

## AICPA Employee Benefit Plan Audit Quality Center Common EBP Audit Deficiencies

Summarized below are the most common deficiencies found in EBP audits by the Department of Labor (DOL) and AICPA Peer Review program. This document provides a brief overview of financial statement assertions, common pitfalls by audit area, and key audit issues to consider in developing auditing procedures.

### Financial Statement Assertions:

In representing that the financial statements are in accordance with the applicable financial reporting framework, plan management implicitly or explicitly makes assertions regarding the recognition, measurement, presentation, and disclosure of the various elements of financial statements and related disclosures. Assertions used by the auditor to consider the different types of potential misstatements that may occur fall into the following three categories:

- Assertions about classes of transactions and events for the period under audit
- Assertions about account balances at the period-end
- Assertions about presentation and disclosures

When designing audit procedures, the auditor should consider the relevant financial reporting control assertions used by plan management for the applicable transaction and/or account balance.

The *AICPA Audit & Accounting Guide: Employee Benefit Plans* (Guide) discusses the financial reporting assertions in detail. Financial reporting assertions and suggested audit procedures are discussed in various chapters of the Guide, as follows: Chapter 3 (Audit Risk Assessment), Chapter 5 (Defined Contribution Retirement Plans), Chapter 6 (Defined Benefit Pension Plans), Chapter 7 (Health and Welfare Benefit Plans), and Chapter 8 (Investments).

### Common EBP Audit Deficiencies and Key Related Audit Issues:

#### ➤ **Participant Data and Forfeitures**

##### **Common Deficiencies**

- ▶ No audit work performed or no audit documentation of testing participant accounts
- ▶ Testing of payroll data insufficient
- ▶ No testing of participant eligibility or forfeitures
- ▶ No testing of investment income allocation to participants
- ▶ Inadequate or missing documentation

##### **Key Issues**

- ▶ GAAS requires testing allocation of total net assets to participant accounts
- ▶ Obtaining confirmations from participants
- ▶ Obtaining payroll data
- ▶ Defining eligibility requirements
- ▶ Obtaining forfeiture information
- ▶ Testing allocation of investment income to participant accounts

➤ **Investments**

**Common Deficiencies**

- ▶ No audit work performed or no audit documentation
- ▶ Failure to test fair value measurements
- ▶ Failure to obtain proper certification for limited scope audit
- ▶ Inadequate or missing disclosures related to fair value disclosures required by ASC 820
- ▶ Failure to evaluate and/or document the evaluation of investment contracts for benefit responsiveness in defined contribution plans
- ▶ Failure to disclose investments that represent 5 % or more of plan net assets
- ▶ Failure to identify valuation of employer stock in the risk assessment (ESOPs)
- ▶ No or insufficient testing performed on appraisal/valuation report of employer stock (ESOPs)
- ▶ Obtaining and reviewing documentation of employer stock transactions (ESOPs)

**Key Issues**

- ▶ Testing fair value of investments confirmed by Trustee
- ▶ Obtaining Common Collective Trust Funds (CCT) unit values
- ▶ Understanding the nature of investments
- ▶ Assessing proper disclosure and supplemental schedules
- ▶ Following up on inconsistencies on the custodian reports and supplemental schedules
- ▶ Qualification of the appraisal firm
- ▶ Understanding the assumptions used in the appraisal report
- ▶ Obtaining the information required for employer stock ASC 820 disclosures (ESOPs)

➤ **Contributions and Certain Participant Data**

**Common Deficiencies**

- ▶ No audit work performed or no audit documentation
- ▶ No audit program
- ▶ Insufficient testing on contributing employers for multi-employer plans
- ▶ Documentation of testing internal controls for payroll
- ▶ Failure to test employee elective deferrals
- ▶ Inappropriate reliance on SOC 1<sup>SM</sup> Report
- ▶ Timeliness of participant contributions not tested

**Key Issues**

- ▶ Establishing payroll register used in testing is reliable
- ▶ Testing authorization of elective deferrals
- ▶ Defining compensation
- ▶ No paper trail
- ▶ Obtaining confirmation responses
- ▶ What information are you trying to confirm
- ▶ Alternative procedures to confirmations

➤ **Participant Benefit Distributions & Withdrawals/Benefit & Claim Payments**

**Common Deficiencies**

- ▶ No audit documentation or no audit work performed
- ▶ Failure to test participant eligibility to receive benefit payments
- ▶ Inappropriate reliance on SOC 1 Report
- ▶ Failure to test approval of benefit payments

**Key Issues**

- ▶ Eligibility to receive benefits
- ▶ When are distributions permitted
- ▶ Obtaining confirmation responses
- ▶ Viewing cancelled checks or verification of proper receipt

➤ **Related Parties/Parties in Interest/Prohibited Transactions**

**Common Deficiencies**

- ▶ No audit documentation or no audit work performed
- ▶ No or incomplete related parties/parties in interest noted in workpapers

**Key Issues**

- ▶ Identifying related parties/parties in interest
- ▶ Definition of prohibited transactions
- ▶ Financial statement disclosures and supplemental schedules
- ▶ Effect on auditor's opinion

➤ **Other Areas**

- ▶ Failure to understand testing requirements on a limited scope engagement
- ▶ Improper use of limited scope exemption because 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
- ▶ Failure to disclose tax years that remain subject to examination by major tax jurisdictions
- ▶ Failure to conform auditor's report to the new clarified standards