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

WEDNESDAY, MAY 11, 2016, 1:00-2:50 pm Eastern

IMPORTANT INFORMATION FOR THE LIVE PROGRAM

This program is approved for 2 CPE credit hours. To earn credit you must:

• Participate in the program on your own computer connection (no sharing) - if you need to register additional people, please call customer service at 1-800-926-7926 x10 (or 404-881-1141 x10). Strafford accepts American Express, Visa, MasterCard, Discover.

• Listen on-line via your computer speakers.

• Respond to five prompts during the program plus a single verification code. You will have to write down only the final verification code on the attestation form, which will be emailed to registered attendees.

• To earn full credit, you must remain connected for the entire program.

WHO TO CONTACT DURING THE LIVE EVENT

For Additional Registrations:
-Call Strafford Customer Service 1-800-926-7926 x10 (or 404-881-1141 x10)

For Assistance During the Live Program:
-On the web, use the chat box at the bottom left of the screen

If you get disconnected during the program, you can simply log in using your original instructions and PIN.
Tips for Optimal Quality

*Sound Quality*
When listening via your computer speakers, please note that the quality of your sound will vary depending on the speed and quality of your internet connection.

If the sound quality is not satisfactory, please e-mail sound@straffordpub.com immediately so we can address the problem.
Employee Benefit Plan Audit Peer Reviews

May 11, 2016

Jessie T. Kanter
BlumShapiro
jkanter@blumshapiro.com

Susan J. Peirce
Apple Growth Partners
speirce@applegrowth.com
ANY TAX ADVICE IN THIS COMMUNICATION IS NOT INTENDED OR WRITTEN BY THE SPEAKERS’ FIRMS TO BE USED, AND CANNOT BE USED, BY A CLIENT OR ANY OTHER PERSON OR ENTITY FOR THE PURPOSE OF (i) AVOIDING PENALTIES THAT MAY BE IMPOSED ON ANY TAXPAYER OR (ii) PROMOTING, MARKETING OR RECOMMENDING TO ANOTHER PARTY ANY MATTERS ADDRESSED HEREIN.

You (and your employees, representatives, or agents) may disclose to any and all persons, without limitation, the tax treatment or tax structure, or both, of any transaction described in the associated materials we provide to you, including, but not limited to, any tax opinions, memoranda, or other tax analyses contained in those materials.

The information contained herein is of a general nature and based on authorities that are subject to change. Applicability of the information to specific situations should be determined through consultation with your tax adviser.
DOL Emphasis Continues to be on Deficient Audits and Impact on Peer Review

- EBSA Audit Quality Initiatives
- Reporting Compliance Initiatives
- DOL Resources
- AICPA Response
Background Information – DOL Statistics

2014 Plan Year

74,638 audits

6,104 firms

An average of 12 plans per firm
### A Tale of Two Worlds – USA

*(2014 Form 5500 Database)*

<table>
<thead>
<tr>
<th>Number of Plans Audited</th>
<th>Number of CPA Firms</th>
<th>Number of Audits Performed</th>
</tr>
</thead>
<tbody>
<tr>
<td>1-2</td>
<td>2,953</td>
<td>3,899</td>
</tr>
<tr>
<td>3-5</td>
<td>1,279</td>
<td>4,842</td>
</tr>
<tr>
<td>6-24</td>
<td>1,404</td>
<td>15,606</td>
</tr>
<tr>
<td>25-99</td>
<td>379</td>
<td>17,174</td>
</tr>
<tr>
<td>100-749</td>
<td>74</td>
<td>14,718</td>
</tr>
<tr>
<td>750+</td>
<td>15</td>
<td>18,399</td>
</tr>
<tr>
<td>Total</td>
<td>6,104</td>
<td>74,638</td>
</tr>
</tbody>
</table>
Background Information – DOL Statistics

Limited-Scope Audits Dominate the Landscape

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Limited-Scope Audits</td>
<td>48%</td>
<td>51%</td>
<td>56%</td>
<td>59%</td>
<td>62%</td>
<td>62%</td>
<td>65%</td>
<td>67%</td>
<td>78%</td>
<td>79%</td>
<td>80%</td>
<td>81%</td>
<td>83%</td>
</tr>
</tbody>
</table>
## Audit Deficiency Rate by Stratum

*(2013 Form 5500 Database)*

<table>
<thead>
<tr>
<th>Strata</th>
<th>Audit Reviews</th>
<th>Audits With Deficiencies</th>
</tr>
</thead>
<tbody>
<tr>
<td>1-2</td>
<td>95</td>
<td>75.8%</td>
</tr>
<tr>
<td>3-5</td>
<td>95</td>
<td>68.4%</td>
</tr>
<tr>
<td>6-24</td>
<td>95</td>
<td>67.4%</td>
</tr>
<tr>
<td>25-99</td>
<td>65</td>
<td>41.5%</td>
</tr>
<tr>
<td>100-749</td>
<td>25</td>
<td>12.0%</td>
</tr>
<tr>
<td>750+</td>
<td>25</td>
<td>12.0%</td>
</tr>
<tr>
<td>Total Reviewed</td>
<td>400</td>
<td>38.8%</td>
</tr>
</tbody>
</table>
Background Information – DOL Statistics

**Deficient Audits are Getting More Deficient**

<table>
<thead>
<tr>
<th>Deficient Items</th>
<th>10 Year Trend Data</th>
<th>Audit Quality Assessment</th>
</tr>
</thead>
<tbody>
<tr>
<td>10+</td>
<td>12%</td>
<td>24%</td>
</tr>
<tr>
<td>5-9</td>
<td>20%</td>
<td>38%</td>
</tr>
<tr>
<td>1-4</td>
<td>68%</td>
<td>37%</td>
</tr>
</tbody>
</table>
## Background Information – DOL Statistics

### A Disturbing Trend

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Audits With GAAS Deficiencies</td>
<td>23%</td>
<td>19%</td>
<td>33%</td>
<td>39%</td>
</tr>
</tbody>
</table>
Other Meaningful Quality Factors

- Peer Review is not a useful identifier of quality work
  - In 4 of 6 strata, audits with 5+ GAAS deficiencies were performed by firms with clean peer review reports.
DOL – 2014 Audit Sampling

- During October 2013 – September 2014, the DOL sampled a population of 400 audit engagements. Those engagements were grouped together based on the:
  - Size of the audit firm's employee benefit plan audit practice
  - Type of plans audited
- The following summarizes some preliminary findings:
  - Overall deficiency rates and deficient audits are consistent with historical data trends;
  - AICPA Employee Benefit Plan Audit Quality Center (EBPAQC) members have a lower deficiency rate than Non-EBPAQC members; and
  - Deficient audit areas continue to be employee benefit plan specific, including:
    - Participant data
    - Contributions
    - Plan obligations
    - Benefit payments
    - Party-in-interest transactions
EBP Frequent Violations General Audit Failures

- The auditor did not obtain sufficient appropriate audit evidence
- Internal Controls – risk assessment, understanding doc.
- Benefit responsive contracts – not recognized
- Participants’ data – multiemployer plans, participant allocations
- Certifying entity is not qualified
- Overreliance on service auditor
- Testing over information given to the actuary
- Evaluation qualifications and reputation of actuary
- Frozen plans
- One or more procedures missing in many areas
- Inadequate documentation of audit procedures
- Inadequate audit programs and/or planning
AICPA EBPAQC Planning Tool

# AICPA Employee Benefit Plan Audit Quality Center

Planning Tool: Summary of Common EBP Audit Deficiencies,

**Audit Guidance and Resources**

The Employee Benefit Plan Audit Quality Center has developed this document to help EBP auditors identify and address common deficiencies found in employee benefit plan audits found by the Department of Labor (DOL) and AICPA Peer Review program. It describes some of the most common deficiencies noted in EBP audits by plan type, and provides references to suggested audit procedures in the [AICPA Audit and Accounting Guide](https://www.aicpa.org), [Employee Benefit Plans](https://www.aicpa.org), and additional tools and resources to assist auditors in addressing these audit areas. This tool is intended to complement the EBPAQC Tool Common EBP Audit Deficiencies.

<table>
<thead>
<tr>
<th>Deficiency Noted</th>
<th>Suggested Audit Procedures Reference</th>
<th>Additional Resources</th>
</tr>
</thead>
<tbody>
<tr>
<td>All Plan Types:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Lack of audit documentation of procedures performed</td>
<td>Paragraphs Chapter 3: 10.09-10.14; 2.46; 2.104-2.113</td>
<td>EBPACQ Tools and Resources:</td>
</tr>
<tr>
<td>• No or inadequate documentation of audit procedures performed (Note: signing the audit program is not adequate documentation). Noted in all audit areas, but most frequently in internal control assessment, risk assessment, subsequent events, commitments and contingencies, and related parties/interests.</td>
<td></td>
<td>Documentation of Use of a Type 2 Service Auditor’s Report in an Audit of an Employee Benefit Plan’s Financial Statements</td>
</tr>
<tr>
<td>Type 2 SOC 1 Report</td>
<td>Paragraphs 4.11 - 4.28</td>
<td>Internal Control Resource Center</td>
</tr>
<tr>
<td>• No evidence that the auditor reviewed and evaluated the type 2 SOC 1 report to determine the sufficiency and appropriateness of the internal controls at the service organization and user controls documented in the report.</td>
<td></td>
<td>Practice Aid -- Using an SSAE No. 16 Service Auditor’s Report (SOC 1 Report) in Audits of Employee Benefit Plans</td>
</tr>
<tr>
<td>• Improper reliance on the report due to:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>o controls and control objectives relevant to the audit of the plan’s financial statements were not included in the report.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>o no evidence of auditor evaluating deficiencies noted in applicable controls tested</td>
<td></td>
<td></td>
</tr>
<tr>
<td>o the report containing a modified opinion</td>
<td></td>
<td></td>
</tr>
<tr>
<td>o no evidence of the relevant complementary user controls were identified and tested</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• No evidence that sufficient substantive audit procedures were performed on transactions covered by the controls. (Note: a type 2 SOC 1 report may be used to reduce substantive procedures; however, this report is not designed)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Performing Quality ERISA Employee Benefit Plan Audits: Firm Best Practices
AICPA response to 2014 DOL and other findings

6-Point Plan to Improve Audits

Pre-licensure
Next version CPA Exam; AP course; changes to accounting education; additional doctoral-level audit professors with practical experience

Enforcement
Aggressive investigation of all referrals of deficiencies; enhanced coordination with state boards; reinforced rules on due care

Practice Monitoring of the Future
Near real-time, ongoing monitoring of firm quality checks using robust technological platform

Peer Review
Focus on greater risk industries or areas; more significant remediation; root cause analysis; termination from peer review after repeat quality issues

Standards and Ethics
Quality control standards implementation; evaluation of clarified standards implementation; auditor’s report revisions; ethics codification

CPA Learning and Support
Competency models for audits, competency assessment tools, targeted resources; certificate programs

Audit Quality Center resources, tools and training; CPEA; audit guides, risk alerts and practice aids
AICPA response (continued)

- Creation of competency framework for employee benefit plans will help practitioners assess whether they have the competency needed for employee benefit plan financial audits and, if not, what curriculum they need to gain competency.
The Future of Practice Monitoring Concept

**Phase I**
Test the self-monitoring system from input to dashboard for usability, usefulness, and accuracy among a select group of volunteer firms.

**Data**
Firm pushes engagement data from various systems, including practice and engagement management, human resources and more.

**Analysis**
The system continuously processes the data and measures it against a set of engagement quality indicators.

**Internal Dashboard**
Firms would get a perpetually updated performance snapshot.

**Status**
The system would generate flags when performance is not meeting expected metrics.

**Phase II and Beyond**
Increase the visibility of results to more stakeholders.
System ultimately would become mandatory.

**Dashboards**
Beginning in Phase II, dashboards could be customized for other users, based on authorization to view certain information. Firms would continue to evaluate and remedy situations before an engagement is completed, but if issues remain, monitors would be brought in.

**Seals**
An internal seal would show the high-level status of the firm's overall performance measures to quality control and executive management.
An external seal would appear on the firm's profile on the AICPA website indicating the firm's participation in the program, level of service and other details.

If all remediation steps fail, a firm's rating (indicated in the seal) could be lowered. The firm would have time to address these issues before the information is available to other users via the external seal.
AICPA response (continued)

- Early April 2016, the AICPA launched an employee benefit plan certificate program to allow practitioners to show their competency.

Employee Benefit Plans Certificates
Available April 2016

The complexities of an employee benefit plan (EBP) audit demand deep, exacting expertise. CPAs specializing in EBP audits must meet the Department of Labor and IRS requirements, in addition to the AICPA’s professional standards and rules. To help CPAs prepare for and address these professional demands and build competencies, the AICPA has developed a series of certificate programs that offer flexible learning and rigorous exam options at both the intermediate and advanced levels.

Intermediate Program
Covers defined contribution, defined benefit, and health and welfare plans.
- Learning (Optional Courses)
  Practitioners who need to develop their skills prior to taking the exam can enroll in the Auditing Employee Benefit Plans course (Page 2). Participants will gain an understanding of the requirements and audit procedures related to defined contribution, defined benefit, and health and welfare plans to learn how to effectively plan and carry out an audit. Available via live training in April 2016 and self-study in May 2016.
- Digital Badge (Required Exam)
  Practitioners can earn the Employee Benefit Plan Auditing Certificate by successfully passing a rigorous 100-question intermediate-level exam. Available April 2016.

Advanced Programs
- Learning (Optional Courses)
  Advanced-level, two-day instructor-led courses are offered for three plan types to help participants develop their competencies through a series of hands-on case studies and learning exercises. Participants will take part in a mock audit, which will cover all phases of the engagement, from planning to reporting. These courses can be purchased with or without the corresponding exam, depending upon whether you wish to sit for the certificate exam or not. Courses include:
  - Advanced Auditing for Defined Contribution Retirement Plans (Page 3) — Available April 2016
  - Advanced Auditing for Defined Benefit Pension Plans (Page 4) — Available June 2016
Peer Review
The Impact on Peer Review

The Future of Practice Monitoring
The Impact on Peer Review

Concept Paper

- Evolving the CPA Profession’s Peer Review Program for the Future
  - A provocative vision of what practice monitoring could become
  - Released for comment: Dec. 15, 2014
  - Feedback due: June 15, 2015
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
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

AICPA Revised Interpretation 63-1

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
Unique risks associated with different types of ERISA plans

- Defined contribution – Participant account and allocation testing and timely remittance of participant contributions.
- Defined benefit – Actuarial present value of accumulated plan benefits and changes in actuarial present value of accumulated plan benefits.
- Health & welfare – Benefit obligations and changes in benefit obligations.
- Employee stock ownership plans – Annual appraisal of securities and leveraged ESOPs

Peer reviewer must consider the unique risks and document how these risks were addressed.
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 3\textsuperscript{rd} year, six months after the firm’s fiscal year end
- This impacts plans that are reviewed
How to Structure the Peer Review

- Every audit must meet your firm’s QC standards
- Be prepared
  - Track general data on the number, size and type of employee benefit plan audits
    - Peer reviewers must 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

• 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 Checklists

- AICPA Peer Review Program Manual PRP §20,700 (dated October 2015)
- Employee Benefit Plan Audit Engagement Checklist

PRP Section 20,700
Employee Benefit Plan Audit Engagement Checklist

Instructions for Use of the Checklist for Review of Audits of Employee Benefit Plans

This checklist was developed for use by reviewers of audits of employee benefit plans. It should be used in conjunction with other guidance materials issued to implement the peer review programs of the AICPA. Questions regarding these instructions or any other materials should be directed to AICPA Peer Review at 919.402.4502.

The Practice Monitoring Task Force (PMTF) is studying ways in which the peer review process can aid in enhancing the quality and performance of audits of employee benefit plans by member firms. The PMTF has made a recommendation to the Peer Review Board (PRB) to enhance the peer review process of these plans.

One recommendation made by the PMTF resulted in identifying certain questions that focus on the audit areas noted as most frequently not being performed in accordance with professional standards. These questions are in bold in the checklist. The reviewer should be aware that failures to conform to professional standards in these areas may be seen by the Department of Labor (DOL) as resulting in substandard audits. Auditors whose audits are deemed substandard by the DOL could be required to perform additional procedures and may be referred by the DOL to the AICPA Professional Ethics Division, state boards of accountancy, or both. In addition, the PRB has concluded that a failure to properly perform audit procedures in one or more of the areas identified should be considered in determining whether the engagement has not been performed in accordance with professional standards in all material respects.

If the reviewer determines there was a failure to reach an appropriate conclusion on the application of professional...
Preparing for a Peer Review (cont.)

Peer Review Alerts

April 2016 Reviewer Alert

This alert contains five articles:
1. PRPM to Remain on Peer Review Website, including Team/Review Captain Packages
2. Reviewer Training Update: Upcoming Offerings
3. Lessons Learned from Enhanced Oversight – Audit Documentation
4. Department of Labor (DOL) Communicates to Firms
5. Upcoming Events

PRPM to Remain on Peer Review Website, including Team/Review Captain Packages

To improve audit quality, make the peer review process more efficient and address feedback, the PRPM, including Team/Review Captain Packages, will remain on the peer review website available for download to AICPA members, with some content available to the public (Standards, Interpretations, etc.). The content includes:

- Engagement checklists,
- Supplemental checklists,
- Profiles
Peer Review News & Publications

Access all of our current and archived Peer Review communications to stay up to date with Peer Review.

Reviewer Alert

This communication is designed to focus your attention on current issues to assist you in more effectively performing your peer reviews and enhancing the quality of the work performed by your peer review clients.

Latest News

- April 2016 Reviewer Alert
- Current Team and Review Captain Checklists
- SDC Experience Needed

Other Interests

- QCM Review Results
- Peer Review Mentoring Program
- Reviewer Training Information
- Are you a member of PCPS?

Blogs
Preparing for a Peer Review (cont..)

- Document, document, document
  - AU-C Section 500, AU-C Section 230 documentation standards
  - Special emphasis on documentation of consultations
  - Include memos to document approach
  - *If it is not in the workpapers, there isn’t any documentation!*

- CPE
  - Monitor EBP CPE requirement
    - Your firm’s internal requirement
    - AICPA EBPAQC
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
  - Specialized 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
Peer Review Overview

- 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

- 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

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

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

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
Revisiting the Professional Standards

AU-C Section 230, Audit Documentation

• 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

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

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 Review Audit Documentation Expectations
Written Audit Programs and 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
Anticipating Peer Review Audit Documentation Expectations

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
Anticipating Peer Review Audit Documentation Expectations

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
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.
• Common Plan Audit Deficiencies
• Best Practices in Audit Documentation
• Inspection Requirements
• Peer Review Approach/Best Practices
Jessie Kanter, CPA is a director specializing in A&A 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.
Areas of Common Errors and Deficiencies
Common Errors:

- No or inadequate documentation of internal controls
- Failure to assess and/or document control risk
- No evidence of SSAE 16 review/reliance
- No or inadequate evidence of fraud discussions
ESOPs

More than 50% of plans subject to DOL inspection contained deficiencies.

- Failure to identify valuation of employer stock in the risk assessment
- Review of the work of the appraiser (full-scope audits)
- Testing the release of shares from the suspense account
- Testing benefit payments
- Obtaining and reviewing documentation of stock purchases
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, termination 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
- No reconciliation of participant accounts to total plan assets
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

- Failure to test investment transactions and/or income
- Failure to test end-of-year market values
- Failure to obtain proper certification for limited-scope audit
- Inadequate or missing disclosures related to investments
- Failure to test a change in service provider
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

- No audit work performed or no audit documentation
- Insufficient testing on contributing employers for multi-employer plans
- Failure to test compliance with compensation provisions
  - This is the area that most non-compliance is found in a plan - Improper definition of eligible compensation
- Failure to test forfeitures
- 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

- No audit documentation or no audit work performed
- Failure to test participant eligibility to receive benefit payments
- Failure to test approval/validity of benefit payments
- Failure to test vesting
Other Areas: Common Deficiencies

- No audit documentation or no audit work performed for related-party and party-in-interest transactions
  - No related parties noted in workpapers, no evidence of inquiry of management
- Failure to understand and/or test administrative expenses
- Failure to understand testing requirements on a limited-scope engagement
- Improper use of limited-scope exemption
  - Financial institution did not qualify for such an exemption
- Inadequate disclosures related to participant-directed investment programs
- Incomplete description of the plan and its provisions
- Failure to properly report on and/or include the required supplemental schedules relating to ERISA and DOL
- Inadequate Planning & Supervision
- Non-attest services not documented
Best Practices and Avoiding Audit Documentation Pitfalls
Best Practices and Avoiding Common Audit Documentation Pitfalls

Materiality

Plan Financial Statement Level

Regulatory / Participant Level
Risk Assessment & Internal Control
Payroll Controls & Detail Testing

Consider Significance to Contributions

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

Sampling

Attribute

Dual-purpose

Monetary
Investments

Full vs. Limited Scope

- Certification Issues
- Evolution of ASC 820
- Management Responsibility
- Presentation & Disclosure
Best Practices and Avoiding Common Audit Documentation Pitfalls

Participant Transactions

- Contributions
- Investment Changes
- Benefit Payments
- Participant Data

Participant Accounts
Understanding Inspection Requirements & Consideration for EBPAQC members
EBPAQC Membership Requirements

- Designated audit partner in charge of EBP
- 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)
• 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
• 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
Approach with the Peer Review Team/Best Practices
Peer Review Approach

1. 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
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
IV. Engagement team responds and clarifies any “No” answers.
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
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

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.

- When you disagree with findings prior to issuance
  - Consult with the AICPA technical review committee
  - State society
Establish organizational 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 teams

Practice makes perfect - annual internal inspections
A. Structure the internal reviews using AICPA checklists
B. Require engagement teams to respond to findings
C. Communicate the findings and remediate
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
IV. Pay extra attention to the riskier types of engagements, and ensure the documentation is complete and accurate
   A. Compliance with documentation standards; AU-C section 230, *Audit Documentation*
   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

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
   A. Address previous peer review comments with engagement teams
   B. Address quality control issues
   C. Consider specialized training for your teams