

EBP Audit Quality



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Overview

- Our Challenge
- EBSA's Audit Quality Assessments
- Findings: A Disturbing Trend
- Needed – A More Meaningful Audit Report

The Audit – A Little Background

- Required by ERISA
- In accordance with GAAS
- DOL has no standard setting authority – accounting or auditing
- Limited-scope audit, circumstances permitting

74,515 audits

6,515 firms

An average of 11 plans per firm

Our Challenge

A Tale of Two Worlds

Number of Plans Audited	Number of CPA Firms	Number of Audits Performed
1-2	3,215	4,233
3-5	1,389	5,261
6-24	1,448	16,092
25-99	373	16,805
100-749	75	14,466
750+	15	17,658
Total	6,515	74,515

Limited-Scope Audits Dominate the Landscape

Filing Year	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Limited-Scope Audits	48%	51%	56%	59%	62%	62%	65%	67%	78%	79%	80%	81%	83%



Audit Quality Assessment

A Little About Our Study

- Recommended by the DOL OIG
- 4th such assessment since 1988
- Statistical sample of 400 plan audits
- 6 strata based on size of EBP practice

Findings

Nearly 4 in 10 Audits Fail to Meet Professional Standards

\$653 Billion in Plan Assets & 22.5 Million Participants at Risk

A Disturbing Trend

Audit Quality Assessment	1988	1997	2004	2014
Audits With GAAS Deficiencies	23%	19%	33%	39%

Deficient Audits are Getting More Deficient

Deficient Items	10 Year Trend Data	Audit Quality Assessment
10+	12%	24%
5-9	20%	38%
1-4	68%	37%

Audit Deficiency Rate by Stratum

Strata	Audit Reviews	Audits With Deficiencies
1-2	95	75.8%
3-5	95	68.4%
6-24	95	67.4%
25-99	65	41.5%
100-749	25	12.0%
750+	25	12.0%
Total Reviewed	400	38.8%

Other Meaningful Quality Factors

- Size of a firm's EBP practice
 - Nearly 75% of plan audits were deficient in firms who audit 1-2 plans annually
- Peer Review is not a useful identifier of quality work
 - In 4 of 6 strata, audits with 5+ GAAS deficiencies were performed by firms with clean peer review reports

Benefit Plan Audits are Unique

- Mandated by law
- The participants and beneficiaries, not the plan sponsor, are the client
- Organizational misfits (finance vs HR)
- Not your typical balance sheet audit
- Heavily outsourced – functionally and mentally
- Qualitative components of materiality often ignored
- Heavily regulated environment
- Sanctioned scope limitations

Drawbacks with Limiting the Auditor's Scope

- Confusing to many auditors and plan sponsors
- “Not a real audit”
- Often impairs professional skepticism
- Little value in the resulting report
 - At best, doesn't describe work performed
 - At worst, auditors perform little work overall and hide behind the disclaimer

Recommendations for Improving the Audit Report

- Include participants and beneficiaries as an addressee of audit report to reinforce audits are done on behalf of participants and beneficiaries
- Include U.S. Department of Labor as an addressee of audit report because we are a primary user of these reports as they are mandated under ERISA.

Recommendations for Improving the Audit Report

- Report number of years the IQPA has audited the plan to give information as to the objectivity of the IQPA
- Include the maintenance of records respective to employees as a management responsibility to reinforce this especially as many who outsource they think they no longer have this responsibility

Recommendations for Improving the Audit Report

- Include emphasis of matter paragraphs in certain EBP specific situations to highlight issues for example, underfunding and excess of obligations over plan assets, as well as mergers/terminations.
- In a full scope audit, add report on form and content to be consistent with the reporting in a limited scope audit to inform the reader if the plan is in compliance with DOL reporting rules and regulations.

Recommendations for Improving the Audit Report

- Report on significant accounts, including participant accounts to inform the users of the work that was done during the audit and disclose if there were issues in the operations of the plan that affect participants accounts.
- Report on internal controls to inform the users if there were issues in the internal controls of the plan

Recommendations for Improving the Audit Report

- Report on compliance with DOL Rules and Regulations to inform the users about whether the plan is in compliance with DOL Rules and Regulations.

Recommendations for Improving the Audit Report

- Disclose the responsible audit engagement partner's name to encourage partners to be more active participants in the audit process.
- Disclose the name of the peer reviewer firm to inform the users if a peer review was performed and to elevate the importance of the peer review process.

In Conclusion

A more robust auditor's report:

- Benefits users of benefit plan audit financial statements
- Better highlights procedures performed
- Enhances communication
- Encourages more coordination between Accounting and Human Resources personnel
- Serves to deter practitioners with insufficient audit competency