

SAS-136 Overview:

Considerations for Plan Officials



As fiduciaries, plan officials have an obligation to evaluate and select an appropriate auditor and determine the type of audit.

The plan audits requirements have recently changed, and plan fiduciaries should be aware of how these changes impact their plan and even the selection of the plan auditor. The American Institute of Certified Public Accountants (AICPA) recently changed the plan audit rules and now is a good time to review the requirements to ensure the appropriate type of audit is performed. The new rules are known as the Statement of Accounting Standard Rules, No. 136 (SAS-136). The AICPA had concerns about the quality and consistency of plan audits so new rules were **promulgated requiring additional certifications and expanded the focus of the audit**. This paper is intended to provide plan **fiduciaries** an overview of the changes and the potential impact on their audit process.

TYPES OF AUDITS

Plan officials select one of two types of plan audits; the first, known as the full scope audit is more expansive; the second, known as the 103(a)(3)(C) audit (formerly known as a limited scope audit), is narrower and may be less costly. Let's review each type of audit.

Full scope audit

Under a full scope audit all financial records and transactions are included within the scope of the audit. As an example, under a full scope audit the auditor would sample and test financial records of the custodian, trustee and/or recordkeeper.

103(a)(3)(C) audit

A 103(a)(3)(C) audit is narrower than a full scope audit. This narrower audit does not include the records of the custodian, trustee and/or recordkeeper and is less time consuming and expensive. Thus, from a cost perspective a 103(a)(3)(C) audit is preferable. However, a 103(a)(3)(C) audit is permissible only if certain conditions are satisfied. These conditions generally require additional certifications and documentation on the part of other plan service providers if a 103(a)(3)(c) is elected. Certifications made by a "qualifying institution", usually a bank, trust department or insurance carrier, are allowable for a 103(a)(3)(C) audit.

In order to fulfil the Department of Labor's requirements for certification, there must be three key elements in the written certification provided by the "qualifying institution":

- ☐ Notes that the information is either accurate
- ☐ Notes that the information is complete
- ☐ Certification is signed by an authorized individual of the "qualifying institution"

Note: other disclosures and reports are necessary to satisfy the 103(a)(3)(C) audit requirements and these issues are beyond the scope of this paper.

ACTION STEP: Plan sponsors should inquire to see if their recordkeeper service provider is a “qualifying institution” and if they will provide the certification with the three key elements for their plan audit to qualify for a 103(a)(3)(C) audit.

YES - the recordkeeper will provide compliant certification.

ACTION STEP: It is the responsibility of the plan committee to make a determination if the certifications satisfy the 103(a)(3)(C) requirements.

ACTION STEP: This determination should be documented and saved in the plan’s fiduciary files.

NO - the recordkeeper will not provide adequate certification.

ACTION STEP: The plan sponsor should engage with their auditor early in the year and notify them that a full scope audit is required. This may increase the cost of the annual audit. The Plan Sponsor may also consider engaging their plan advisor to conduct an RFP including alternate recordkeepers who will provide certification for their plan audit to qualify for a 103(a)(3)(C) audit in the future.

OTHER AUDIT ELEMENTS

The auditor must examine relevant plan provisions to determine if the plan is being administered according to its terms. Inquiry is important to ascertain if the scope of the audit is appropriate as required by the SAS-136.

Appendix A

Appendix A in SAS-136 provides a list of factors for auditors to consider during the audit process. Plan fiduciaries can use this list to help assess the thoroughness of the plan audit.

ACTION STEP: Plan sponsors should inquire with their current (or prospective) auditor(s) to see which of the following items from Appendix A will be considered during the annual audit. It is suggested that any plan auditor should test a significant number of the suggested items, if not all items during the audit to provide a thorough and accurate audit.

Appendix A items include:

Individual Participant Accounts

- Participation and eligibility requirements
- Types of contributions and distributions
- Timing of contributions
- Contribution limitations
- Investment of contributions
- Allocations to participant accounts
- Forms of distributions
- Benefit commencement dates
- Vesting and forfeitures
- Service requirements and credits
- Participant loans
- Transfers
- Administration of the plan

Contributions and Contributions Receivable

- Participation and eligibility requirements
- Types of contributions
- Timing of contributions
- Contribution limitations
- Investment of contributions
- Use of forfeitures
- Service requirements and credits
- Allocations to participant accounts

Distributions and Related Obligations

- Eligibility requirements (distributable events)
- Types of distributions
- Forms of distribution
- Benefit commencement dates
- Determination of benefits
- Vesting
- Service requirements and credits
- Allocations to participant accounts

Loans to Participants

- Eligibility requirements
- Loan terms
- Allocations to participant accounts

Investments and Investment Income

- Investment of contributions
- Administrative provisions
- Direction of investments
- Allocations to participant accounts

Expenses

- Administrative provisions
- Allocations to participant accounts

Will the auditor test a reasonable number of items from SAS-136 and otherwise be able to provide a sufficient audit of the plan that will satisfy SAS-136?

YES - The plan sponsor determines the auditor to have the expertise and knowledge to provide a sufficient audit of the plan that will satisfy SAS-136.

ACTION STEP: This determination should be documented and saved in the plan's fiduciary files.

NO - The plan sponsor determines that the auditor is not prepared to audit a sufficient number of factors as noted in Appendix A and/or is not appropriate to be retained as the plan auditor.

ACTION STEP: The Plan Sponsor should engage their plan advisor to conduct an advisor RFP including alternate auditors who will provide sufficient for their plan audit to qualify for a 103(a)(3)(C) audit in the future.

The complete SAS-136 Audit requirements can be found here: <https://us.aicpa.org/content/dam/aicpa/research/standards/auditattest/downloadabledocuments/sas-136.pdf>

Summary of plan committee considerations:

- Determine if the recordkeeper will provide the appropriate certification with the three key elements for their plan audit to qualify for a 103(a)(3)(C) audit.
- Determine if the auditor has the expertise and knowledge to provide a sufficient audit of the plan that will satisfy SAS-136.
- Document these fiduciary activities and save in the plan's fiduciary files.

For assistance in completing these fiduciary duties, contact me.



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