- Enhancement of audit quality

Impact on Management and the Auditors

- Changes to the auditor's communication with governance regarding
  - Significant unusual transactions
  - Difficult or contentious maters
  - Uncorrected misstatements
- Enhanced focus on audit procedures over significant unusual transactions
- Enhanced focus on audit procedures over related party transactions

SAS 135 - Omnibus Statements on Auditing Standards (cont.)

Auditor's Communication with Those Charged with Governance - Significant Unusual Transactions

- A Transaction that is outside the normal course of business or that otherwise appears to be unusual due to its timing, size, or nature.
  - Complex equity transactions
  - Transactions with overseas entities
  - Leasing or management services provided without consideration
  - Sales transactions with unusually large discounts or returns
  - Transactions with circular arrangements
  - Transactions under contracts with changing terms
- Auditor's communication will include
  - Auditor's views
  - Auditor's understanding of the business purpose

SAS 135 - Omnibus Statements on Auditing Standards (cont.)

Auditor's Communication with Those Charged with Governance – Difficult or Contentious Matters

- Auditor's communication must include matters that are difficult or contentious for which the auditor consulted outside the engagement team and 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.
  - Issues that are complex or unfamiliar
  - Estimates with a high degree of estimation uncertainty
  - Significant risks
  - Limitations imposed by management
  - Non-compliance with laws or regulations
- If no difficult or contentious matters encountered, include statement to that effect
- Similar to current communication of significant difficulties encountered in performing the audit

SAS 135 - Omnibus Statements on Auditing Standards (cont.)

Auditor's Communication with Those Charged with Governance - Uncorrected Misstatements

- Current Communication Includes:
  - Identification of uncorrected misstatements and the effect they may have, individually or in the
  - aggregate, on the auditor's report
  - The effect of uncorrected misstatements related to prior period on the relevant classes of transactions, account balances, or disclosures, and the financial statements as a while
- Additional Communication Under SAS 135
  - That uncorrected misstatements or matters underlying those uncorrected misstatements could potentially cause future-period financial statements to be materially misstated, even if the auditor has concluded that the uncorrected misstatements are immaterial to the financial statement under audit
  - Increased emphasis on correcting all misstatements identified during an audit, even if not material

SAS 135 - Omnibus Statements on Auditing Standards (cont.)

Audit Procedures - Significant Unusual Transactions and Related Party Transactions

- New inquiries
  - Inquiry as to whether the entity has entered into any significant unusual transactions (nature, term, business purpose)
  - Inquire about controls around authorization and approval of significant unusual transactions made of those charged with governance in addition to management
  - Inquiries about any related party transactions
    - Business purpose of entering into a transaction with a related party versus and unrelated party
    - Related party transactions not subject to standard internal control procedures
    - The understanding of those charged with governance of related party relationships and transactions
    - Whether those charged with governance have concerns about related party relationships and transactions

Audit Procedures - Significant Unusual Transactions and Related Party Transactions (cont.)

- Consideration of fraud
  - Evaluate whether significant unusual transactions and related party transactions may have been entered into to engage in fraudulent financial reporting or conceal misappropriation of assets
  - Indicators of fraud could include:
    - Overly complex transactions
    - Transactions have not been discussed with those charged with governance
    - Inadequate documentation
    - Emphasis on accounting treatment than the substance of the transaction
    - Related party transactions not reviewed or approved by those charged with governance
    - Transactions with previously undisclosed related parties

SAS 135 - Omnibus Statements on Auditing Standards (cont.)

Statement on Auditing Standards 136

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

Scott Mattson, CPA
Audit Partner
scott.mattson@aduscpa.com

Scott Mattson has been practicing as a Certified Public Accountant for over 20 years. Most of his career has been with The LBA Group, one of the largest local firms in Northeast Florida, including one year after LBA joined BDO USA LLP. Scott oversaw the employee benefit plan practice for LBA, as well as the assurance work for non-public companies in a variety of industries.

Scott graduated from Florida State University in 1993 with a Bachelor's of Science Degree in Business Administration. He holds a license as a Certified Public Accountant (CPA) in the State of Florida.
Scott is a member of the Florida Institute of Certified Public Accountants, the American Institute of Certified Public Accountants, and is on the board of the Goodwill Industries of North Florida.

Presenter

Sharjeel Ahsan

Audit Director

Sharjeel is serving as an Audit Director within the EBP sector of McConnell Jones. He has over 16 years of experience leading audits of employee benefit pension and welfare benefit plans (EBP) for a variety of plan sponsors and industries. He is responsible for managing his clients' EBP audits that range from regional non-profit organizations to large Fortune 500 public companies. He is highly skilled in planning and supervising employee benefit plan audits, including defined contribution plans, defined benefit plans, health and welfare plans with a section 401(h) arrangement, and master trust investment accounts.

What is SAS 136?

- SAS 136 is a response to the DOL's Employee Benefits Security Administration (EBSA) 2015 study on audit quality.
- The new standard affects all phases of the audit, including engagement acceptance and reporting.
- DOL limited-scope audits are now referred to as ERISA Section 103(a)(3)(C) audits.
- The standard is effective for reporting periods ending on or after December 15, 2020, but was permitted to be delayed to periods ending on or after December 15, 2021 by SAS 141.

Goal of SAS 136

Goal:

- ✓ The goal of SAS 136 is to enhance the quality of audits of ERISA plans by prescribing certain procedures that are required to be performed in the audit.
- ✓ The auditing standard also looks to add transparency to the nature and scope of ERISA benefit plan audits as presented in the auditor's report.

Which Type of EBP Audits Got Impacted by SAS 136

- ✓ SAS 136 has impacted both ERISA Section 103(a)(3)(C) audits, formerly called "limited scope audit", and Non-ERISA Section 103(a)(3)(C) audits, formerly called "full scope audit".
- ✓ Overall changes are more for the ERISA Section 103(a)(3)(C) audits.
- ✓ Before we discuss changes, let's first understand the basics of ERISA Section 103(a)(3)(C) audits.

ERISA Section 103(a)(3)(C) - The Basics

ERISA Section 103(a)(3)(C) formerly referred to as "limited scope audit", the auditor's responsibility is to conduct the audit in accordance with US GAAS, except that, as permitted by 29 CFR 2520.103-8 of the DOL's Rules and Regulations for Reporting and Disclosure under ERISA, and as instructed by Plan management,

The auditors will not perform any auditing procedures with respect to the information '**properly certified**' to by a '**Qualified Institution**', acting as trustee or custodian of the assets of the Plan, other than comparing such information with the related information included in the financial statements of the Plan.

ERISA Section 103(a)(3)(C) - The Basics

Qualified institutions

(that can certify investment information)

- **Consist of the following**:
  - Bank
  - trust company
  - similar institution
  - insurance company
- These must be **regulated, supervised and subject to periodic examination by a state or Federal agency**
- These must acts as **trustee or custodian**.

ERISA Section 103(a)(3)(C) - The Basics

Proper certifications

Information must be certified as both complete and accurate and signed by an authorized person.

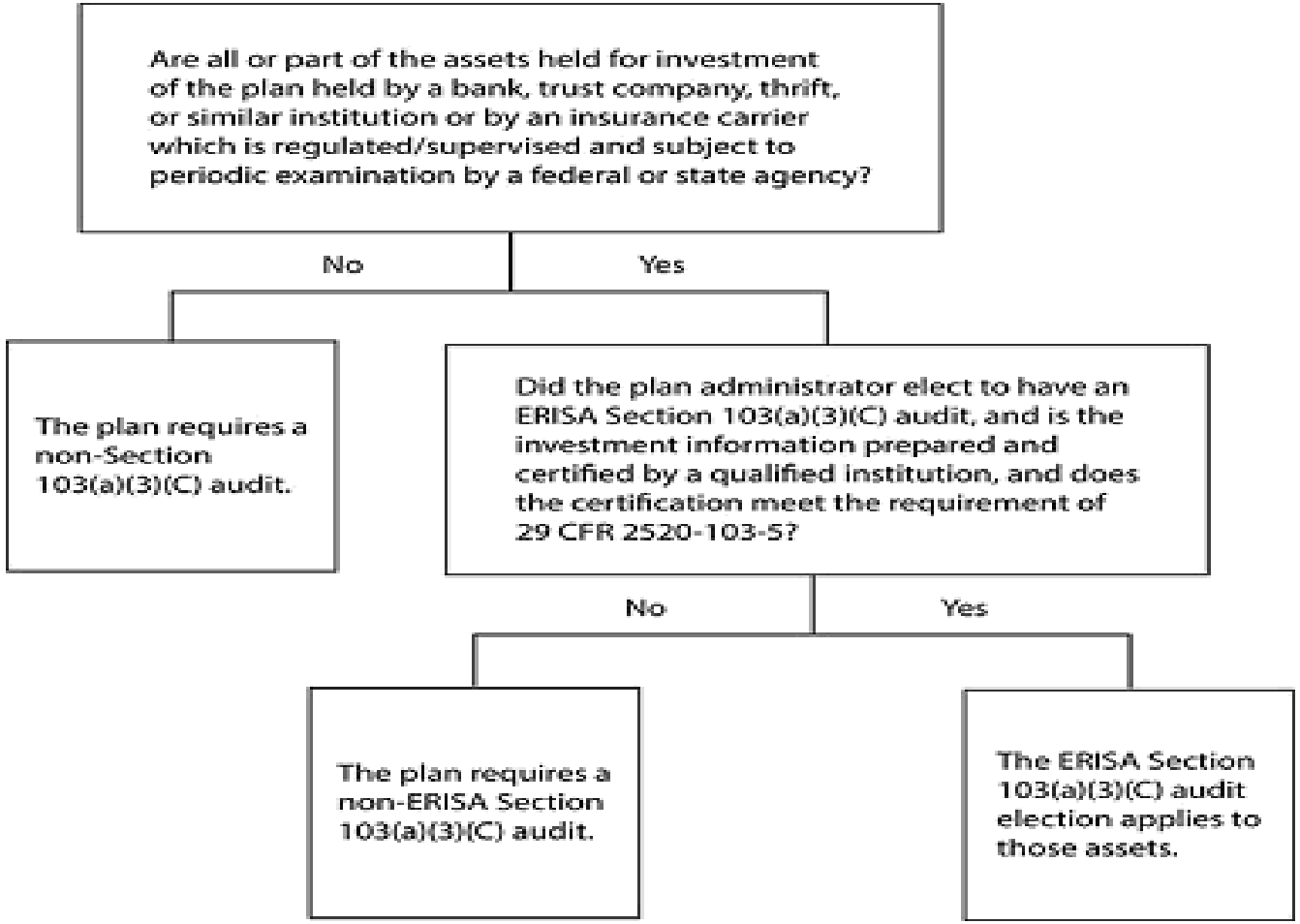
- Requirements for proper certification once qualified institution has been established:
  - ✓ Complete
  - ✓ Accurate
  - ✓ Authorized signature

- Inquire if any investments are not certified by the qualified institutions as other procedures must be performed on Non ERISA Section 103(a)(3)(C)

- Example of qualifying language:

The XYZ Bank (Insurance Carrier) hereby certifies that the foregoing statement furnished pursuant to
29 CFR 2520.103-5(c) is complete and accurate.

Conditions for an ERISA Section 103(a)(3)(C) Audit – Exhibit 2.1 (AICPA Audit Guide)



Common Deficiencies in Section 103 Certifications

Here are some of the common deficiencies from the AICPA Employee Benefit Plan Audit Quality Center:

- No certification or incomplete certification.
- Omissions, errors and/or qualifying language in the certification.
- Information improperly certified.

SAS 136 - Summary of Impact on Management

- ✓ Affirmation of management's responsibilities for:
  - Maintaining a current plan document, including all plan amendments
  - Administering the plan in conformity with the Plan's provisions
  - Maintaining sufficient participant records
  - When management elects to have an ERISA Section 103(a)(3)(C) Audit (Formerly, a Limited Scope Audit), management must affirm that:
    - This type of audit is permissible under the circumstances
    - Investment information is prepared and certified by a qualified institution
    - The certified investment information is appropriately measured, presented and disclosed
- ✓ Provide Auditor with a substantially complete Form 5500 prior to dating of the auditor's report

SAS 136 - Summary of Impact on Auditors

- ✓ Limited scope audit is now called ERISA Section 103(a)(3)(C) audit
- ✓ Disclaimer of Opinion no longer issued, replaced with ERISA Section 103(a)(3)(C) audit report
- ✓ The new standard includes new or enhanced requirements in all phases of an audit of ERISA plan financial statements including:
  - Engagement Acceptance
  - Audit Risk Assessment
  - Performance Procedures
  - Communication with those charged with governance
    - Identified instances of noncompliance or suspected noncompliance
    - Findings that are significant and relevant to those charged with governance
    - Indications of deficiencies in internal control identified.
  - Form 5500
  - Reporting.

Engagement Acceptance

Before the plan's auditor can accept performing the audit under the SAS136/AU-C section 703, the auditor is required to obtain management's agreement that it acknowledges and understands its responsibility for the following:

- Maintaining a current plan instrument, including amendments
- Administering the plan and determining plan's transactions conform with plan provisions
- Maintaining participants records to determine the benefits due
- Providing the auditor, prior to the dating of the auditor's report, a draft of Form 5500 that is "substantially complete."

Audit Risk Assessment

- Auditors are required to perform a Risk Assessment.
- In ERISA Section 103(a)(3)(C) audits, auditor's should be testing:
  - Contributions
  - Benefit payments
  - Participant loans (notes receivable from participants)

Audit Risk Assessment (contd..)

- Read the most recent plan instrument as part of gaining an understanding sufficient to perform risk assessment procedures
- Consider relevant plan provisions that affect risk of material misstatement when designing procedures and test those relevant plan provisions.
- Document conclusion
- Evaluate any items found which are not in accordance with the plan instrument
- Consider whether management has performed relevant IRC compliance tests, including but not limited to, discrimination testing, and
- Consider whether management has corrected or intends to correct any failures
- Evaluate whether prohibited transactions are appropriately reported in the ERISA-required supplemental schedules
- Evaluate whether items identified that are not in accordance with the criteria specified (the plan instrument) are "reportable findings"

Performance Procedures

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.

Performance Procedures (contd.)

The Auditor is Required to:

- 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.

- Review substantially completed Form 5500 and make sure it's consistent with the financial statements.

Communication of Reportable Findings

- The auditor is also required to communicate “reportable findings” resulting from these procedures, in writing, to those charged with governance, on a timely basis. Reportable findings include instances of noncompliance or suspected noncompliance with laws or regulations, findings that the auditor determines are significant and relevant to those charged with governance, and/or internal control deficiencies that the auditor determines merit management’s attention.

Communication of Reportable Findings (contd..)

- 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.

Communication of Reportable Findings (contd..)

- 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 that, in the auditor's professional judgment, are of sufficient importance.

Form 5500

- The standard requires that the auditor make appropriate arrangements with management to obtain a draft Form 5500 that is substantially complete, including the forms and schedules that could have a material effect on the quantitative and qualitative information in the financial statements and ERISA-required supplemental schedules.

Form 5500

Part III Accountant's Opinion

3 Complete lines 3a through 3c if the opinion of an independent qualified public accountant is attached to this Form 5500. Complete line 3d if an opinion is not attached.

a The attached opinion of an independent qualified public accountant for this plan is (see instructions):

(1) ☐ Unmodified **(2)** ☐ Qualified **(3)** ☐ Disclaimer **(4)** ☐ Adverse

b Check the appropriate box(es) to indicate whether the IQPA performed an ERISA section 103(a)(3)(C) audit. Check both boxes (1) and (2) if the audit was performed pursuant to both 29 CFR 2520.103-8 and 29 CFR 2520.103-12(d). Check box (3) if pursuant to neither.

(1) ☐ DOL Regulation 2520.103-8 **(2)** ☐ DOL Regulation 2520.103-12(d) **(3)** ☐ neither DOL Regulation 2520.103-8 nor DOL Regulation 2520.103-12(d).

Part III, Line –

3b(1) - 29 CFR 2520.103-8 is <u>always</u> checked when an IQPA audit does not need to extend to certain financial statements if the information is prepared and certified by a bank or similar institution or an insurance company that is regulated, supervised and subject to periodic examination (i.e. ERISA Section 103 audit).

3b(2) - 29 CFR 2520.103-12(d) is when applicable when an IQPA audit of an employee benefit plan does not need extend to the investments in a pooled investment fund that files a separate audited Form 5500 as a 103-12 IE. For reporting purposes, a 103-12 IE is an entity—other than a CCT, PSA or MTIA—that facilitates investing the assets of two or more employee benefit plans that are not members of a related group. This should <u>not</u> be checked in most cases.

Reporting

The ERISA section103(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; (two-part opinion addresses information not covered by the certification, and procedures required to be performed on the certified information)
- Basis for Opinion(required to follow the opinion section)
- Going concern (if applicable)
- Responsibilities of Management for the Financial Statements (Expanded)
- Auditor's Responsibilities for the Audit of the Financial Statements (Expanded)
- Other Matter—Supplemental Schedules Required by ERISA

Audit Opinion – Non-ERISA Section 103(a)(3)(C) (Full Scope) audits

Non ERISA-section 103(a)(3)(C) Reports

The key elements of the non-ERISA section 103(a)(3)(C) report (formerly referred to as "full-scope reports") are the same as those in SAS No. 134 (as described above) with the following exceptions:

- The opinion section identifies the plan as an employee benefit plan subject to ERISA
- Expanded description of management's responsibilities
- Includes new content in the other-matter paragraph relating to the ERISA-required supplemental schedules, including a new form and content opinion on the supplemental schedules

Audit Opinion – ERISA Section 103 audits

- Scope and Nature of ERISA Section 103(a)(3)(C) Audit section
- Opinion section
- Basis for Opinion section
- Going concern section
- Management's responsibilities section (expanded)
- Auditor's responsibilities section (expanded)
- Required other-matter paragraph to report on the ERISA-required supplemental schedules..

Audit Opinion – Old
DOL Limited Scope Audit

To the Plan Administrator of the
NAME OF BENEFIT PLAN

Report on the Financial Statements

We were engaged to audit the accompanying financial statements of **NAME OF BENEFIT PLAN** (the "Plan"), which comprise the statements of net assets available for benefits as of December 31, 2020 and 2019, and the related statement of changes in net assets available for benefits for the year ended December 31, 2020, and the related notes to the financial statements.

Management's Responsibility 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; 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements 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.

Audit Opinion – Old
DOL Limited Scope Audit (cont'd)

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 C, which was certified by John Hancock Life Insurance Company (U.S.A.), the Custodian of the Plan, except for comparing the information with the related information included in the financial statements and supplemental schedule. We have been informed by the Plan Administrator that the Custodian holds the Plan's investment assets and executes investment transactions. The Plan Administrator has obtained a certification from the Custodian as of December 31, 2020 and 2019, and for the year ended December 31, 2020, that the information provided to the Plan Administrator by the 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. Accordingly, we do not express an opinion on these financial statements.

Audit Opinion – Old
DOL Limited Scope Audit (cont'd)

Other Matter

The supplemental schedule as of December 31, 2020 is required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974 and is presented for the purpose of additional analysis and is not a required part of the financial statements. Because of the significance of the matter described in the *Basis for Disclaimer of Opinion* paragraph, we do not express an opinion on this supplemental schedule.

Report on Form and Content in Compliance With DOL Rules and Regulations

The form and content of the information included in the financial statements and supplemental schedule, other than that derived from the information certified by the Custodian, 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.

FIRM SIGNATURE

CITY, STATE

DATE OF AUDIT OPINION

Audit Opinion

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

To the Plan Administrator of the
NAME OF BENEFIT PLAN

Scope and Nature of the ERISA Section 103(a)(3)(C) Audit of the 2021 Financial Statements

We were engaged to perform an audit of the financial statements of **NAME OF BENEFIT PLAN** (the "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, 2021, 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 the 2021 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 ("DOL") 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.

Management has obtained a certification from a qualified institution as of and for the year ended December 31, 2021, stating that the certified investment information, as described in Note C to the financial statements, is complete and accurate.

Audit Opinion
ERISA Section 103(a)(3)(C) Audit (cont'd)

Opinion on the 2021 Financial Statements

In our opinion, based on our audit and on the procedures performed as described in the *Auditor's Responsibilities for the Audit of the 2021 Financial Statements* section

the amounts and disclosures in the accompanying 2021 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 ("GAAP").

the certified information in the accompanying 2021 financial statements 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 on the 2021 Financial Statements

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 2021 Financial Statements* section of our report. We are required to be independent of the 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.

Audit Opinion
ERISA Section 103(a)(3)(C) Audit (cont'd)

Responsibilities of Management for the 2021 Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with GAAP, 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 the Plan's ability to continue as a going concern for one year after the date the financial statements are available to be issued.

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.

Audit Opinion
ERISA Section 103(a)(3)(C) Audit (cont'd)

Auditor's Responsibilities for the Audit of the 2021 Financial Statements

Except as described in the *Scope and Nature of the ERISA Section 103(a)(3)(C) Audit of the 2021 Financial Statements* section of our report, our objectives are to obtain reasonable assurance about whether the 2021 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 there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

Audit Opinion
ERISA Section 103(a)(3)(C) Audit (cont'd)

Auditor's Responsibilities for the Audit of the 2021 Financial Statements (continued)

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 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 the 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 2021 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 GAAP.

Audit Opinion
ERISA Section 103(a)(3)(C) Audit (cont'd)

Auditor's Responsibilities for the Audit of the 2021 Financial Statements (continued)

Accordingly, the objective of an ERISA Section 103(a)(3)(C) audit is not to express an opinion about whether the 2021 financial statements as a whole are presented fairly, in all material respects, in accordance with GAAP.

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.

Audit Opinion
ERISA Section 103(a)(3)(C) Audit (cont'd)

Other Matter – 2021 Supplemental Schedules Required by ERISA

The 2021 supplemental schedule, Schedule H, line 4i – Schedule of Assets (Held at End of Year), is presented for purposes of additional analysis and is not a required part of the 2021 financial statements but is supplementary information required by the DOL'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 2021 financial statements. The information included in the supplemental schedule, other than that agreed to or derived from the certified investment information, has been subjected to auditing procedures applied in the audit of the 2021 financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the 2021 financial statements or to the 2021 financial statements themselves, and other additional procedures in accordance with GAAS. For information included in the supplemental schedule 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 schedule, we evaluated whether the supplemental schedule, other than the information agreed to or derived from the certified investment information, including their form and content, are presented in conformity with the DOL's Rules and Regulations for Reporting and Disclosure under ERISA.

Audit Opinion
ERISA Section 103(a)(3)(C) Audit (cont'd)

Other Matter – 2021 Supplemental Schedules Required by ERISA (continued)

In our opinion:

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

Audit Opinion
ERISA Section 103(a)(3)(C) Audit (cont'd)

Other Matter – Report on the 2020 Financial Statements

We were engaged to audit the statement of net assets available for benefits of the Plan as of December 31, 2020. As permitted by 29 CFR 2520.103-8 of the DOL's Rules and Regulations for Reporting and Disclosure under ERISA, the Plan Administrator instructed us not to perform, and we did not perform, any auditing procedures with respect to the information certified by the qualified institution. Our audit report, dated May 13, 2021, indicated that (a) because of the significance of the information that we did not audit, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an opinion and accordingly, we did not express an opinion on the 2020 financial statements, and (b) the form and content of the information included in the 2020 financial statements other than that derived from the information certified by the qualified institution were presented in compliance with the DOL's Rules and Regulations for Reporting and Disclosure under ERISA.

FIRM SIGNATURE

CITY, STATE

DATE OF AUDIT OPINION

Questions?

SAS 137 – The Auditor's Responsibilities Relating to Other Information Included in Annual Reports

Purpose

- Provide Transparency with respect to the auditor's responsibility for other information included in an annual report when the auditor has obtained all of the other information at the date of the auditor's report
- Clarifies the scope of documents that the auditor is required to subject to audit procedures
- Indicate that an "Annual Report" may not meet the definition of Annual Report for purposes of the SAS

SAS 137 – The Auditor's Responsibilities Relating to Other Information Included in Annual Reports (cont.)

Impact on Management	Impact on Auditors
• Provide written acknowledgement regarding which document or documents comprise the annual report	• Responsibility to consider whether a material inconsistency exists between the audited financial statements and other information in the annual report • Request that any identified material inconsistencies or misstatement be corrected • Include a separate section in the auditor's report with the heading "Other Information"

SAS 137 – The Auditor's Responsibilities Relating to Other Information Included in Annual Reports (cont.)

Annual Report

A document, or combination of documents, typically prepared on an annual basis by management, or those charged with governance in accordance with law, regulation, or custom, the purpose of which is to provide owners with information on the entity's operations and the entity's financial results and financial position as set out in the financial statements

Other Information

Financial or nonfinancial information (other than financial statements and the auditor's report thereon) included in an entity's annual report

- Board Chairman or corporate governance annual statement
- Management's Internal control and risk assessment reports
- Financial Summaries or highlights (Selected monthly, quarterly, or semi-annual data)
- Employment data
- Planned capital expenditures
- Financial ratios

SAS 138 – Amendments to the Description of the Concept of Materiality

Purpose

- Amends the definition of materiality to be more consistent with the United States judicial system, the Public Company Accounting Oversight Board, and the Securities Exchange Commission

Impact

- Not expected or intended to change current practice
- Definition changing to match current practice

SAS 138 – Amendments to the Description of the Concept of Materiality (cont.)

Old Definition	Misstatements, including omissions, are considered to be material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users on the basis of the financial statements
New Definition	Misstatements, including omissions, are considered to be material if there is substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements

SAS 139 – Amendments to AU-C Sections 800,805, and 810 to Incorporate Auditor Reporting Changes from SAS No. 134

Technical corrections to align new auditor reporting language for statements that are:

- Prepared following special purpose frameworks
- Single financial statements and specified elements
- Accounts or items in a financial statement
- Summary financial statements

Revisions to AU-C Section 800

- For audits prepared in accordance with special purpose frameworks
- Add statement to the auditor's report that the financial statements may not
- be suitable for another purpose

SAS 139 – Amendments to AU-C Sections 800,805, and 810 to Incorporate Auditor Reporting Changes from SAS No. 134 (cont.)

Revisions to AU-C Section 805

Addresses factors to consider in determining whether matters included in the auditor's report on a complete set of financial statements is relevant to an engagement to report on a single financial statement or specified element

Revisions to AU-C Section 810

Auditors report on summary financial statement is not required to describe key audit matters identified in the audit of a full set of financial statements

SAS 140 – Amendments to AU-C Sections 725, 730, 930, 935, and 940 to Incorporate Auditor Reporting Changes From SAS Nos. 134 and 137

- AU-C Sections 725 and 730 Aligned with SAS No. 137
  - Amended to require reporting on supplementary information in a separate section of the auditor's report as opposed to in an other-matter paragraph
- Revisions to AU-C Section 940
  - Applies to audits of internal control over financial reporting that are integrated with an audit of financial statements
  - When issuing a separate report on internal controls over financial reporting, include references to the report on the financial statements, and vice-versa

SAS 140 – Amendments to AU-C Sections 725, 730, 930, 935, and 940 to Incorporate Auditor Reporting Changes From SAS Nos. 134 and 137 (cont.)

Revisions to AU-C Section 930

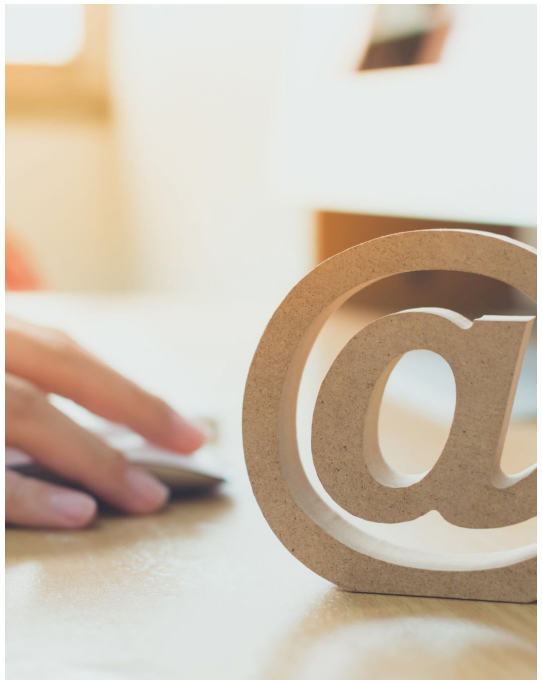
- Change reporting requirements with respect to Reviews of interim financial information

Revisions to AU-C Section 935

- Revision for consistency with the Uniform Guidance
- Requirement for a combined report on compliance and internal control as the default
- Amends the definition of material noncompliance to align with the description of materiality in SAS No. 138

BEST PRACTICES

Questions



PENSION ASSURANCE LLP

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Thank you!