EBP Audit Quality

Ian Dingwall, CPA
Chief Accountant

Lynne McMennamin, CPA
Auditor

DOL
Employee Benefits Security Administration

The views expressed are those of the speakers and do not necessarily represent the official position of the Department.
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

<table>
<thead>
<tr>
<th>Number of Plans Audited</th>
<th>Number of CPA Firms</th>
<th>Number of Audits Performed</th>
</tr>
</thead>
<tbody>
<tr>
<td>1-2</td>
<td>3,215</td>
<td>4,233</td>
</tr>
<tr>
<td>3-5</td>
<td>1,389</td>
<td>5,261</td>
</tr>
<tr>
<td>6-24</td>
<td>1,448</td>
<td>16,092</td>
</tr>
<tr>
<td>25-99</td>
<td>373</td>
<td>16,805</td>
</tr>
<tr>
<td>100-749</td>
<td>75</td>
<td>14,466</td>
</tr>
<tr>
<td>750+</td>
<td>15</td>
<td>17,658</td>
</tr>
<tr>
<td>Total</td>
<td>6,515</td>
<td>74,515</td>
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Limited-Scope Audits Dominate the Landscape

<table>
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</thead>
<tbody>
<tr>
<td>Limited-Scope Audits</td>
<td>48%</td>
<td>51%</td>
<td>56%</td>
<td>59%</td>
<td>62%</td>
<td>62%</td>
<td>65%</td>
<td>67%</td>
<td>78%</td>
<td>79%</td>
<td>80%</td>
<td>81%</td>
<td>83%</td>
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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

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<tbody>
<tr>
<td>Audits With GAAS Deficiencies</td>
<td>23%</td>
<td>19%</td>
<td>33%</td>
<td>39%</td>
</tr>
</tbody>
</table>
### Deficient Audits are Getting More Deficient

<table>
<thead>
<tr>
<th>Deficient Items</th>
<th>10 Year Trend Data</th>
<th>Audit Quality Assessment</th>
</tr>
</thead>
<tbody>
<tr>
<td>10+</td>
<td>12%</td>
<td>24%</td>
</tr>
<tr>
<td>5-9</td>
<td>20%</td>
<td>38%</td>
</tr>
<tr>
<td>1-4</td>
<td>68%</td>
<td>37%</td>
</tr>
</tbody>
</table>
# Audit Deficiency Rate by Stratum

<table>
<thead>
<tr>
<th>Strata</th>
<th>Audit Reviews</th>
<th>Audits With Deficiencies</th>
</tr>
</thead>
<tbody>
<tr>
<td>1-2</td>
<td>95</td>
<td>75.8%</td>
</tr>
<tr>
<td>3-5</td>
<td>95</td>
<td>68.4%</td>
</tr>
<tr>
<td>6-24</td>
<td>95</td>
<td>67.4%</td>
</tr>
<tr>
<td>25-99</td>
<td>65</td>
<td>41.5%</td>
</tr>
<tr>
<td>100-749</td>
<td>25</td>
<td>12.0%</td>
</tr>
<tr>
<td>750+</td>
<td>25</td>
<td>12.0%</td>
</tr>
<tr>
<td>Total Reviewed</td>
<td>400</td>
<td>38.8%</td>
</tr>
</tbody>
</table>
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