New Pension Standards

In June 2012, the Governmental Accounting Standards Board (GASB) issued two new standards that will substantially change the accounting and financial reporting of public employee pension plans and the state and local governments that participate in such plans. GASB Statement No. 67, Financial Reporting for Pension Plans, revises existing guidance for the financial reports of most governmental pension plans. GASB Statement No. 68, Accounting and Financial Reporting for Pensions, revises and establishes new financial reporting requirements for most governments that provide their employees with pension benefits. GASB Statement No. 67 is effective for financial statements for periods beginning after June 15, 2013. GASB Statement No. 68 is effective for financial statements for fiscal years beginning after June 15, 2014. This whitepaper was prepared by the AICPA State and Local Government Expert Panel (SLGEP) and is intended to describe accounting and auditing issues facing governmental employers (employers) that participate in agent multiple-employer defined benefit pension plans (agent plan or plan), as well as best practice solutions to address these issues.
What has Changed – Employers Must Recognize Their Specific Pension Amounts

As background, an agent plan is one in which the assets of the employers are pooled for investment purposes but separate accounts are maintained for each individual employer. It is essentially a collection of single-employer pension plans that are commonly administered. Such plans frequently have a large number of participating employers, often in the thousands.

Prior to implementing GASB Statement No. 68, employers participating in an agent plan recognize annual pension cost under a funding approach. Pension expense is derived from a measure of an annual required contribution to the plan. Pension liabilities result from the difference between contributions required and contributions made.

Once GASB Statement No. 68 is implemented, employers will be required to recognize a liability as employees earn their pension benefits (that is, as they provide services to the government). For the first time, employers participating in agent plans will recognize their specific pension amounts which include net pension liability, deferred outflows of resources, deferred inflows of resources, and pension expense (that is, specific pension amounts) as illustrated in Figure 1 below. To the extent that the employer’s long-term obligation to provide pension benefits (that is, total pension liability) is larger than the value of the assets available in the plan to pay pension benefits (that is, fiduciary net position), there is a net pension liability. While the employer may have recorded a liability related to pensions (under the funding approach), the implementation of GASB Statement No. 68 is significant because the net pension liability will appear on the face of the employer’s accrual-based financial statements for the first time, along with the employer’s other long-term liabilities. In many cases, the net pension liability will be material, perhaps more so than any other long-term liability appearing in the financial statements. Further, changes in the net pension liability will be recognized immediately as pension expense or reported as deferred outflows of resources or deferred inflows of resources, depending on the nature of the change, which could result in reporting three possible categories of deferrals for presentation purposes.3

1 Some agent plans include special funding situations which are situations where a nonemployer entity is legally responsible for making contributions directly to a pension plan that is used to provide pensions to the employees of another entity or entities (for example, state government contributes to a local government plan). This whitepaper does not address special funding situations. If such a situation exists, the accounting treatment for the employer would be different than that described in this whitepaper. See GASB Statement No. 68, Accounting and Financial Reporting for Pensions, for more information.

2 In this whitepaper references to a net pension liability also apply to situations in which the fiduciary net position exceeds the total pension liability resulting in a net pension asset.

3 The three possible categories of deferrals include: (1) differences between expected and actual experience with regard to economic or demographic factors (that is, differences between expected and actual experience); (2) net difference between projected and actual earnings on pension plan investments; and (3) changes of assumptions about future economic or demographic factors or of other inputs (that is, changes of assumptions).
Employer Challenges - Recognizing Their Specific Pension Amounts and Related Auditor Issues

A major challenge faced by each employer participating in an agent plan is how the employer will obtain all necessary information to support their specific pension amounts including net pension liability, deferred outflows of resources, deferred inflows of resources, and pension expense (see Figure 1 above). This is because these specific pension amounts are dependent on certain accounting records maintained by the plan, the controls and processes of the plan, as well as the calculations by the plan’s actuary. The employer is solely responsible for its financial statements and, therefore, employer management must establish financial reporting processes and controls over the recognition, measurement, presentation and disclosure of its various pension amounts.

Similarly, employer auditors will be challenged in terms of obtaining sufficient appropriate audit evidence regarding the specific pension amounts included in employer financial statements. AU-C section 500, Audit Evidence, states that the objective of the auditor is to design and perform audit procedures that enable the auditor to obtain sufficient appropriate audit evidence to be able to draw reasonable conclusions on which to base the auditor’s opinion.

While the GASB considered these challenges in developing GASB Statement No. 67, it concluded that the issues would be best addressed through coordination and communication between the plans and employers. There is no question that significant interaction between the plans, participating employers, actuaries, and related auditors will be needed for purposes of corroborating specific pension amounts in employer financial statements.

The following sections further describe additional background on some of the challenges that will need to be overcome.

Limitations with the Audited Statements of the Plan

Under GASB Statement No. 67, the financial statements of agent plans do not include the specific pension amounts required to be reported by participating employers and these employers do not have direct access to the underlying plan records and data supporting such amounts. Additionally, the plan financial statements do not disclose actuarial information for each individual employer or the plan as a whole. Actuarial information for each employer, including census data submitted to the actuary, underpins the calculation of the employer’s net pension liability.

Another challenge is that the financial statements of agent plans only report fiduciary net position for the plan as a whole. As fiduciary net position is a component necessary to calculate net pension liability (see
Figure 1), employers need their specific interest in the agent plan’s fiduciary net position (that is, their separate account information) which the plan is not required to report in its financial statements.

Participating employers will need information beyond what is provided in the audited financial statements of the plan to determine their specific pension amounts.

**Verifying Completeness and Accuracy of Census Data**

Actuarially derived pension amounts (that is, total pension liability, deferred outflows of resources, deferred inflows of resources, and pension expense) are dependent on demographic data of the plan participants, which is referred to as census data. Significant elements of census data may include: date of birth; date of hire or years of service; marital status; eligible compensation; class of employee; gender; date of termination or retirement; spouse date of birth; and employment status (that is, active, inactive, or retired).

The underlying records of the census data are typically maintained by different parties. Most commonly, the underlying records of active members are maintained by the employers. The underlying records of plan participants who are no longer employed by the government (that is, inactive or retired members) are maintained by the plan. However, regardless of who maintains the underlying records, the plan acts as the record-keeper for census data, as the plan prepares a census data file to provide to the actuary which is based, in part, on information reported to the plan by the participating employers on a periodic basis. The census data file is an accumulation of census data information reported over numerous years that is continually adjusted by the plan based on known events. Thus, another challenge facing employers is how to determine whether census data pertaining to their inactive and retired members is complete and accurate and whether the plan has properly accumulated the census data information for active members reported to it by participating employers in the census data file provided to the actuary.

**AICPA SLGEP Recommends Two-Part Best Practice Solution**

The differences in reporting requirements for the plan compared to the employer are significant. Given the nature of the elements the employer is required to report, the AICPA SLGEP is recommending one best practice solution to address total pension liability, deferred outflows of resources, deferred inflows of resources, and pension expense and another best practice solution to address the employer’s specific interest in the agent plan’s fiduciary net position.

With regard to beginning balances, the best practice solutions described herein assume that the plan and employers have historically prepared financial statements in accordance with generally accepted accounting principles and auditors reported on those financial statements in accordance with generally accepted auditing standards. If opinion modifications or other matters were reported, employer auditors would need to assess the impact of those issues on the audit of the employer, including beginning balances.

The best practices recommended in this whitepaper address the reporting changes by the plan upon implementation of GASB Statement No. 67 (that is, plans are no longer required to disclose actuarial information and total pension liability) and by the employers upon implementation of GASB Statement No. 68 (that is, employers are required to report additional elements). The following two sections of this whitepaper discuss the AICPA SLGEP best practice solutions in more detail.
To overcome the various challenges described above relating to obtaining sufficient appropriate evidence on the employer specific total pension liability, deferred outflows of resources, deferred inflows of resources, and pension expense (as illustrated in Figure 2 above) the AICPA SLGEP recommends the following solution, which is further explained below:

- The plan actuary issues a separate actuarial valuation report specific to each employer which includes an actuarial certification letter addressed to employer management; and
- The plan engages its auditor to issue either:
  - Option 1: A service organization controls 1 (SOC 1) Type 2 report on controls over census data maintained by the plan, or
  - Option 2: An examination engagement over selected management’s assertions related to census data maintained by the plan.

The employer auditor is solely responsible for the audit of the employer’s financial statements and, therefore, is responsible for determining the sufficiency and appropriateness of audit evidence necessary to reduce audit risk to an appropriately low level. The best practice solution discussed herein may need to be tailored to fit the particular risks identified at the employer level.

Plan Actuary Issues Separate Actuarial Valuation Reports for Each Employer

As explained previously, employers that participate in an agent plan have to recognize their specific pension amounts. For employers to calculate these amounts, a separate actuarial valuation is needed for each employer based on their specific census data and plan provisions. In order for the employer and the employer auditor to consider the actuary as a management’s specialist for the indicated pension amounts, employer management needs to obtain an actuarial valuation report specific to their entity. The AICPA SLGEP recommends the actuary of the plan issue a separate actuarial valuation report for and addressed to each employer in the plan, which would include total pension liability, fiduciary net position, net pension liability, deferred outflows of resources and deferred inflows of resources by category and year, pension expense, the discount rate calculation (including comparing projections of the pension
plan’s fiduciary net position to projected benefit payments), and other standard actuarial information. The AICPA SLGEP also recommends the actuarial certification letter be addressed to employer management.

In using the work of a management’s specialist as evidence, the employer auditor should determine whether the actuarial valuation is relevant and reliable for the employer’s financial reporting purposes. In the case of agent plans, the actuary is usually engaged by the plan to perform an actuarial valuation for all participating employers. It is important to understand whether the actuary’s work is designed appropriately at the level of each individual employer, as opposed to the plan as a whole. For example, the actuary should consider the appropriateness of assumptions and methods used for each individual employer under GASB Statement No. 68.

Plan Auditor Engaged to Issue SOC 1 Type 2 Report or Issue Examination Report on Controls over Census Data Maintained by the Plan

As previously discussed, plans maintain the underlying records of plan participants that are no longer employed by the government (that is, inactive or retired members). The plan acts as the record-keeper for census data and prepares and maintains the census data file provided to the actuary. Therefore, the employer auditor needs evidence from the plan that census data has been properly accumulated and adjusted over the past year and that appropriate procedures have been performed to determine payments are only made to retired members. The AICPA SLGEP recommends two options for how such evidence might be obtained from the plan.

Option 1: Plan Engages Its Auditor to Issue a SOC 1 Type 2 Report on Controls over Census Data Maintained by the Plan

Due to the responsibilities of the plan for the census data described previously, the plan is acting as a service organization with regard to the census data maintained by the plan. A service organization is defined in AU-C section 402, Audit Considerations Relating to an Entity Using a Service Organization, as “an organization or segment of an organization that provides services to user entities that are relevant to those user entities’ internal control over financial reporting.” Option 1 recommends the plan engage its auditor to conduct an attest engagement under AT section 801, Reporting on Controls at a Service Organization, and issue a SOC 1 Type 2 report on the controls over census data maintained by the plan.

There are two types of SOC 1 engagements. A Type 1 engagement tests, among other things, assertions that controls are suitably designed. A Type 2 engagement incorporates all the elements of a Type 1 engagement, but also determines whether such controls were operating effectively during a specified period (that is, the calendar or fiscal year for which the actuarial valuation was performed).

A SOC 1 Type 2 report provides a streamlined way to obtain detailed information on the controls of the plan over a stated period of time. A SOC 1 Type 2 report provides:

- Descriptions of the controls in place;
- An independent opinion about whether the controls were suitably designed and operating effectively;
- A simplified way for the plan to fulfill fiduciary responsibilities; and
- Focus on exceptions and issues.

Employer auditors should consider the guidance in AU-C section 402. In order to properly utilize a SOC 1 Type 2 report, employers and their auditors will need to evaluate a number of factors, including the following:
• The service auditor’s professional competence and independence from the service organization;
• Whether the specified period covered by the SOC 1 Type 2 report is appropriate for their purposes;
• Nature of the opinion provided in the SOC 1 Type 2 report, whether there are any opinion modifications and, if so, how those modifications impact them;
• The sufficiency and appropriateness of the evidence provided by the report for their purposes; and
• Whether complementary user entity controls identified by the service organization were appropriately designed and implemented and operating effectively throughout the period covered by the employer’s financial statements.

The intent of the SOC 1 Type 2 report is to provide evidence that the plan’s internal control over the completeness and accuracy of census data maintained by the plan are suitably designed and operating effectively.

Option 2: Plan Engages Its Auditor to Perform Examination Engagement on Census Data Maintained by the Plan
Under Option 2 the plan would engage its auditor to perform an examination engagement in accordance with AT section 101, Attest Engagements, to provide employers with evidence related to the census data maintained by the plan. The management assertions to which the plan auditor would attest will vary from plan to plan, but the nature of the assertions needs to address the completeness and accuracy of census data for inactive and retired members as well as the accumulation of the census data provided to the actuary. The following are illustrations of possible management assertions for use in such an engagement when the plan has a year-end of June 30, 20X3 and uses a beginning of the year actuarial valuation of July 1, 20X2:

1. The census data provided to the actuary as of July 1, 20X2 is complete and accurate based on the accumulation of census data reported by participating employers for the period from July 1, 20X1 to June 30, 20X2. Census data includes the following: [(list relevant attributes) for example, date of birth; date of hire; years of service; marital status; eligible compensation; class of employee; gender; date of termination or retirement; spouse date of birth; employment status; and annual benefit payments for retirees], as set forth in [(name plan document), for example, Chapter X of Example State Compiled Statutes].

2. The census data provided to the actuary as of July 1, 20X2 properly reflects current benefit provisions in effect as of July 1, 20X2 included in [(name plan document), for example, Chapter X of Example State Compiled Statutes].

3. The census data provided to the actuary as of July 1, 20X2 properly excludes deceased members based on the plan’s validation of the existence of inactive and retired members by cross matching social security numbers of inactive and retired members with the Social Security Administration as of [insert date].

Other Employer and Employer Auditor Responsibilities Relating to Census Data and Specific Pension Amounts
Finally, employers and their auditors have additional responsibilities as further described below.
Employer Responsibilities

The employer is solely responsible for its financial statements and, therefore, employer management is responsible for establishing financial reporting processes and controls over the measurement of its specific pension amounts (for example, total pension liability). Management may have individuals within its organization with appropriate actuarial experience. However, in many cases, management of the employer relies on an external specialist (actuary) who has been engaged by the plan to assist them in preparing an estimate of the specific pension amounts, including total pension liability, through an actuarial valuation. As previously discussed, employer management should receive an actuarial valuation report specific to their entity.

There are numerous assumptions (or inputs) to the actuarial valuation that are characterized by predictions of future conditions or events, including (but not limited to) discount rate, salary changes, ad hoc postemployment benefit changes, inflation, and mortality. Many of these assumptions are supported by census data.

Employer management must support the assumptions with appropriate, reliable, and verifiable information. It ordinarily is not sufficient to rely solely on assumptions provided by the actuary. In some cases, the assumptions may be reliably based on external sources (for example, published interest rates or group experience studies) or internal sources (for example, historical information based on mortality experience studies by the employer). Alternatively, some of the assumptions may be more subjective than others. The extent of subjectivity, such as whether an assumption or input is observable, influences the degree of estimation uncertainty, and thereby the risk of misstatement.

In the case of the discount rate, management should be able to support the discount rate specific to the employer (not the plan as a whole) based on a projection of the employer specific fiduciary net position and the amount of projected benefit payments expected to be paid from available employer specific fiduciary net position in future periods. The long-term expected rate of return component is forward-looking and is usually based on future expected returns that are weighted based on the plan’s target asset allocation. The long-term expected rate of return is often supported through modeling and the use of published forward rates which are evaluated based on the probability of achievement of those rates. It ordinarily is not sufficient to rely solely on past investment experience.

Employer management must also be able to support the underlying census data used by the actuary. As the employer has access to the records substantiating the census data provided on active members, the employer should have processes and controls in place to determine that complete and accurate information is reported to the plan and the plan actuary regarding active members. Management should obtain on an annual basis the census data file submitted by the plan to the actuary and determine whether the census data is complete and accurate. In evaluating the census data file, the employer may compare the information to underlying payroll records and the prior year census data file. The employer may also obtain a roll forward of the census data from one year to the next and review a reconciliation for any significant differences.

Employer Auditor Responsibilities

Separate actuarial report for each employer

To use the work of the actuary discussed previously (that is, management’s specialist) as audit evidence, the employer auditor should evaluate the competence, capabilities, and objectivity of the actuary, obtain an understanding of the work of the actuary, and evaluate the appropriateness of the actuary’s work as
audit evidence as discussed in paragraph .08 of AU-C section 500. There will ordinarily be an engagement letter or other written form of agreement between the plan and the actuary. Evaluating that agreement when obtaining an understanding of the work of the management’s specialist may assist the employer auditor in determining:

- The nature, scope, and objectives of the actuary’s work;
- The respective roles and responsibilities of management and the actuary; and
- The nature, timing, and extent of communication between management and the actuary, including the form of any report to be provided by the actuary.

There are other auditor considerations discussed in the section above titled, “Plan Actuary Issues Separate Actuarial Valuation Reports for Each Employer.”

Often, an employer auditor may require special skill or knowledge when using an actuarial valuation as audit evidence. This may require the employer auditor to use the work of an auditor’s specialist (internal or external) to obtain sufficient appropriate audit evidence. The nature, timing, and extent of the auditor’s procedures with respect to the requirements in AU-C section 620, Using the Work of an Auditor’s Specialist, will vary depending on the circumstances, and the auditor should consider the matters in paragraph .08 of AU-C section 620.

Ultimately, the employer auditor should evaluate whether the actuarial valuation is appropriate and consistent with the requirements of GASB Statement No. 68, the assumptions used by management are reasonable in light of the measurement objectives, and the underlying census data is complete and accurate.

Completeness and accuracy of census data

When evaluating whether the underlying census data is complete and accurate, the employer auditor may consider performing the following:

Procedures related to active, inactive, and retired members:

- Obtain the underlying census data file sent to the actuary from either the actuary or the plan. If obtained from the plan, it is important that the employer auditor obtain evidence that information obtained from the plan was the same information reported to and used by the actuary (for example, obtaining a written confirmation from the actuary); Obtain and review a reconciliation of aggregate census data (for example, the number of members and covered compensation reported in the census data file to amounts shown in the actuarial valuation report);
- Obtain and review a roll forward of the census data from one year to the next and review a reconciliation of any differences; and
- Compare the number of members for the current year versus the prior year, as well as the number of members versus the number of employees.

Additional procedures related to active members:

- Select a sample of new active members from the census data file used by the actuary and determine that the participants are eligible to participate in the plan in accordance with the plan
document and agree selected participant information (birth date, hire date, covered payroll, gender, marital status, and period of service) with employer personnel files;

- Select a sample of active members from the census data to test the accuracy of the census data reported to the plan during the year (for example, new activity from the year including covered payroll and service credits as well as birth date, hire date, gender, marital status, and period of service); and
- Select a sample of employees from the employer’s payroll system to determine whether they are properly enrolled in the plan and included in the census data file or properly excluded from the plan.

Before using the work of the plan auditor as evidence, regardless of whether the SOC 1 Type 2 or examination-level reporting options described above are used, the employer auditor should evaluate whether the plan auditor’s report is adequate and appropriate for the employer auditor’s purposes. For example, the employer auditor may review the plan auditor’s report and any related opinion modifications or exceptions and assess other matters discussed in the report. Additionally, the employer auditor should evaluate whether the plan auditor has the necessary competence and independence for the employer auditor’s purposes.

**Best Practice Solution for Fiduciary Net Position**

To overcome the various challenges described in the section titled, “Employer Challenges – Recognizing Their Specific Pension Amounts and Related Auditor Issues,” relating to the fiduciary net position component of net pension liability (as illustrated in Figure 3 above), the AICPA SLGEP recommends the following solution, which is further explained below:

- The plan prepares a schedule of changes in fiduciary net position by employer and related notes to the schedule; and
- The plan engages its auditor to opine on the schedule of fiduciary net position by employer either through:
  - Option 1: An opinion on the schedule as a whole combined with a SOC 1 Type 2 report on the controls over the calculation and allocation of additions and deductions to employer accounts, or
  - Option 2: An opinion on each employer column in the schedule.
Plan Prepares a Schedule of Changes in Fiduciary Net Position by Employer

The AICPA SLGEP recommends the plan prepare a schedule of changes in fiduciary net position by employer and related notes to the schedule. Such a schedule could be presented as a stand-alone schedule or included as a supplemental schedule in the plan’s financial statements. This schedule would display the additions to fiduciary net position (that is, contributions by employers and plan members and net investment income); deductions from fiduciary net position (that is, pension benefits, including refunds, and administrative expenses); as well as the beginning and end of year net position for each employer. This schedule would provide a starting point for verifying the fiduciary net position component of the net pension liability.

An example of this schedule is included in Figure 4 below.

Plan Engages Its Auditor to Opine on the Schedule of Changes in Fiduciary Net Position by Employer

The employer auditor needs audit evidence that fiduciary net position and changes in fiduciary net position specific to the employer and included in the employer’s financial statements are not materially misstated. The AICPA SLGEP recommends two options for the plan auditor reporting on the schedule that could provide such audit evidence for the employer auditor.

Option 1: Plan Engages its Auditor to Opine on the Schedule as a Whole and to Issue a SOC 1 Type 2 Report on the Controls over the Calculation and Allocation of Additions and Deductions to Employer Accounts

Option 1 is based primarily on the plan engaging its auditor to obtain reasonable assurance and report on the schedule of changes in fiduciary net position by employer as a whole, and related notes to the schedule in accordance with AU-C section 805, Special Considerations – Audits of Single Financial
Because the employer needs evidence related to fiduciary net position as of the end of the period, as well as changes in fiduciary net position during the period, the AICPA SLGEP recommends that in reporting on the schedule as a whole, the plan auditor report on two elements: the fiduciary net position as of the end of the period and the changes in fiduciary net position during the period. Such an approach would involve a separate materiality calculation for each element being opined on (that is, fiduciary net position as of the end of the period and the changes in fiduciary net position during the period).

When establishing materiality for the schedule for purposes of reporting on the schedule as a whole, the plan auditor should consider the common needs of the user groups (for example, employers) and the elements on which the auditor is reporting. Accordingly, materiality for the elements of the schedule being opined upon would likely be established at a level lower than for the financial statements of the plan as a whole, but higher than the materiality if opining on each employer column. Additionally, when performing the audit of the schedule as a whole, the auditor would ordinarily design the audit so that procedures performed would provide some substantive evidence that amounts are properly reported in the appropriate employer columns. For example, when testing employer contributions, the auditor would likely select a sample that includes multiple employers to obtain evidence about whether the contributions were recorded in the appropriate employer columns. Similarly, when testing pooled investments, the auditor would likely perform substantive procedures to obtain evidence about whether the allocation of investment income to the respective employer accounts is correct.

In addition to engaging the auditor to report on the schedule as a whole, the AICPA SLGEP recommends the plan engage its auditor to provide an in-relation-to opinion as discussed in AU-C section 725, *Supplementary Information in Relation to the Financial Statements as a Whole* on each employer column in relation to the basic financial statements of the plan as a whole. The in-relation-to opinion is intended to make clear that the auditor is not opining on each employer column. Accordingly, the AICPA SLGEP also recommends the auditor clearly state that they are not expressing an opinion on the fiduciary net position or changes in fiduciary net position of each individual employer.

While having the auditor opine on the schedule as a whole does provide some evidence that amounts are accurate and reliable for each employer, such an opinion would not provide assurance at a level needed for each individual employer and would not provide sufficient evidence on the allocation of additions and deductions to each employer.

While Option 1 involves an opinion on the schedule as a whole, individual employers need evidence that their specific interest in the agent plan’s fiduciary net position (employer column) is accurate and reliable.

In order to properly account for each employer’s specific interest in the agent plan’s fiduciary net position, the plan has to calculate and allocate additions and deductions for each employer’s separate account. In this regard, the plan is acting as a service organization. Thus, in Option 1, the AICPA SLGEP recommends a SOC 1 Type 2 report on the controls over the calculation and allocation of additions and deductions to employer accounts because that would give employers evidence that controls over the plan’s calculation and allocation of the various additions (that is, contributions and net investment income)
and deductions (that is, benefit payments, refunds, and administrative expenses) to employer accounts are suitably designed and operating effectively.

**Option 2: Plan Auditor Engaged to Opine on Each Employer Column**

Option 2 is based on the plan engaging its auditor to obtain reasonable assurance and report in accordance with AU-C section 805 on both the schedule as a whole and on each employer column in the schedule of changes in fiduciary net position by employer and related notes to the schedule. Such an approach would involve separate materiality calculations for each employer column in the schedule, as well as the schedule as a whole.

**Other Employer and Employer Auditor Responsibilities Relating to Fiduciary Net Position**

Finally, employers and their auditors have additional responsibilities as further described below.

**Employer Responsibilities**

The employer is solely responsible for its financial statements and, therefore, is responsible for establishing financial reporting processes for measuring its net pension liability. The employer has a responsibility to determine whether their specific amounts are accurate and fairly presented (for example, contributions).

**Employer Auditor Responsibilities**

The employer auditor is solely responsible for the audit of the employer's financial statements and, therefore, is responsible for determining the sufficiency and appropriateness of audit evidence necessary to reduce audit risk to an appropriately low level. Under Option 1, since the opinion is on the schedule as a whole (not on each employer column), the employer auditor would likely need to perform additional procedures to obtain sufficient audit evidence related to the employer specific amounts. Accordingly, when evaluating whether the employer specific amounts in the schedule of changes in fiduciary net position by employer are accurate and reliable under Option 1, in addition to the evidence provided by the plan and its auditor, the employer auditor should consider performing the following:

- Verifying the completeness and accuracy of the employer and employee contributions attributed to the individual employer; and
- Performing analytical procedures on investment income and administrative expense by developing an expectation based on total investment income and administrative expense for the plan as a whole multiplied by the employer’s relative percentage of fiduciary net position; and
- Performing analytical procedures over benefit payments by developing an expectation based on prior year benefit payments adjusted for changes in employer census data.

Before using the work of the plan auditor as evidence, regardless of whether the plan auditor opined on the schedule as a whole with a SOC 1 Type 2 report or on each employer column, the employer auditor should evaluate whether the plan auditor’s report and accompanying schedule are adequate and appropriate for the employer auditor’s purposes. For example, the employer auditor may review the plan auditor’s report and any related opinion modifications and assess other matters discussed in the report. If a SOC report is issued, employer auditors will need to apply the guidance in AU-C section 402 to properly utilize the report as discussed in the section titled, “Option 1: Plan Engages Its Auditor to Issue a SOC 1 Type 2 Report on Controls over Census Data Maintained by the Plan.” As required by paragraph .13a of
AU-C section 402, the employer auditor should be satisfied that the auditor providing the SOC 1 Type 2 report is independent and evaluate whether that auditor has the necessary competence for the employer auditor’s purposes.

**Ramifications if Best Practice Solutions Not Adopted**

If an agent plan issues audited financial statements, but does not implement the best practice solutions recommended by the AICPA SLGEP, it is unlikely that employer auditors will be able to accumulate sufficient appropriate audit evidence necessary to provide unmodified opinions on the opinion units of the government financial reporting entity that have material pension amounts. It is important to emphasize that unaudited information provided by the plan to its employers to support specific pension amounts that have not been subjected to further audit procedures would not constitute sufficient appropriate audit evidence upon which employer auditors could base their opinions. While the AICPA SLGEP acknowledges that the best practice solutions proposed in this whitepaper are recommendations, it believes there are few other alternatives employers and their auditors could efficiently and effectively utilize to obtain sufficient appropriate evidence on which to base their specific pension amounts or the auditor’s opinions, respectively.

**Looking Forward and Additional Guidance**

The AICPA is developing various forms of additional auditing guidance for both plan auditors and employer auditors. With regard to issues related to agent plans and participating employers, the SLGEP, working with the AICPA Audit and Attest Standards Team, will be issuing a series of auditing interpretations related to some of the concepts in this whitepaper, as well as providing more detailed guidance on the plan auditor’s responsibilities when auditing the schedule of changes in fiduciary net position by employer described in this whitepaper. Additionally, a new chapter is under development for the 2015 AICPA Audit and Accounting Guide, *State and Local Governments*. The chapter will cover various plan and employer auditor considerations, including the ramifications when an employer auditor is not able to obtain sufficient appropriate evidence regarding the pension amounts included in employer financial statements.

In February 2014, the AICPA SLGEP issued two whitepapers that addressed numerous issues related to cost-sharing multiple-employer plans and participating employers. There are also a series of auditing interpretations related to these papers that have been issued. It is important to note that Interpretation No. 1, “Auditor of Participating Employer in a Governmental Pension Plan,” to AU-C section 600, *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*, issued in April 2014 clarifies that it would not be appropriate for the employer auditor to make reference to the audit report of the governmental pension plan auditor solely for purposes of GASB Statement No. 68, because, in this circumstance, a governmental pension plan is not a component of the employer. While this interpretation was issued with other interpretations specific to cost-sharing multiple-employer plans, Interpretation 1 of AU-C 600 applies to government pension plans broadly, including agent plans.

Finally, the AICPA’s Governmental Audit Quality Center (GAQC) has added a new Resource Center titled "GASB Matters" to the GAQC Web site to consolidate issues, resources, and communications from the AICPA and the SLGEP on GASB matters, including the SLGEP whitepapers and links to related auditing interpretations.