The Five Questions You Should Ask Your Benefit Plan Auditor

On May 28, 2015, the United States Department of Labor's Employee Benefits Security Administration (EBSA) released the results of its most recent study on the quality of employee benefit plan audits performed by certified public accountants (CPA). The report entitled "Assessing the Quality of Employee Benefit Plan Audits (Report)" outlines significant deficiencies in 39 percent of the audits reviewed. This is a startling rate of deficiencies in an audit process that was originally established to protect plan assets as well as participants and their beneficiaries.

The scope of the study included a review of the Form 5500 annual report filings and related audit reports for the 2011 filing year. The report notes that in 2011 there were approximately 81,100 filings containing plan financial statements audited by 7,330 different CPA firms. The EBSA selected 400 plans audited by 232 different CPA firms and divided the firms into six sections based on the number of plan audits that the CPA firm performed.

A deeper look at the study and its results are alarming. EBSA's review found that 61 percent of audits fully complied with professional auditing standards or had only minor deficiencies under professional standards. The remaining 39 percent of the audits contained major deficiencies. Of the 39 percent, the results indicated that one or more generally accepted auditing standard (GAAS) requirement was not met and, therefore, would lead to the rejection of the plan's Form 5500 filing, if not corrected.

Plan sponsors should understand their fiduciary responsibility to the plan participants when selecting a CPA firm and ensure that such firm has the requisite depth and skills to conduct plan audits.

Who should be concerned with the results of this report?

The result of the study should be concerning to both CPA firms and plan sponsors. Plan sponsors should understand their fiduciary responsibility to the plan participants when selecting a CPA firm and ensure that such firm has the requisite depth and skills to conduct plan audits. In the event a Form 5500 filing is rejected due to deficiencies; the plan sponsor may be assessed a fine until the deficiencies are remedied.

CPA firms should also consider the results of the study. Employee benefit plan audits are a specialized skill and CPA firms should ensure all team members who work on plan audits are well-trained and have access to the necessary tools for a quality audit.

Who should be concerned with the results of this report?

Based on the information in the report, EBSA reached the following findings and conclusions:

- The "smaller the firm's employee benefit plan audit practice, the greater the incidence of audit deficiencies." The report indicated that the firms that audit one to two plans per year had a deficiency rate of 76 percent; while those firms that audit 100 to 750 plans and more than 750 plans had a deficiency rate of 12 percent.
- Audit areas unique to employee benefit plans, including contributions, benefit payments, participant data and party-in-interest/prohibited transactions were among the areas of highest audit deficiencies.
- Firms that were members in the AICPA's Employee Benefit Plan Audit Quality Center (EBPAQC) had fewer audits containing multiple deficiencies (of the 232 firms selected 32 percent were members of the EBPAQC). Employee benefit plan specific industry training may contribute to better audit results. As the level of industry specific training increased, the number of audit deficiencies decreased.
- Almost 60 percent of the limited scope audits in the study contained major GAAS deficiencies in areas of the audit not related to investments. These occurrences may have resulted due to the insufficient availability of technical tools whereby plan auditors were not focused on all relevant audit areas within a limited scope audit.

- Firms who failed to comply with professional standards did so because they had insufficient information about employee benefit plan audits or did not adequately use available technical materials. Moreover, it seems the AICPA and sponsoring state CPA society peer review monitoring process has not identified deficient audit work or ensured compliance with professional standards.

What questions should plan sponsors and CPA firms be asking as a result of this study?

1. **How many benefit plan audits does the firm conduct on an annual basis?**
2. **Is their benefit plan audit practice a focus area for the firm or is it more of an ancillary offering?**
3. **Are they members of the AICPA Employee Benefit Plan Quality Center (EBPAQC)?**
4. **What are the firm's training requirements for practitioners that perform audits of employee benefit plans?**
5. **What technical resources are made available to the firm’s benefit plan audit practitioners?**

Where does that leave CPA firms and plan sponsors today?

There are many indisputable takeaways from the EBSA study. But the essential coalescent is this: CPA firms that perform plan audits need to be committed to the employee benefit plan industry and provide the appropriate training, technical resources and tools to its practitioners. Plan sponsors need to critically evaluate the skills, qualifications and experience of the CPA firm that audits its plans. Both parties play an important role in protecting plan assets, plan participant and beneficiaries.