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SAS 136: The New Audit Standard for Employee Benefit Plans and Its Impact on Plan Sponsors

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The American Institute of Certified Public Accountants (AICPA) issued a new audit standard for employee benefit plans in July 2019. The new standard is commonly referred to as SAS 136, but its official name is "Statement on Auditing Standards (SAS) No. 136, Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA." Although SAS 136 imposes new duties on auditors, plan sponsors also have increased responsibilities under this new standard.

SAS 136 was originally effective for periods ending on or after December 15, 2020. Due to the COVID-19 pandemic, the effective date was delayed to December 15, 2021. Auditors may implement the standard as of the original effective date, so plan sponsors may want to become familiar with the new rules now to ensure they are prepared.

Background Information

In general, the Employee Retirement Income Security Act of 1974 (ERISA) requires that a sponsor of a plan that has 100 or more participants at the beginning of the plan year to engage an independent qualified public accountant to conduct an audit of the plan's financial statements. ERISA section 103(a)(3)(C) gives plan sponsors the ability to elect limited-scope audits. Under this type of audit, the auditor does not audit investment information prepared and certified by a "qualified institution," such as a bank, insurance company, or similar financial institution, provided that the institution certifies both the accuracy and completeness of the information submitted. Because the scope of the audit is limited, the auditor may issue a disclaimer of opinion.

The U.S. Department of Labor (DOL) expressed concern regarding limited-scope audits. After conducting a study on the quality of plan audits, the DOL discovered major deficiencies in ERISA plan audits. The AICPA issued SAS 136 in response to the DOL's findings to enhance the quality of the audits of employee benefit plans subject to ERISA

SAS 136

SAS 136 addresses auditors' responsibilities when conducting ERISA plan audits. The new standard affects all phases of audits, including engagement acceptance and reporting. It also significantly revises the form and content of the audit report to provide greater transparency regarding the scope and nature of the audit. Further, the new standard requires plan sponsors to provide additional information and documentation to the auditor. The following key provisions may have major implications for plan sponsors.

Limited-Scope Audits

Plan sponsors may continue to exclude certified investment information from an audit in accordance with ERISA. However, under SAS 136, limited-scope audits are now referred to as “ERISA §103(a)(3)(C) audits” and no longer have a scope limitation. Therefore, instead of issuing a disclaimer of opinion, an auditor will issue an opinion that will consist of two parts: (1) an opinion on the fair presentation of information in the financial statements not covered by the certification and (2) an opinion on whether the investment information in the financial statements reconciles with information in the certification.

If a plan sponsor elects an ERISA §103(a)(3)(C) audit, the plan sponsor must provide the auditor with a written acknowledgement that the audit is permissible and that the certification satisfies the ERISA requirements.

Acknowledgement of Responsibility

Under SAS 136, the plan sponsor will be required to acknowledge its responsibility for the plan’s administration in the audit engagement letter. In addition, the plan sponsor will be required to provide certain written representations at the end of the audit regarding its responsibilities. These responsibilities include maintaining a copy of the current plan document and amendments, ensuring that plan transactions are consistent with plan provisions, and maintaining sufficient participant records to determine the benefits due under the plan. Although a plan sponsor may use a service provider to assist with the plan’s administration, it is the plan sponsor’s responsibility to make sure that plan documents are maintained and that plan transactions are accurate and properly documented.

Form 5500

Prior to the issuance of an audit report, SAS 136 requires plan sponsors to provide auditors with a draft of a substantially completed Form 5500, including related schedules. The auditor will review the documents to identify any material inconsistencies between the financial statements and the Form 5500. If there are discrepancies, the auditor will determine whether the Form 5500 or financial statements need to be corrected. The plan sponsor may need to coordinate with the preparer of the Form 5500 to ensure that the auditor will receive a substantially completed Form 5500 in a timely manner.

Once SAS 136 becomes effective, plan sponsors may be spending more time preparing for the audit. Plan sponsors may want to ensure that they understand their new responsibilities, evaluate current procedures, and make any necessary adjustments to comply with the new requirements under SAS 136.

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