



The North Carolina Supplemental Retirement Plans Audit

Audit Kick-off Presentation to the Audit Sub-Committee

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Agenda

- CLA Industry Knowledge
- Audit Scope
- Auditor and Management Responsibilities
- Audit Segmentation
- Audit Methodology
- Discussion of risks
- Questions



Deep Industry Knowledge

- CLA's Governmental Retirement Plan Team currently provides audit and consulting services to more than 20 state and local governmental defined contribution plans across the country. In addition, the key personnel assigned to this engagement focus almost exclusively on governmental benefit plans. The knowledge gained from specializing in this unique niche enables our professionals to provide extraordinary service to our governmental DC clients coupled with methodologies which enhance efficiencies and quality.



Scope of Engagement

- **Perform an Audit of the North Carolina Supplemental Retirement Plans' (401K & 457) Financial Statements for 2021 under U.S. Generally Accepted Auditing Standards and U.S. Generally Accepted Government Auditing Standards**

The primary objective of our audit is to express an opinion on the fair presentation of the financial statements.

We plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements, whether caused by error or fraud. Because of the nature of audit evidence and the characteristics of fraud, we are to obtain reasonable, not absolute, assurance that material misstatements are detected. We have no responsibility to obtain reasonable assurance that misstatements, whether caused by error or fraud, that are not material to the financial statements are detected.

- **Serve as a Resource throughout the Year**



Required Governing Body Communications

- Auditor's Responsibilities - Opinion
 - Responsible for forming and expressing an opinion about whether the financial statements that have been prepared by management, with the oversight of those charged with governance are presented fairly, in all material respects, in conformity with generally accepted accounting principles in the United States of America.



Required Governing Body Communications

- Auditor's Responsibilities - Standards
 - Responsible for performing the audit in accordance with generally accepted auditing standards. The audit is designed to obtain reasonable, but not absolute, assurance about whether the financial statements are free of material misstatement.



Required Governing Body Communications

- Auditor's Responsibilities – Internal Control
 - In planning and performing our audit, we will consider internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of internal control over financial reporting.



Required Governing Body Communications

- Management Responsibilities
 - Preparation and fair presentation of the financial statements and GASB 68 schedule.
 - The design, implementation and maintenance of internal controls relevant to the fair presentation of the financial statements and GASB 68 schedule.



CLA Audit Methodology



Audit Methodology – Internal Control

- Obtain an in-depth understanding of all key processes of the entity through discussions with management and review of the Prudential's SOC 1 Report(s) under SSAE 18
- Based on our understanding obtained we will develop a risk-based audit approach to effectively reduce audit risk to an acceptably low level
- Perform tests of design of key processes identified
- Perform tests of effectiveness over contributions, distributions, loans and participant data
- Perform employer audits
 - Accurate remittance of contributions to Prudential
 - Timely remittance of contributions to Prudential
 - Remitted contributions did not exceed IRS limitations
 - Participant data reported to Prudential completely and accurately



Audit Methodology – Substantive Testing

- Investments
 - Confirmations with Prudential, BNY and investment managers
 - Valuation testing
 - Analytical procedures over investment and interest income
 - Analytical procedures over investment expenses
- Contributions
 - Confirm contributions with a sample of employers
 - Analytical procedures over contributions
 - Reconciliation of contribution detail to trial balance
- Distributions
 - Analytical procedures over distributions
 - Reconciliation of distribution detail to trial balance
- Administrative Expenses
 - Analytical procedures over administrative expenses



Discussion of Risks

- The Sub-Committee's views about the risks of fraud
- Does the Sub-Committee have knowledge of any fraud or suspected fraud affecting the entities
- Does the Sub-Committee have an active role in oversight of the entities' assessment of the risks of fraud and the programs and controls established to mitigate those risks
- Other risks



Questions



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