Employee Benefit Plan Audit Peer Reviews
Preparing for Risk Assessment, Control Document Inspection, and Other Peer Reviewer Concerns

THURSDAY, JUNE 12, 2014, 1:00-2:50 pm Eastern

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• Print the slides by clicking on the printer icon.
Employee Benefit Plan
Audit Peer Reviews

June 12, 2014

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DOL Emphasis Continues to be on Deficient Audits

- EBSA Audit Quality Initiatives
- Reporting Compliance Initiatives
- DOL Resources
Audit Quality Remains Problematic

- Deficiency rates are unacceptable – 32%
- Large variability depending on EBP practice size
  - Firms with large EBP practices tend to meet professional standards
  - Firms with limited EBP practice have a higher rate of deficient professional work
- Fee pressure continues
- “Dabblers”
ERISA Plan Audit Universe

- 82,579 plan audits
- 7,358 CPA firms perform audits
- $6.3 trillion in plan assets subject to audit
Tale of Two Worlds

50% of Plan Auditors:
Audit 1 or 2 plans
6% of all plans audited
2 million participants

1% of Plan Auditors:
Audit 100 or more plans
42% of all plans audited
91 million participants
Referrals of the Most Egregious Work

- AICPA Ethics Division
  - Approximately 800 referrals
  - AICPA’s focus is on rehabilitating the practitioner
  - EBSA receives status updates of referrals
- State Boards of Public Accountancy
  - Over 100 referrals
  - Referrals made when AICPA has no jurisdiction
  - Resources vary widely among states to handle referrals
Ethics Division Case Statistics

- In 2013
  - Cases at January 1: 827
  - Cases opened: 437
  - Cases closed: (530)
  - Cases at 12/31/13: 734
## DOL Cases Resolved by Firm Size

<table>
<thead>
<tr>
<th></th>
<th>Total</th>
<th>Severe Deficiencies</th>
<th>Firms out of EBP Audits*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Small Firms (2-10 CPAs)</td>
<td>74%</td>
<td>85%</td>
<td>39%</td>
</tr>
<tr>
<td>Medium Firm (11-20 CPAs)</td>
<td>9%</td>
<td>66%</td>
<td>17%</td>
</tr>
<tr>
<td>Large Firm (21 - 74 CPAs)</td>
<td>13%</td>
<td>59%</td>
<td>14%</td>
</tr>
<tr>
<td>Large Firm (75+ CPAs, Big Four and Major Firms)</td>
<td>4%</td>
<td>9%</td>
<td>-</td>
</tr>
<tr>
<td>Totals</td>
<td>100%</td>
<td>41%</td>
<td>32%</td>
</tr>
</tbody>
</table>

*Sanctions must be completed if they return to performing EBP audits*
DOL Audit Quality Study of Firms

- Statistically based nationwide study
- Provides current baseline of audit quality
- Sample size of 400 plans
- Conducted October 2013-September 2014
Impact of DOL studies on Peer Review

- Not all firms participate in peer review
- Peer reviewers instructed to:
  - Review common audit deficiencies
  - Be familiar with DOL study
    - Emphasis on “dabblers”
    - Smaller firms
    - Smaller firms with < 25 plan audits
AICPA EBPAQC Resources

- Plan Advisories
- EAlerts
- Webinars
- Primers
- Website
- Tools
- Resource Centers
- Member-to-member Forum
Understanding the Unique Reporting Requirements of Employee Benefit Plans

- Users of financial statements
  - Participants
  - Plan Sponsor
  - DOL
  - IRS
  - State Insurance Departments
Reporting Requirements

- GAAP financial statements are required
- Additional regulatory requirements
  - DOL reporting requirements
  - IRS reporting requirements
- Peer reviews require adherence to ALL of the above requirements
Reporting Guidance Related to Peer Review

- Peer Review Alert 11-03
  - Unique risk associated with each type of plan
    - Defined contribution
    - Defined benefit
    - Health and welfare
Reporting Guidance Related to Peer Review

AICPA Revised Interpretation 59-1

Consideration for selection:

A. Reasonable cross-section of the reviewed firm’s accounting and auditing practice

B. Emphasis on higher-risk practice areas
   1. Risk of engagements and types of benefit plans as part of the selection criteria
   2. Limited vs. full scope
   3. Types of plans (DC, DB, H&W and 403(b) plans)

C. Firm’s length of experience and number of audits performed, member’s experience and CPE/specialized training
What is the Peer Review Requirement

- Licensed firms are required to have peer review
  - Report acceptance body is either:
    - State peer review committee
    - AICPA Peer Review Board’s National Peer Review
  - SEC registrant’s plans are not subject to peer review
  - Engagements subject to GAAS, SSARA, SSAE, GAGAS and non-SEC issuers are subject to peer review
Peer Review deadline

- Peer review is due every 3rd year, six months after the firm’s fiscal year end
  - This impacts plans that are reviewed

![Warning Sign: Deadlines in schedule are closer than they appear]
How to Structure the Peer Review

- Be prepared
  - Track general data on the number, size and type of employee benefit plan audits
    - Peer reviewers routinely select engagements that are considered to have added “risk”
      - full-scope audits
      - 403(b)
      - ESOPs
      - Health and welfare
      - initial engagements
Preparing for a Peer Review (cont..)

- Document, document, document
  - SAS 103 documentation standards
  - Special emphasis on documentation of consultations
  - Include memos to document approach

- CPE
  - Monitor EBP CPE requirement
    - Your firm’s internal requirement
    - AICPA EBPAQC
Preparing for a Peer Review (cont.)

- Interviews with Firm Personnel
  - EBP team members need to use EBP “language”
    - Training should start with the 1st plan audit
  - EBP team members need more than checklist mentality
  - EBP team need specialized training
- Make certain that you are in compliance with your own firm policies
- Review results of prior peer review
- Workpaper lockdown
- Internal inspection
  - Use AICPA checklist for inspection
Preparing for a Peer Review (cont.)

Peer Review Checklist

- Employee Benefit Plan Audit Engagement Checklist (Ending on or After December 15, 2012) 20,701 (dated 4/1/14)
- AICPA Peer Review Program Manual PRP §20,700
- Section 20,700 Employee Benefit Plan Audit Engagement Checklist (For Financial Statements With Periods Ending on or After December 15, 2012)
Preparing for a Peer Review (cont.)

- Preparation for your next peer review starts as soon as the current review is completed
  - Correct findings immediately; avoid repeat findings
  - Communicate findings to your team
  - Consider using outside professionals to perform internal inspections
  - Consider specialize ERISA training for your team
  - If the outcome is poor, hire a consultant to do a more in-depth review of your ERISA practice and engagements
Presenter’s Bio

- **Susan J. Peirce, CPA, MTax**

Sue Peirce is a principal and leads the employee benefits audit and specialty services team at Apple Growth Partners. Sue has led the development of numerous services at the firm including specialty audit services, benefit plan design and administration, and SOC engagements. She has implemented Lean principles in the delivery of audit services to achieve more efficient processes and outcomes in audit engagements. Sue regularly writes articles, hosts webinars, and has presented at numerous events including the AICPA National Employee Benefit Plan Conference, Matrix Financial Solutions Annual Conference, and various state CPA societies.

In addition to her audit work, she provides consulting services to business owners and professionals with a special emphasis on benefit plan services. Her expertise includes a focus on qualified retirement plans and related design, compliance, non-discrimination testing, distribution and reporting issues.

Sue is a former member of the AICPA Employee Benefit Plan Audit Quality Center Executive Committee.
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Understanding Reviewer Expectations Based Upon Applicable Standards and Avoiding Audit Documentation Issues
Tricia recently joined Elliott Group CPAs, PLLC as a partner. Her firm is a boutique public accounting firm specializing in employee benefit plan audit, consulting and training services. Tricia has nearly 20 years of experience with national public accounting firms where she developed her specializations in the areas of ERISA financial reporting and investment securities, with the last 8 years spent as a Director in the national audit and quality control departments. As a lead technical resource in the areas of Employee Benefit Plan audits and Investment Fair Values, Tricia developed audit and accounting guidance, resources and training programs and performed numerous internal inspections as well as targeted pre-issuance reviews of audit engagements. From 2006 through 2012, she also served as concurring reviewer on more than 10 complex plan audit engagements including, multiemployer pension and health & welfare plans. Tricia’s EBP audit related contributions to the profession over the last decade include numerous national AICPA and state CPA society conference speaking engagements, as well as serving on the AICPA Technical Standards Subcommittee and Michigan Association of CPAs Employee Benefits Task Force.
What We Have Lined Up for You

- Revisiting professional standards
- Anticipating peer reviewer expectations
- Best practices & avoiding common auditor documentation pitfalls
- Overview of inspection requirements & considerations for EBPAQC members
Revisiting the Professional Standards

AU-C Section 230, Audit Documentation

- SAS No. 122 & No. 123
- Effective: audits of financial statements for periods ending on or after December 31, 2012
- On the horizon: certain amendments resulting from February 2014 ASB issuance of SAS No. 128, Using Work of Internal Auditors
• Audit documentation required to contain evidence of the following:
  • Auditor’s basis for conclusions about achievement of overall objectives of the auditor
  • Audit was planned and performed in accordance with GAAS, and applicable legal & regulatory requirements
Revisiting the Professional Standards (continued)

AU-C Section 230, Audit Documentation

• Several purposes served by audit documentation
  • For engagement team:
    • Assist in planning & performing the audit
    • Demonstrate accountability for work performed, evidence examined & conclusions reached
  • Retain record of matters of continuing significance to future audits of same entity
Revisiting the Professional Standards (continued)

AU-C Section 230, Audit Documentation

- Necessary for execution of various inspections and reviews
- Quality control reviews & inspections in accordance with QC section 10, A Firm’s System of Quality Control (SQCS No. 8)
- External inspections or peer reviews in accordance with applicable legal, regulatory or other requirements
- Subsequent year audit team members & predecessor auditor reviews
Revisiting the Professional Standards (continued)

AU-C Section 230, Audit Documentation

- Form, Content & Extent
  - Experienced auditor, with no prior connection to the audit, should be able to understand:
    - Nature, timing & extent of procedures performed
    - Results of audit procedures performed & evidence obtained
    - Significant findings & issues
      - Conclusions reached
        - Significant judgments made in reaching those conclusions
A closer look at supporting nature, timing & extent of procedures performed to identify:
- Characteristics of specific items or matters tested
  - Abstracts or copies of significant contracts or agreements inspected
- Who performed the work and date completed
- Who reviewed the work performed, date and extent of such review
Revisiting the Professional Standards (continued)

AU-C Section 230, Audit Documentation

- Document justification for any departures from presumptively mandatory requirements
  - Support sufficiency of alternative procedures performed
- Document circumstances encountered that led to additional procedures after audit report date
  - Procedures, evidence & conclusions
  - Resulting changes – by whom & date prepared and reviewed
Revisiting the Professional Standards (continued)

AU-C Section 230, Audit Documentation

- Final audit file
  - Document audit report release date
  - Assemble final documentation & complete administrative process of assembling final audit file on timely basis (“documentation completion date”)
- No later than 60 days following audit report release date

Note: modification of or additions after documentation completion date, include: specific reasons for changes, when & by whom made/reviewed
Anticipating Peer Reviewer Audit Documentation Expectations

Written Audit Programs & Avoiding ‘One Size Fits All’ Mentality

Type of Plan
- Defined benefit or defined contribution pension
- Health and welfare benefit plans

Engagement Scope
- Full scope
  - Special considerations for plans subject to SEC filing
- Limited scope audit exemption
Firm’s System of Quality Controls in Accordance with Statement on Quality Control Standard No. 8

Ensure Engagement Quality Complies with Professional Standards

- Engagement quality control reviews
- Internal inspection program
- CPE and related compliance
- Independence (AICPA, DOL, SEC/PCAOB, etc.)
- Client acceptance & re-acceptance
Firm’s System of Quality Controls in Accordance with Statement on Quality Control Standard No. 8

Measurement of Compliance with Professional Standards

- Inspection results
- Maintenance of CPE compliance tracking mechanisms
- Policy for & results of review of certain documents by individual outside of engagement team
Best Practices and Avoiding Common Audit Documentation Pitfalls

Materiality

Plan Financial Statement Level

Regulatory / Participant Level
Risk Assessment & Internal Control

- Plan Sponsor Organization
- SSAE 16/SOC 1 Report Reliance
- Third Party Service Providers
- Monitoring of Third Parties & User controls

Design & Implementation of Controls
Payroll Controls & Detail Testing

Consider Significance to Contributions

Consider Significance to Benefit Payment Calculations
Best Practices and Avoiding Common Audit Documentation Pitfalls (continued)

Sampling

 Attribute

 Dual-purpose

 Monetary
Best Practices and Avoiding Common Audit Documentation Pitfalls (continued)

**Investments**

- Full vs. Limited Scope
- Certification Issues
- Evolution of ASC 820
- Auditor vs. Management “Identity Crisis”
- Presentation & Disclosure
Understanding Inspection Requirements and Considerations for EBPAQC Members

• Designated audit partner in charge of EBPA
• Partners must be members of AICPA, if eligible US residents
• System of quality control
  • Program to ensure appropriate EBP knowledge; minimum 8 hours of EBP specific CPE 3 year period (signing & managing)
  • Establish policies & procedures specific to EBP audits
• Monitoring program (internal inspections)
• Peer review report made public
• EBPs must be selected for peer review.
• Periodically file information about EBP practice
• Pay dues established by executive committee (very cost effective)
Understanding Inspection Requirements and Considerations for EBPAQC Members

Inspection Program Requirements

- Review of specific engagements
- Review of CPE records
- Review of training program (if applicable)
- Summarize and evaluate the findings
- Communicate inspection results
- Remediate issues as needed
  - See AICPA EBPAQC tool on Web site
Understanding Inspection Requirements and Considerations for EBPAQC Members

Additional Inspection Considerations

- Internal inspections *are required* annually, including in the year of the firm’s peer review.
- Can be modified to avoid duplication
- Sole practitioners can satisfy the inspection requirement following the AICPA quality control standards
- You can send in your peer review report, and the EBPAQC will coordinated publishing in the peer review public file
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AREAS OF COMMON ERRORS AND DEFICIENCIES
Jessie Kanter, CPA is a manager of quality control at BlumShapiro, the largest regional accounting firm based in New England. Jessie specializes in audits of employee benefit plans.

Jessie has been managing employee benefit plan audits for many years and assists clients in meeting their annual reporting and compliance requirements for defined contribution, defined benefit and health and welfare plans. In addition, Jessie provides plan sponsors and administrators with the information and tools they need to improve their policies, procedures, and controls for management of employee benefit plans.

Jessie has been an expert speaker on employee benefit plan issues and routinely teaches firm sponsored seminars related to employee benefit plans and other accounting and auditing topics.
More than 50% of plans subject to DOL inspection contained deficiencies.

A. Failure to identify valuation of employer stock in the risk assessment
B. Review of the work of the appraiser (full-scope audits)
C. Testing the release of shares from the suspense account
D. Testing benefit payments
E. Obtaining and reviewing documentation of stock purchases
Common Audit Areas For Deficiencies

Participant data
Investments
Contributions
Benefit payments
Other areas
To provide the auditor with a reasonable basis for concluding (a) whether all covered employees have been properly included in employee eligibility records and, if applicable, in contribution reports; and (b) whether accurate participant data for eligible employees were supplied to the plan administrator and, if appropriate, to the plan actuary.
Participant Data: Common Deficiencies

- No audit work performed or no audit documentation of testing participant data

- Testing of payroll data insufficient
  - Risk of plan non-compliance with provisions – definition of eligible compensation (also effects contributions)

- No testing of participant eligibility or forfeitures
  - Risk of plan non-compliance with provisions – missed or late entry dates, entry date too early
  - Forfeitures miscalculated, forfeitures not used in accordance with the plan

- No testing of investment income or investment election allocation to participants
Full scope audit – To provide the auditor with a reasonable basis for concluding (a) whether all investments are recorded and exist; (b) whether investments are owned by the plan and are free of liens, pledges, and other security interest or, if not, whether the security interests are identified; (c) whether investment principal and income transactions are recorded and investments are properly valued in conformity with U.S. generally accepted accounting principles as promulgated by the Financial Accounting Standards Board (FASB) (GAAP) or a special purpose framework that is acceptable to the DOL, such as the modified cash basis of accounting; (d) whether information about investments is properly presented and disclosed; and (e) whether investment transactions are initiated in accordance with the established investment policies.
Limited scope audit - The auditor’s responsibilities for any assets covered by the limited scope exception are (1) to compare the information certified by the plan’s trustees or custodian to the financial information contained in the plan’s financial statements; (2) to perform the necessary procedures to become satisfied that any received or disbursed amounts reported by the trustee or custodian were determined in accordance with the plan provisions; and (3) whether information about investments is properly presented and disclosed.
Investments: Common Deficiencies

I. No audit work performed or no audit documentation
II. Failure to test end-of-year market values
III. Failure to obtain proper certification for limited-scope audit
IV. Inadequate or missing disclosures related to investments
V. Failure to document the evaluation of investment contracts for benefit responsiveness
VI. Failure to evaluate the guaranteed investment contract for benefit responsiveness
Contributions: Audit Objective

To provide the auditor with a reasonable basis for concluding (a) whether the amounts received or due the plan have been determined and recorded and disclosed in the financial statements in conformity with plan documents and generally accepted accounting principles; and (b) whether an appropriate allowance has been made for uncollectible plan contributions receivable in conformity with GAAP or a special purpose framework.
Contributions: Common Deficiencies

I. No audit work performed or no audit documentation
II. No audit program
III. Insufficient testing on contributing employers for multi-employer plans
IV. Failure to gain further understanding and/or test payroll controls
V. Failure to test employee elective deferrals
   I. This is the area that most non-compliance is found in a plan - Improper definition of eligible compensation, not following participant elections
VI. Inappropriate reliance on SOC 1
VII. Timeliness of participant contributions not tested
Benefit Payments: Audit Objective

Provide the auditor with a reasonable basis for concluding (a) whether the payments are in accordance with plan provisions and related documents; (b) whether the payments are made to or on behalf of persons entitled to them and only to such persons; and (c) whether transactions are recorded in the proper account, amount and period
Benefit Payments: Common Deficiencies

I. No audit documentation or no audit work performed
II. Failure to test participant eligibility to receive benefit payments
III. Inappropriate reliance on SOC 1
IV. Failure to test approval of benefit payments
V. Failure to test vesting
Other Areas: Common Deficiencies

I. No audit documentation or no audit work performed for related-party and party-in-interest transactions
II. No related parties noted in workpapers
III. Failure to understand and/or test administrative expenses
IV. Failure to understand testing requirements on a limited-scope engagement
V. Improper use of limited-scope exemption, because financial institution did not qualify for such an exemption
VI. Inadequate disclosures related to participant-directed investment programs
VII. Incomplete description of the plan and its provisions
VIII. Failure to properly report on and/or include the required supplemental schedules relating to ERISA and DOL
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APPROACH WITH THE REVIEW TEAM
Peer Review Approach

I. Peer reviewers look at the firm as a whole and perform “risk assessment.”
   A. Understand the firm
   B. Commitment to the employee benefit plan practice
   C. Understand where the EBP practice fits in the overall firm’s practice
   D. Approach to maintaining quality to employee benefit plans

II. Based on findings, the product of the process is generally a recommendation for improvements.
Peer Review Process

I. Gain an understanding of the firm and assesses risk

II. Select engagements

III. Review engagements - AICPA EBP audit engagement checklist
   A. Report and related disclosures
   B. General audit procedures
   C. Working paper areas
   D. Functional areas

IV. Engagement team responds and clarifies any “No” answers.
Peer Review Process (Cont.)

I. Categorization of issues

A. Matters
   1. Most minor issues related to documentation, and no material misstatement
   2. Communicated on MFC
   3. Still a good audit with “pass” rating

B. Findings
   1. One or more matters that suggest quality control issues
   2. Documented on a findings for further consideration (FFC) form
   3. If conclusion is not a deficiency or significant deficiency, = a “pass” rating
Peer Review Process (Cont.)

I. Categorization of issues (Cont.)

C. Deficiencies

1. One or more findings that were material and/or not in conformity with the applicable professional standards requirements

2. Isolated instances of the above, and not indicative of “systemic” deficiencies

3. Rating “pass with deficiencies” report

D. Significant deficiencies

1. Consistent findings of deficiencies

2. Inadequate or insufficient procedures performed

3. Material departures from applicable standards

4. Rating “fail” report
Peer Review Process (Cont.)

I. Finalize and submit the report
   I. Read, review and respond to MFC and FFC carefully
   II. Understand the requirements imposed by the standards
   III. Final product of a peer review is the report sent to governing bodies.

I. When you disagree with findings prior to issuance
   A. Consult with the AICPA technical review committee
   B. State society
Best Practices For Preparing For A Peer Review

1. Establish organization structure for employee benefit plans
   A. Firm practice leader/technical resource
   B. Identify the engagement teams working on employee benefit plan audits
   C. Continuity in engagement practice teams

1. Practice makes perfect - annual internal peer reviews
   A. Structure the internal reviews using AICPA checklists
   B. Require engagement teams to respond to findings
   C. Communicate the findings and remediate
Best Practices For Preparing For A Peer Review (Cont.)

III. Use your client management system to separately track employee benefit plan audits

A. Track general data on the number, size, and type of employee benefit plan audits

1. Peer reviewers generally select engagements that are considered to have added “risk” (e.g., full-scope audits, 403(b), ESOPs, H&W, initial engagements).

2. At least one plan from each type of employee benefit plan audit
   a. Defined contribution
   b. Defined benefit
   c. Heath and welfare
Best Practices For Preparing For A Peer Review (Cont.)

IV. Pay extra attention to the riskier types of engagements, and ensure the documentation is complete and accurate
   A. SAS 103 documentation standards
   B. Special emphasis on documentation of consultations
   C. Include memos to document approach

V. Maintain CPE records
   A. Ensure EBP specific CPE is being provided
   B. Monitor EBP CPE requirement
Best Practices For Preparing For A Peer Review (Cont.)

VI. Coordinate the timing and offices to be visited by the peer review team, and ensure to communicate to your local offices

VII. Identify and prepare those who will be involved in the peer review process
   A. Peer reviewers generally interview members of management, quality control and staff.
   B. Educate teams involved in peer review with process and rating scale

VIII. Learn from past experience
   VI. Address previous peer review comments with engagement teams
   VII. Address quality control issues
   VIII. Consider specialized training for your teams