June 2021

New Year, New Audit
How SAS 136 Will Change Benefit Plan Audits

To enhance audit quality for employee benefit plans, the American Institute of Certified Public Accountants (AICPA) has issued Statement on Auditing Standards (SAS) 136, *Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA*. Implementation of SAS 136 means changes for auditors and plan administrators.

What Does SAS 136 Apply To And What Does It Address?

SAS 136 applies to audits of employee benefit plan financial statements subject to the Employee Retirement Income Security Act of 1974 (ERISA). SAS 136 addresses:

- Changes to the form and content of the auditor's report, including when management elects to have an audit performed pursuant to ERISA Section 103(a)(3)(C)
- Conforming modifications to the engagement letter, communications to those charged with governance (audit plan and audit results), and management's representation letter
- New audit procedures related to audit risk assessment and response
- Considerations relating to the Form 5500 filing

Which Organizations Are Impacted?

SAS 136 applies to single employer, multiple employer, and multiemployer plans subject to ERISA and should not be adopted for plans that are not subject to ERISA.

When Is It Effective?

SAS 136 is effective for audits of ERISA plan financial statements for periods ending on or after December 31, 2021.

What Is A Non-ERISA Section 103(a)(3)(C) Audit?

A non-ERISA section 103(a)(3)(C) audit is an audit that was formerly known as a full-scope audit.

What Is An ERISA Section 103(a)(3)(C) Audit?

Formerly known as a limited scope audit, an ERISA Section 103(a)(3)(C) audit does not require the auditor perform procedures over statements or information related to "assets held for investment of the plan by a bank or similar institution or an 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 the Code of Federal Regulations (CFR), *Labor*, Title 29, Section 2520.103-5 of the Department of Labor's (DOL) Rules and Regulations for Reporting and Disclosure under ERISA (*qualified institution*)."

One of the most significant changes in SAS 136 is that when management elects to have auditors exclude certain investments from their audit procedures for ERISA Section 103(a)(3)(C) audits, this no longer constitutes an audit scope limitation and eliminates the disclaimer of opinion.

Instead, the following is included under the *Opinion* caption:

- Amounts and disclosures in the financial statements that are not covered by the certification are presented fairly in accordance with GAAP
- The investment information in the financial statements related to the certified investment information agrees to or is derived from the certified investment information provided by a qualified institution

Significant Impacts On Plan Management

Engagement Acceptance And Procedures

The engagement letter will contain statements confirming the plan administrator is 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 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
- Provide to the auditor, prior to the dating of the auditor's report, a draft of Form 5500 that is substantially complete

When an ERISA Section 103(a)(3)(C) audit is elected, the engagement letter will contain additional statements that the plan administrator is responsible 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
- The certified investment information is appropriately measured, presented, and disclosed in accordance with the applicable financial reporting framework

When Is An ERISA Section 103(a)(3)(C) Audit Permissible?

An ERISA Section 103(a)(3)(C) audit is permissible when a qualified institution, as defined above, certifies the accuracy and completeness of the investment information submitted to the plan administrator.

Investment companies and broker-dealers are not typically considered qualified institutions. Additionally, certifications that address only accuracy or completeness, but not both, are not permissible for an ERISA Section 103(a)(3)(C) audit. Management must conclude the third-party preparing and certifying the investment information is a qualified institution, and determine the certification meets the requirements, rather than relying on the auditor's assessment.

Consistent with the former limited scope audit requirements, auditors will continue to perform procedures over participant data, contributions, benefit payments, and participant account balances, including related earnings and other allocations to such account balances, regardless of whether that information is included in the certified statements.

Communication With Management And Those Charged With Governance

SAS 136 requires auditors to communicate "reportable findings" to those charged with governance.

Reportable Findings	
What are they?	• 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
What is reported?	• A description of the reportable finding(s) • Sufficient information to enable those charged with governance and management to understand the finding(s) • An explanation of the potential effects of the reportable finding(s) on the financial statements or to the plan

Reportable findings must be reported in writing. The standard prohibits auditors from issuing written communications stating no reportable findings were identified as part of the audit.

Written Representations

The following representations will be included in management's written representations to the auditor:

- Management has provided the auditor with the most current plan instrument for the audit period, including all plan amendments
- Management is responsible 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, the following representations are also included:

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

Considerations Relating to Form 5500 Filing

Management will be required to provide a substantially completed draft Form 5500 to the auditor *prior* to the issuance of the auditor's report. Plan administrators who previously provided all or portions of the draft Form 5500 to the auditor after issuance of the audit report, should begin working with Form 5500 preparers to accelerate the preparation timeline.

The auditor is still required to read the draft Form 5500 to identity any material inconsistencies between the ERISA plan financial statements and draft Form 5500. SAS 136 outlines audit procedures to perform, to address such inconsistencies. Lastly, the auditor is required to communicate with those charged with governance the auditor's responsibility with respect to Form 5500, including procedures performed relating to Form 5500 and the results of those procedures.

Independent Auditor's Report – New Layout & Content

The independent auditor's report has been rearranged and provides substantially more details. Exhibit A below is an illustrative example of the changes to a non-ERISA 103(a)(3)(C) auditor's report and Exhibit B is an illustrative example of the changes to an ERISA 103(a)(3)(C) auditor's report.

JohnsonLambert
cpas + consultants

Independent Auditor's Report

[Appropriate Addressee]

Opinion

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.

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.

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 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.

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 401(k) Plan's ability to continue as a going concern for one year after the date that the financial statements are issued.

Management is also responsible for maintaining a current plan instrument, including

Exhibit A - Illustrative auditor's report on comparative financial statements for a defined contribution retirement plan subject to ERISA (comparative statements of net assets available for benefits and a single-year statement of changes in net assets available for benefits) and the auditor has not been engaged to report Key Audit Matters (KAMs).

Newly required information is in **orange text**.

Auditor's Opinion
Now required to be first.

Basis for Opinion
Required to follow Opinion.
NEW statement on independence and ethical responsibilities.

Responsibilities of Management for the Financial Statements

New statements on:

- Responsibility for evaluating going concern
- Maintaining a current plan document
- Administering the plan

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.

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 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.

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

Auditor's Responsibilities for the Audit of the Financial Statements

Now includes descriptions of:

- Reasonable assurance
- Circumstances that may prevent material misstatements from being detected
- Materiality
- Requirement to conclude on the plan's ability to continue as a going concern
- Exercising professional judgement and maintaining professional skepticism
- Required communications with those charged with governance

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 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.

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.

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.

[*Signature of the auditor's firm*]
[*City and state where the auditor's report is issued*]
[Date of the auditor's report]

Other Matter – Supplemental Schedules Required by ERISA

New statement that the form and content was evaluated in formatting the opinion.

Independent Auditor's Report

[Appropriate Addressee]

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

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.

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).

Management has obtained certifications from a qualified institution as of December 31, 20X2 and 20X1, and for the year ended December 31, 20X2, stating that the certified investment information, as described in Note X to the financial statements, is complete and accurate.

Opinion

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

- 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.

Exhibit B – Illustrative auditor's report on comparative financial statements for a defined contribution retirement plan subject to ERISA (comparative statements of net assets available for benefits and a single-year statement of changes in net assets available for benefits) when management elects an ERISA Section 103(a)(3)(C) audit and the auditor has not been engaged to report KAMs.

Newly required information is in **orange text**.

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

This section will precede the audit opinion, and will discuss details surrounding the ERISA 103(a)(3)(C) election including management's request to have the audit 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.

Opinion

Required to follow the *Scope and Nature of the ERISA Section 103(a)(3)(C) Audit*

- the information in the accompanying financial statements related to assets held by 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).

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 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.

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. 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 ABC 401(k) Plan's ability to continue as a going concern for one year after the date that the financial statements are 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.

Basis for Opinion

New statement on independence and ethical responsibilities.

Responsibilities of Management for the Financial Statements

New statements on:

- Election of ERISA Section 103(a)(3)(C) audit does not affect management's responsibility
- Responsibility for evaluating going concern
- Maintaining a current plan document
- Administering the plan

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 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.

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

Auditor's Responsibilities for the Audit of the Financial Statements

Now includes descriptions of:

- Reasonable assurance
- Circumstances that may prevent material misstatements from being detected
- Materiality
- Requirement to conclude on the plan's ability to continue as a going concern
- Exercising professional judgement and maintaining professional skepticism
- Required communications with those charged with governance
- Audit did not extend to the certified investment information, except for outlined procedures

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.

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.

Other Matter – Supplemental Schedules Required by ERISA

- The auditor compared the supplemental schedule to the certified investment information
- Supplemental information not derived from the certified investment information was evaluated in forming the opinion

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 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]

Key Audit Matters (optional)

The AICPA additionally issued SAS 134, *Auditor Reporting and Amendments, Including Amendments Addressing Disclosures in the Audit of Financial Statements,* which replaced several AU-C sections in their entirety and introduced AU-C Section 701, *Communicating Key Audit Matters in the Independent Auditors Report*. While SAS 134 does not require auditors to communicate key audit matters (KAM), the guidance gives management and those charged with governance the option to engage the auditor to communicate KAMs within the auditor's report. If this optional reporting is elected, it will appear in the auditor's report following the "Basis for Opinion" paragraph.

KAMs are defined as:

> Those matters that, in the auditor's professional judgment, were of most significance in the audit of the financial statements of the current period. Key audit matters are selected from matters communicated with those charged with governance.

In determining which matter(s) to report when engaged to report on KAMs, the auditor evaluates matters that required significant attention during the audit, such as:

- Areas of higher assessed risk of material misstatement
- Significant risks
- Areas requiring significant auditor judgment (e.g., accounting estimates with high estimation uncertainty)
- The impact of significant transactions or events

The auditing standards require the items listed above, if any, be communicated with those charged with governance in the audit plan or the audit results. However, only the most significant of those items may be considered KAMs and communicated in the auditor's report.

When the auditor identifies a KAM, the auditor's report includes:

- A description of the matter
- Why the matter was deemed one of the most significant
- How it was addressed during the audit

If the auditor determines there are no KAMs to report, the auditor's report includes a statement to that effect.

Some examples of matters that may be considered KAMs include:

- Significant estimates
- Areas with audit adjustments
- Internal control deficiencies (e.g., failure of plan provisions in relation to the plan document)

When determining whether or not to engage the auditor to report on KAMs, the plan administrator may want to consider the needs of the intended users of the financial statements, and the plan's views about sharing the information communicated in KAMS. Audit reports filed with the plan's Form 5500 are available publicly through the Department of Labor database and any matters reported as KAMs will be widely available.

While the PCAOB has made the reporting of Critical Audit Matters (CAMs), which are similar to KAMs, a requirement in their auditing standards for most public filers, it is optional for those entities audited under the AICPA standards. Similarly, many public companies are required to have the auditor opine on the operating effectiveness of their internal controls over financial reporting while such a report is optional to non public entities. Reporting of CAMs are not required for employee benefit plans audited under PCAOB standards.

As a plan's needs may change over time, a plan not electing KAM reporting now may add the reporting in a future period.

Final Thoughts

Management should work with their auditors before the 2021 plan year end audit to:

- Understand changes to the engagement letter and representation letter
- Discuss the frequency and content of the auditor's communications with those charged with governance and management
- Coordinate Form 5500 preparation to align it with audit report issuance
- Understand changes to the auditor's report
- Decide whether to engage the auditor to report on KAMs

While your auditor may have performed several of the procedures above as they are suggested in the AICPA Audit and Accounting Guide, *Employee Benefit Plans*, SAS 136 now requires these procedures be performed during the planning and performance phases of the audit. Given the additional requirements, auditors may ask for additional supporting information and evidence, and conduct increased inquiries throughout the audit.

The content contained herein should not be relied upon as accounting, consulting, or tax advice as it does not take into account any specific organization's facts and circumstances. For more information or to contact us, visit our website: JohnsonLambert.com
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Exhibit A - Illustrative auditor's report on comparative financial statements for a defined contribution retirement plan subject to ERISA (comparative statements of net assets available for benefits and a single-year statement of changes in net assets available for benefits) and the auditor has not been engaged to report KAMs.

Newly required information is in orange text.

Independent Auditor's Report

[Appropriate Addressee]

Opinion

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.

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.

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 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.

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 401(k) Plan's ability to continue as a going concern for one year after the date that the financial statements are 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.

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 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.

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 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.

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.

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.

[*Signature of the auditor's firm*]
[*City and state where the auditor's report is issued*]
[Date of the auditor's report]

Exhibit B - Illustrative auditor's report on comparative financial statements audited in accordance with SAS 136 for a defined contribution retirement plan subject to ERISA (comparative statements of net assets available for benefits and a single-year statement of changes in net assets available for benefits) when management elects an ERISA Section 103(a)(3)(C) audit and the auditor has not been engaged to report KAMs.

Newly required information is in orange text.

Independent Auditor's Report

[Appropriate Addressee]

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

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.

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).

Management has obtained certifications from a qualified institution as of December 31, 20X2 and 20X1, and for the year ended December 31, 20X2, stating that the certified investment information, as described in Note X to the financial statements, is complete and accurate.

Opinion

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

- 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.
- the information in the accompanying financial statements related to assets held by 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).

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 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.

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. 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 ABC 401(k) Plan's ability to continue as a going concern for one year after the date that the financial statements are 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.

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 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.

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.

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 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]