

AICPA Employee Benefit Plans Conference  
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## **Audit Quality Is Everyone's Business**

Good morning everyone.

Thank you, to everyone on the conference planning team for a tremendous job putting this program together. The topics being covered are more important than ever.

And thank you to all of the speakers for sharing your time, knowledge and expertise to address these topics.

I especially want to thank Assistant Secretary Phyllis Borzi and Chief Accountant Ian Dingwall from the Department of Labor for being with us again this year. The AICPA and DOL have had a very long, cooperative and collaborative partnership with the mutual goal of public protection and enhancing quality, and I very much value that partnership. We, as a profession, are very lucky to have such talented and dedicated individuals at Labor to work with.

Most of all, I want to thank each and every one of you for attending this year's conference. Your participation clearly demonstrates your commitment to learning how to better serve employee benefit plans

and their participants, whether as an auditor, tax adviser, administrator, plan sponsor or service organization.

I'm sure I don't have to tell you that employee benefit plans are of vital importance to millions of Americans. Our profession takes our responsibility to protect those Americans very seriously. The AICPA and the profession have a long history of commitment to quality, continuous improvement and taking action to raise the bar on our performance, and all of you support those efforts and actions by incorporating them into your processes and procedures.

This morning I want to highlight some of the profession's continuing efforts to drive improved audit performance.

Back in 2004, the AICPA introduced the Employee Benefit Plan Audit Quality Center. I know many of you work in firms that are members of the Center, which shows your firm is willing to make a commitment and the investment necessary to perform quality audit services.

Today, more than 2,300 firms, performing over 80% of all ERISA plan financial statement audits, have joined a community interested in and committed to achieving quality services. As part of that, you voluntarily adhere to requirements above and beyond professional standards.

The profession remains strongly committed to ongoing improvement. Last year the AICPA launched our Enhancing Audit Quality initiative. EAQ is a comprehensive effort to:

- Revisit professional standards and related guidance
- Create additional tools and learning resources focused on higher risk and challenging areas of practice
- Reinforce professional ethics, and
- Strengthen the peer review and enforcement processes

Because benefit plan audits are so unique and important to so many stakeholders, they're a special focus of the EAQ initiative.

I'd like to highlight some of the more substantive activities as part of this initiative. The quest for quality starts before an engagement begins. Specifically, auditors' expertise and experience – basically, competence – is critically important. I know that's no surprise. But knowing whether you or others in your firm are competent requires careful and honest assessment. Remember, professional standards, including our due care requirements, allow us to take on only engagements that align with our expertise and abilities.

For benefit plans, the knowledge and skills required to meet the due care principle is even higher because of the specialized nature of these audits. The AICPA has the resources and tools to arm auditors with the information and capabilities they need. The Audit and Accounting Guide for Employee Benefit Plans is the bible – I bet you'll hear that several times throughout this conference. Last week, though, we introduced a new competency framework for employee

benefit plan audits, on our Competency and Learning website. Through the site, practitioners can understand the necessary competencies for this type of work. Knowledge checks identify gaps and result in recommended tools and resources to aid competency development. Two assessment tools will be offered soon – one in July and one in the fall – that will allow practitioners to further determine their competencies and potential gaps, and map out a curriculum specific to their competency level. Early next year, we'll launch an employee benefit plan certificate program enabling practitioners to then demonstrate their competency. Explore your conference materials for flyers on the new website and EBP audit resources. Also, visit the AICPA Member Learning and Competency booth in the Exhibit Hall to see a demo of the site and receive a copy of the employee benefit plan competency model.

Other resources are available to help keep auditors on top of the environmental and business factors that make benefit plan audits so challenging. The EBP Audit Quality Center offers tools on best practices and how to avoid common audit deficiencies. Center members have access to “hot topic” webinars, discussion forums, and timely alerts.

But, quality plan audits involve other participants as well. Many of you are here today! For example, a well-informed plan sponsor is critical to plan protection. And, the Center has excellent resources for plan sponsors, including an advisory on how to engage a quality auditor. Please ...make sure to take advantage of these fantastic resources.

Last year, we also launched the Center for Plain English Accounting. No – it is not an oxymoron. CPEA is another resource for your firm’s overall accounting and auditing practice. It’s essentially a national resource to support regional and local firms on all accounting and auditing issues. And, yes, in a Plain English way.

In the standards area, we’ve developed practice aids to help firms implement the quality control standards – tailored for different sized firms. This is particularly useful for the smallest of firms. And, we’re exploring the development of additional industry-specific quality control guides. Further, we’re closely monitoring the implementation of the clarified auditing and quality control standards, to make sure they’re working as the Auditing Standards Board intended. And, we’ll consider changes if they aren’t. Since many practitioners use QC and audit tools developed by third-party providers, we’re also working with those providers to make sure they have the information they need to promote the highest levels of competency and quality.

Now, if you’re thinking that tools, learning and standards don’t go back far enough in the process, you’ll appreciate that we’re looking at pre-licensure factors as well. For instance, we’re working with the College Board on an advanced placement accounting course at the high school level, and with university professors on college-level curricula, to drive the best and the brightest, with the right skillset, into the profession. We’re also working with the CPA Exam developers to make sure employee benefit plan-specific topics are adequately covered on the exam, and that the next version of the exam will

appropriately assess higher-order skills, such as critical thinking and professional skepticism, as well as a candidate's ability to apply knowledge. Having knowledge is great; knowing how to use it is even better. The next version of the exam will launch in 2017 containing new content and new testing methodologies.

The idea behind all of these efforts is to prevent audit deficiencies from occurring. We call them "front end" remedies. Quite simply, they help auditors figure out whether to take on an engagement and reinforce performing at a high level once they've decided to proceed.

But, we all know that we can't prevent everything 100%. So, a robust "back end" is needed in order to detect issues after they occur, remediate and improve audit performance, or when all else fails, appropriately discipline.

Reforms in the AICPA's peer review program are integral to this back-end effort. An important part of our plan is to make sure only the most qualified peer reviewers are evaluating the work of others. A peer review is only as good as its reviewer. Some of the modifications to elevate the quality of peer reviewers are annual training requirements with competency assessments, enhanced oversight of reviewers' work, and prompt removal from the reviewer population, if necessary.

Peer reviewers will also begin performing deep-dive reviews on selected risk industries and areas, including plan audits. An in-depth

review of peer reviewer work product conducted last fall, by benefit plan audit specialists we engaged, uncovered many areas for improvement. Due to its success, we're continuing the program with enhancements. We're also considering more effective ways to remediate firms that have experienced challenges, including more timely reviews when a firm takes on an audit in a new high-risk industry, very targeted corrective actions when non-conforming engagements are identified, and re-reviews of engagements when necessary. And, in some cases, expelling firms from the Peer Review Program, which has licensure impact.

Many other peer review reforms are being implemented or considered. However, there is one more I want to mention that, frankly, is designed to address an issue I find personally offensive as a member of this profession. Last year, based on a DOL initiative to determine the qualifications of firms' auditing plans, we discovered certain plan auditors were not enrolled in peer review that should have been. Some purposefully. This is totally unacceptable! This fall we'll be capturing data from enrolled firms and matching that information with Labor's EFAST2 system, so that we can quickly detect firms that should be subject to peer review, but may be avoiding compliance.

The initiatives I just discussed, and the many more in the works, are expected to produce immediate improvements. And, I'm personally excited about how the changes will drive higher audit performance overall, and in benefit plan auditing.

There is one initiative, however, that is designed to improve performance, but is a longer-term vision. It's referred to as Practice Monitoring of the Future – and it's a complete re-imagining of our current Peer Review Program into an ongoing, near real-time process using an advanced technological platform that, as envisioned, would identify audit quality issues and fix them, potentially even before an engagement is completed.

It's a vision in the conceptual phase that requires all stakeholder engagement in development and refinement.

Before concluding my remarks, I want to address the Department of Labor's study on the quality of plan audits.

The AICPA takes the study's findings very seriously. Poor audit quality is never acceptable. Never.

Our Professional Ethics Division has been investigating, on an expedited basis, all of the audits from the study that the DOL has referred to us. Additionally, we conducted a targeted benefit plan audit initiative through peer review this past fall. We are seeing the audit issues that the DOL found. There is no question. And, we're dealing with them swiftly – through remediation or discipline. Any disciplinary action we take is shared promptly with the appropriate state boards of accountancy. And, we're exploring a new state board investigative file sharing model with the National Association of State Boards of Accountancy.

Financial statement audits are a critical component of safeguarding employee benefit plans. Quality issues that do exist need to be remediated, and that's what the EAQ program is all about.

As you've heard, we're taking it very seriously and working very hard to resolve the challenges that exist. The Enhancing Audit Quality effort, combined with many other long-standing AICPA initiatives, will deliver the high quality that the profession and those it serves expect. And, we will continue to work with the regulatory community – both state and federal – to craft innovative ways to improve the audit process and hold ourselves accountable.

I'm confident that the steps the profession is taking to address these issues will make a significant difference in future EBP audits. We all have an important role to play. As quality auditors of employee benefit plans, and other participants in the process, we need your help. Let's join together on this continued journey of audit excellence.

Thank you.