

AU-C Section 9500

Audit Evidence: Auditing Interpretations of AU-C Section 500

New GASB 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.

Auditing Interpretation No. 2, “Auditor of Participating Employer in a Governmental Cost-Sharing Multiple-Employer Pension Plan,” (paragraphs .23–.29) and auditing interpretation No. 1, “Auditor of Governmental Cost-Sharing Multiple-Employer Pension Plan,” of AU-C section 805, *Special Considerations—Audits of Single Financial Statements and Specific Elements, Accounts, or Items of a Financial Statement* (AICPA, *Professional Standards*), are intended to assist both plan and employer auditors who are auditing entities that have implemented the new accounting standards.

2. Auditor of Participating Employer in a Governmental Cost-Sharing Multiple-Employer Pension Plan

.23 *Question*—GASB Statement No. 68 requires governmental entities (employers) participating in governmental cost-sharing multiple-employer pension plans (cost-sharing plan or plan) to present certain pension amounts in employer financial statements that are calculated by the plan or its actuary. Such amounts are based, in part, on records maintained only by the plan.

.24 Do the audited financial statements of the plan prepared in accordance with generally accepted accounting principles (GAAP) and additional unaudited information from the plan necessary to calculate the employer’s net pension liability provide the employer’s auditor with sufficient appropriate audit evidence upon which to base the opinion on the affected opinion units of the governmental employer financial reporting entity?



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.25 *Interpretation*—No. GASB Statement No. 67 requires only the disclosure of the collective net pension liability for all participating employers in GAAP financial statements of cost-sharing plans, not each employer’s proportionate share of the collective net pension liability. Further, GAAP does not require the plan to present deferred outflows of resources or deferred inflows of resources by category, pension expense, or each participating employer’s share of collective pension amounts. Unaudited information provided by the plan to the employers to support allocations or pension amounts that has not been subjected to further audit procedures would not constitute sufficient appropriate audit evidence to support the relevant assertions in the employer’s financial statements related to the pension amounts, including required disclosures.

.26 Therefore, absent additional audit evidence from the cost-sharing plan (for example, auditor’s opinions on the schedule of employer allocations and certain key elements including net pension liability, total deferred outflows of resources, total deferred inflows of resources, and total pension expense in a schedule of pension amounts), the employer auditor would not likely be able to accumulate sufficient appropriate audit evidence to support the pension amounts and disclosures in the employer’s financial statements. When pension amounts are material to one or more applicable opinion units of the employer’s financial statements and the auditor is unable to obtain sufficient appropriate audit evidence to conclude that the financial statements as a whole are free from material misstatement, the auditor should modify the audit opinion pursuant to AU-C section 705, *Modifications to the Opinion in the Independent Auditor’s Report* (AICPA, *Professional Standards*).

.27 *Question*—A plan has engaged its auditor to audit and report on the schedule of employer allocations and certain key elements including net pension liability, total deferred outflows of resources, total deferred inflows of resources, and total pension expense in a schedule of pension amounts, as described in the AICPA’s State and Local Governments Expert Panel white paper *Governmental Employer Participation in Cost-Sharing Multiple-Employer Plans: Issues Related to Information for Employer Reporting*. May an employer auditor use the plan auditor’s report as evidence for the audit of the employer’s financial statements?

.28 *Interpretation*—Yes. 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. Nevertheless, the employer auditor may use the plan auditor’s report on the schedules as evidence that the pension amounts allocated to the employer and included in the employer’s financial statements are not materially misstated.

.29 Before using the report of the plan auditor as evidence, the employer auditor should evaluate whether the plan auditor's report and accompanying schedules 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. Additionally, the employer auditor should evaluate whether the plan auditor has the necessary competence and independence for the employer auditor's purposes. Further, the employer auditor has a responsibility to verify and recalculate amounts specific to the applicable employer, including the employer amount used in the allocation percentage (that is, the numerator of the calculation), to recalculate the allocation percentage for the employer, and to recalculate the pension amounts allocated to the employer based on the allocation percentage.

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