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AICPA Issues FAQ on Audits of Employee Benefit Plans Subject to ERISA

Statement on Auditing Standards (SAS) No. 136, *Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA*, as amended, is effective for audits of financial statements for periods ending on or after December 15, 2021, with early implementation permitted. It is codified in AU-C 703.

SAS 136 includes new audit performance requirements to improve the quality of employee benefit plan audits. It also changes the form and content of the auditor's report. The standard shouldn't be applied to plans that aren't subject to ERISA.

In August 2021, the AICPA staff issued a frequently asked question (FAQ) document that includes illustrative auditor's reports for the initial year of implementation of SAS 136. It is nonauthoritative guidance intended to help auditors apply SAS 136 in the initial year and improve the consistency of reporting.

What Will the Auditor's Report Look Like in the First Year of Implementing SAS 136?

ERISA requires that certain comparative financial statements be presented. Exhibit B of SAS 136 illustrates a report of a continuing auditor when the auditor performs a limited-scope ERISA Section 103(a)(3)(C) audit in the current year and issued a disclaimer of opinion in the prior year.

The auditor will issue two separate reports, both with the same report date. The current year report is an ERISA Section 103(a)(3)(C) report (two-part opinion which states the amounts and disclosures, other than those agreed to or derived from certified investment information, are presented fairly, and the investment information agrees to or is derived from certified investment information provided by a qualified institution), and the prior year report is a disclaimer of opinion.

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FAQ Illustrative Report Examples

The FAQ provides nine illustrations of audit reports in the year of implementation of SAS 136 under a number of scenarios. These include when the current-year audit is either performed under ERISA Section 103(a)(3)(C) or not, when the prior year audit is either limited or full scope, and when either the auditor is the continuing auditor or the prior period was audited by a predecessor auditor.

In all the scenarios—

- The audit is for a complete set of general-purpose financial statements for a 401(k) plan subject to ERISA presenting comparative statements of net assets available for benefits and a single-year statement of changes in net assets available for benefits.
- Management is responsible for the financial statement preparation in accordance with GAAP.
- The terms of the audit engagement reflect the description of management's responsibility for the financial statements in AU-C 210.
- The auditor has concluded, based on audit evidence, that there is no substantial doubt about the entity's ability to continue as a going concern, under AU-C 570.
- The auditor hasn't been engaged to communicate key audit matters.
- There are no scope limitations (except for one illustration), and no material misstatements have been identified.

Auditors should refer to the FAQ illustrations that apply to the circumstances of their ERISA audits to help them understand and apply SAS 136 in the year of implementation.

Practical Consideration:

The AICPA's FAQ is available at **www.aicpa.org/content/dam/aicpa/interestareas/frc/auditattest/downloadabledocuments/sas-136-illustrations.pdf**.

AICPA Releases SOP 21-1 on Agreed-Upon Procedures

In June 2021, the AICPA's Auditing Standards Board issued Statement of Position (SOP) 21-1, *Performing Agreed-Upon Procedures Related to Rated Exchange Act Asset-Backed Securities Third-Party Due Diligence Services as Defined by SEC Release No. 34-72936*. This SOP provides interpretative guidance on applying AT-Cs 105 and 215 of the Statements on Standards for Attestation Engagements (SSAEs) to asset-backed securities third-party due diligence agreed-upon procedure (AUP) engagements. It supersedes SOP 17-1 of the same title.

SOP 21-1 is effective for agreed-upon procedures reports dated on or after July 15, 2021. This is the same effective date as SSAE 19, *Agreed-Upon Procedures Engagements*, which the ASB issued in December 2019, and that superseded AT-C 215 of the same title in SSAE 18.

Agreed-upon procedures are often performed related to structured financings, where financial assets' cash flows and risks are redistributed by issuing new securities that are backed by the same financial assets. The securities are referred to as asset-backed securities. SOP 21-1 includes a glossary of terms relating to engagements described by the SOP.

This SOP applies to practitioners engaged to perform *covered services*, defined as third-party due diligence services in accordance with the SEC's Release No. 34-72936, *Nationally Recognized Statistical Rating Organizations*, and issue a covered services report. An example of due diligence services is comparing information on a data file with the information in a loan file's hard-copy documents, because the work involves reviewing the accuracy of the information about the assets provided by the assets' originator or securitizer. However, recalculating securitized assets' projected future cash flows isn't a due diligence service and isn't covered by the scope of this SOP.

SOP 21-1 includes the requirements for these AUP engagements and related reporting, a sample illustrative covered services AUP report, and a partially completed sample SEC Form ABS Due Diligence-15E (information about the covered services performed and the findings and conclusions). Practitioners aren't required to apply the guidance in this SOP to noncovered services AUP engagements on asset-backed security transactions, but they may choose to consider the guidance.

Practical Consideration:

SOP 21-1 is available at **www.aicpa.org/content/dam/aicpa/research/standards/auditattest/downloadabledocuments/202101-sop.pdf**.

Do You Have a Group Audit?

Many auditors assume they don't have a *group audit* and, therefore, don't determine and document their consideration of whether their audit engagement was a *group audit*. Because group audits have specific auditing requirements under generally accepted auditing standards (GAAS), it's important to assess whether your audit is a group audit.

Group audits are audits of group financial statements. *Group financial statements* include the financial information of more than one *component*, which is any entity or business activity for which management prepares financial information required by accounting standards to be included in group financial statements. They may include the consolidation or combination of subsidiaries or other entities, but they can also include aggregate financial information of other activities, like branches, divisions, or locations.

If the financial statements being audited include financial information of more than one component—

- Identify all the potential components.
- For each component identified, determine their relationship to the group financial statements. Such relationships might include—
    - Consolidated subsidiary
    - Entity included in combined financial statements
    - Joint venture
    - Investee accounted for by the equity method
    - Variable interest entity required to be consolidated
    - Head office and one or more branches or divisions
    - Other combinations of entities or activities organized by function, product, service, or geographic location
- Identify the significance to the group engagement of each component identified and the work to be performed.

The auditing standard that applies to group audits is AU-C 600, *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*. Planning and performing an audit of group financial statements involves the same steps, procedures, and decisions as in any audit performed under GAAS. But in a group audit, each of those steps has special considerations. Some of those considerations include—

- Identifying the risks of material misstatement particularly relevant to the group audit, including the consolidation process.
- Determining who the component auditor is. If an entity has components, there are component auditors. *Component auditors* perform work on the financial information of a component that will be used as audit evidence for the group audit. They may be a member of the group engagement team, part of the group engagement partner's firm, a network firm of the group auditor, or another auditing firm. The requirements of AU-C 600 that apply depend on who is auditing the components.
- Deciding whether to test the operating effectiveness of group-wide controls and whether the engagement team or component auditor should perform the testing.
- Designing and performing audit procedures on the consolidation process, including procedures to evaluate the appropriateness, completeness, and accuracy of the consolidation adjustments and reclassifications.
- Designing and conducting appropriate communications between the group engagement team and the component auditors. AU-C 600.50 indicates that the audit documentation should include written communications between the group engagement team and component auditors about the group engagement team's requirements. (AU-C 600.50 also lists other documentation requirements.)

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- Evaluating the component auditor's communication and the sufficiency of their work.
- Communicating with management and those charged with governance of the group about specific matters relevant to the group audit.
- Determining whether the group auditor will assume responsibility for the work performed by the component auditors or will make reference to them in the audit report.
- Determining materiality of components, and procedures when assuming responsibility for the work of component auditors.