Professional Ethics

Most Frequent Violations of Professional Standards

Employee Benefit Plan Investigations

As of April 30, 2015

Executive Summary

The AICPA Professional Ethics Division has compiled the following list of quality issues found in its investigations of employee benefit plan audits over the last two years. Over that time the Division has completed 606 investigations, 196 of which were employee benefit plans. In instances where reporting, disclosure and auditing errors were noted, the practitioner often could have benefited from additional experience and specific continuing professional education in this specialized area. Also, in these instances, a quality control review of the financial statements and risk areas could have detected the errors. When such quality issues are identified, the member is subject to remediation (e.g., continuing professional education, pre-issuance reviews of select engagements by an independent third party) and in some instances sanctions that include publication and admonishment, suspension or expulsion from AICPA membership.

Firm Management

1. The firm failed to undergo a peer review or misrepresented the composition of its practice and, as a result, failed to obtain an appropriate peer review.
2. The auditor did not have the competence to complete the audit in accordance with professional standards.

Auditor's Reporting

1. The auditor's report was not properly dated. This was usually because the report was reissued as a result of additional disclosures or audit procedures, and the report was not dual dated or re-dated. However, we have also seen instances where the report was dated before sufficient evidence was obtained.
2. The first paragraph of the report did not identify (or include) the financial statements and/or supplementary schedules being reported upon.
3. The auditor failed to opine on all statements included in the financial statements or on supplementary information attached to the financial statements.
4. The auditor did not opine on one or more of the prior year financial statements which were presented.

Audit Procedures

1. The auditor did not obtain sufficient competent evidential matter to support the opinion on the financial statements. Although we see this in all areas of the audit, the most frequently seen problems are with:
    a. The assumption that no audit procedures need to be performed on a limited scope audit. Performing such audits just eliminate procedures over investments but other transactions and balances must be audited as is stated in the auditors report.
    b. Over reliance on the service auditor's report. Relying on the SOC reports allows the auditor to reduce substantive testing over covered areas, not eliminate testing.
    c. Benefit responsive contracts - failure to evaluate the contract for benefit responsiveness

       This likely occurs due to the failure to recognize these types of investments or that there are specific disclosures required.
    d. Contributions – allocation to participants and tracing to participant accounts.
    e. Participant's data – frequently we see that the auditor failed to perform payroll testing especially with multi-employer plans.
    f. On defined benefit plans, testing the reputation, assumptions used, conclusions and qualifications of the actuary and their relationship to the plan and then over relying on the actuary's results. Often the auditor believes they do not need to do any procedures because they work with the actuary on several accounts or have worked with them for many years.
    g. Benefit payments - particularly over eligibility and approval and tracing amounts to participant's accounts.
    h. Investments – most frequently we see that values were not verified at year end or for transactions. See 2 below.
    i. Parties in interest, commitments and contingencies, administrative expenses, plan tax status and subsequent events – little or no work done.
    j. Particular to health and welfare plans – the liabilities associated with the plans are unusual and are often not properly audited or even understood.

   There are many reasons for the failure to obtain sufficient evidence including lack of competence, over reliance on the service auditor's report, familiarity with the client (leading to the auditor being too comfortable and not performing testing) and not understanding the audit area.
2. Inadequate documentation of procedures performed. This is seen in all areas but most frequently the auditor does not document any procedures on the internal controls assessment, subsequent events, commitments and contingencies, related parties and risk assessment. Signing the audit program is not adequate documentation.
3. The auditor failed to obtain an appropriately tailored management representation letter.

Financial Statement Deficiencies

1. Improperly reflecting benefits payable on the financial statements.
2. Benefit responsive contracts:
    a. Not recognizing it.
    b. Reflecting at contract value rather than at fair value with an adjustment to contract value reflected on the statement of net assets.
    c. Failure to disclose the average yield, the crediting interest rate, the fair values, and a general description of the basis and frequency of determining crediting interest rate resets and any minimum crediting interest rate under the terms of the contract and any limitation on related liquidity guarantees.
    d. Inclusion of disclosures as to the existence of a benefit responsive contract when one does not exist (this may be because the auditor just copied sample disclosures found in guidance or does not understand the nature of such contracts).
3. Fair value disclosures required by FASB ASC 820 are omitted or errors are made in the disclosures. Right now this is our most frequently seen disclosure problem. Often, we also see failure to adequately describe valuation methodologies for all investments, incorrect leveling (common collective trusts or pooled accounts reflected as Level 1) and the failure to reconcile Level 3 investments.
4. Disclosures regarding subsequent events.
5. Disclosures particular to health and welfare plans, notably post-retirement benefit obligations.
6. Investments that represent 5 percent or more of total net assets.
7. The net change in fair value of each significant type of investment.
8. Omission of risks and uncertainties, subsequent events, tax status and party in interest disclosures.
9. A comparative Statement of Net Assets Available for Benefits was not presented in the financial statements.
10. Although the statement of net assets available for benefits and the changes in net assets were comparative, the notes were not.
11. The schedule of assets held (end of year) was not attached to financial statements, not formatted correctly, or failed to identify parties-in-interest.
12. Disclosures regarding certified information do not include all information certified or include amounts and/or transactions not certified.

The Statement of Changes in Net Assets Available for Benefits did not present investment income exclusive of changes in fair value.

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