Professional Ethics

Most Frequent Violations of Professional Standards

Employee Benefit Plan Investigations

As of December 31, 2012
Executive Summary

The AICPA Professional Ethics Division has compiled the following list of deficiencies frequently found in its investigations of employee benefit plan audits over the last 2 years. Over that time, the division has completed 498 investigations, 101 of which were employee benefit plans. Most often, the reporting, disclosure, and auditing errors have occurred as a result of a lack of experience and specific continuing professional education in this area and could have been detected by a quality control review of the financial statements and risk areas.
Auditor's Reporting

Improper Audit Report Date
The auditor did not properly date the audit report. This usually occurs because the auditor reissued the report as a result of additional disclosures or audit procedures but did not dual date or re-date the report. However, we have also seen instances in which the auditor dated the report before obtaining sufficient evidence.

Character of Examination and Degree of Responsibility
The first paragraph of the report did not identify (or include) the financial statements and supplementary schedules being opined upon.

The auditor failed to opine on all statements included in the financial statements or on supplementary information.

The auditor expressed contradictory opinions. For instance, the auditor may have performed a permitted limited scope audit and disclosed this in the report but expressed a qualified or unqualified opinion.

Improper Certification
The scope of the audit report was inappropriately limited. The financial institution holding the plan’s investments did not qualify for limited scope treatment pursuant to Department of Labor’s Code of Federal Regulations Title 29 Section 2520.103-12.
Audit Procedures

Failure to Obtain Sufficient Competent Evidential Matter

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 concern the following:

1. Benefit responsive contracts. Failure to evaluate the contract for benefit responsiveness. This likely occurs because the auditor does not recognize its existence or that specific disclosures are required.
2. Participant’s data. Frequently, we see that the auditor failed to perform payroll testing on multiemployer plans and allocation of contributions or income to participants.
3. Actuary’s results. On defined benefit plans, failure to test the reputation, conclusions, and qualifications of the actuary and assess his or her relationship to the plan and over relying on the actuary’s results. Often, the auditor believes that he or she need not perform any procedures because the auditor has worked with the actuary on several accounts or for many years.
5. Investments. Typically we see that values were not verified at year end or for investment transactions. This often happens due to over reliance on a SAS 70 report.
6. Parties in interest. No work was done and no indication of such parties on the statement of assets held (end of year)
7. Particular to health and welfare plans. The liabilities associated with the plans are unusual and are often not properly audited or even understood.

SAS 70 Reports

The auditor over relied on the SAS 70 report and eliminated rather than reduced procedures or failed to properly evaluate the SAS 70 report. This may be considered a part of item 1 that precedes but is worthy of special note.

Inadequate Documentation

Documentation of procedures performed was inadequate. This was seen in all areas but most frequently the auditor did not document any procedures on the internal controls assessment and risk assessment.

Audit Program

The auditor failed to utilize or customize an audit program
Financial Statement Deficiencies

Benefit responsive contracts:
Reflecting at benefit responsive contract at contract value rather than at fair value with no adjustment to contract value reflected in the statement of net assets available.

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.

Fair Value Disclosure
The financial statements omit fair value disclosures required by Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 820 (FASB Statement No. 157, Fair Value Measurements) or there are errors in the disclosure. We also often see incorrect leveling (common collective trusts or pooled accounts reflected as level 1) and the failure to reconcile level 3 investments.

Accumulated Plan Benefits
The financial statements reflected 2 years of beginning of year accumulated plan benefits but only the current and one prior year's statement of net assets and statement of changes in net assets (3 years would be required based on the Audit and Accounting Guide Employee Benefit Plans).

The financial statements failed to disclose information about the accumulated plan benefits and the changes therein.

The financial statements failed to disclose the method and significant actuarial assumptions used to determine the plan's benefit obligations.

Other Financial Statement Deficiencies
Benefits payable are included in the financial statements.

The financial statements failed to disclose investments that represent 5 percent or more of total net assets.

The financial statements failed to disclose the net change in fair value of each significant type of investment.
The funding policy and the method of determining participants' contributions was not disclosed in the financial statements.

A comparative Statement of Net Assets Available for Benefits was not presented in the original financial statements.

The financial statements failed to make disclosures particular to health and welfare plans.