

January 2022

SAS 136Huh?

Have you heard about SAS 136? You may be asking yourself...what is a SAS and how does 136 affect my plan? All employee benefit plans subject to the Employee Retirement Income Security Act of 1974 (“ERISA”), such as 401(k) plans, will be affected. Regardless if you have heard about SAS 136, the **changes are here and are effective for the calendar year ended December 31, 2021.**

SAS stands for “Statement on Auditing Standards” and they are issued by the Auditing Standards Board of the American Institute of Certified Public Accountants (“AICPA”). Auditors who perform audits in accordance with generally accepted auditing standards in the U.S. must adhere to these standards. Originally SAS 136 was effective for plan years ending after December 15, 2020, however the standard, which was part of suite of standards issued, was delayed one year due to the pandemic. Therefore, the audits performed for the year ended December 31, 2021 will need to follow this standard.

So why the need for the change? The Department of Labor (“DOL”) performed a review in 2015 of 400 plan audits and found that 39% of those audits had major deficiencies. Some plan sponsors and their auditors simply did not perform the audits up to standards either because there was a misunderstanding of what was needed to be performed with a limited scope audit, or due to an over-reliance on the certification provided by recordkeepers. In other words, the term “limited scope” often meant no audit procedures were performed, or those that were, were very limited. This review kicked off an initiative for audit quality which resulted in part with this new standard.

There is good news and bad news with the standard. The bad news is that there are changes that affect both the plan sponsor and the plan auditor with this standard. The good news is that at Hedman Partners LLP, most of the changes have already been a part of our quality standards for years, so hopefully the changes felt will be minimal.

So what are the changes? Below are the major changes and a brief discussion of each one and how they will affect your audit.

1. “Full Scope” and “Limited Scope” are no longer acceptable types of plan audits. A limited scope audit was previously allowed by 29 CFR 2520.103-8 of the DOL’s Rules and Regulations for Reporting and Disclosure under ERISA. With SAS 136, these audits will now be referred to as either a non-ERISA Section 103(a)(3)(C) audit, formerly full-scope in nature, or an ERISA Section 103(a)(3)(C) audit, formerly limited-scope. In the current year, plan sponsors will see this change in the standard reflected in the engagement letter, auditor communications and most importantly, the auditor’s report.

2. The format of our auditor's report has been changed both in respect to the order of the report, as well as the content. In the past, the independent auditor's report was arranged to show:
 - a. Management's responsibility
 - b. Auditor's responsibility
 - c. Opinion or basis for disclaimer of opinion if a limited scope audit
 - d. Other matters related to supplemental schedules required by ERISA

In the new reporting standard, the report is arranged to show:

- a. The scope and nature of the audit – either a non or an ERISA Section 103(a)(3)(C) audit
 - b. Opinion and basis for opinion
 - c. Management's responsibility, which has been expanded significantly in the report
 - d. Auditor's responsibility, which has been expanded significantly in the report
 - e. Other matters related to supplemental schedules required by ERISA
3. Management's responsibility now needs to be acknowledged in the engagement letter by including the following:
 - a. Maintaining a current plan document
 - b. Having responsibility for administering the plan
 - c. Providing the auditor with a substantially complete draft of the Form 5500 before the auditor's report can be dated

The good news is that Hedman Partners LLP's quality standards already included these items as part of our requests or documentation.

4. Auditor's responsibilities now include:
 - a. as part of the acceptance of the engagement, inquiring of plan management how they determined that the entity preparing and certifying the investment information is qualified under DOL rules and regulations.
 - b. obtaining a signed management representation letter, which includes
 - i. management's responsibilities for electing an ERISA Section 103(a)(3)(C) audit
 - ii. management's acknowledgement that the election is permissible and meets the DOL's requirements

- iii. management's acknowledgement that their assessment of investment information that is prepared and certified by a qualified institution is appropriately measured, presented and disclosed.

In the past, the auditor's report could disclaim an opinion with respect to the certification and the related investment information, and now the auditor's report must provide an opinion on these items. Hedman Partners LLP's quality standards already included an assessment of the certification and that the qualifications were met for a limited scope audit, even if the standard report did not note this. In addition, we can provide a useful tool for plan management to use to help determine that a proper certification has been provided.

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5. The term "reportable findings" is the last significant change included in the standard. These findings can be communicated separately, and are not part of the audited financial statements or the Form 5500 filing. A reportable finding includes:
 - a. An identified instance of noncompliance or suspected noncompliance with laws or regulations.
 - b. A finding from the audit, that in the auditor's professional judgment, is significant and relevant to those members of plan management that are responsible over the financial reporting process.
 - c. An indication of deficiencies in internal control found during the audit that have not been communicated by other parties and that, in the auditor's professional judgment, are of sufficient importance to merit plan management's attention.

The good news continues in that Hedman Partners LLP has always made it a practice to communicate these types of "findings" in our engagements. Our mission is always to go beyond the compliance nature of the audit so that we can provide plan sponsors with best practices in administering their plans in order to minimize future findings and to provide guidance.

At Hedman Partners LLP, our experienced and knowledgeable team has developed effective and efficient procedures for performing plan audits, and reviewing plan controls and procedures. Please feel free to give us a call if you have any audit needs, questions regarding the items noted above or have questions related to your plan by contacting Janet Thomerson at (661) 286-1543 or Janet.Thomerson@HedmanPartners.com