
 **ASPPA**
ADVANCING THE AMERICAN RETIREMENT

BENEFIT PLAN AUDITS

What You and Your Clients Need to Know!

*• Marcus Aron, CPA, Senior Auditor,
Office of the Chief Accountant, EBSA*
• James Moyna, CPA, Partner, McGladrey & Pullen, LLP
• Janice M. Wegesin, form5500help.com


ASPPA Webcast - 08-06-2008 1

 **ASPPA**
ADVANCING THE AMERICAN RETIREMENT

Today's Agenda

- Who needs an audit and what resources are available
- DOL oversight, current enforcement activity
- Setting engagement expectations; timeline
- First audit of plan
- Role of SAS70 and limited-scope certifications
- Fair value and alternative investment issues
- What auditors look at on Form 5500
- Tips to make it go smoothly

ASPPA Webcast - 08-06-2008 2

 **ASPPA**
ADVANCING THE AMERICAN RETIREMENT

Plans Subject to Audit

- Large plans
 - 100 or more participants
 - 80/120 rule
- Small plans
 - Less than 95% of plan assets not "qualifying"
 - Insufficient bonding

ASPPA Webcast - 08-06-2008 3

RESOURCES



Employee Benefit Plans: Audit and Accounting Guide

Order at
<http://www.cpa2biz.com>
Product #012597

<http://ebpaqc.aicpa.org/Resources/Audit+Quality+and+Auditor+Selection/>

Obtaining Quality Employee Benefit Plan Audit Services: The Request for Proposal and Auditor Evaluation Process

Audit Quality and Auditor Selection
[Audit Quality](#)
[DOL Enforcement of Plan Audit Requirement](#)
[DOL Guidance on Selecting a Plan Auditor](#)
[Employee Benefit Plan Audit Quality Center Membership](#)
[Obtaining Quality Employee Benefit Plan Audit Services](#)
[Quality Counts for Your Plan's Financial Statement Audit](#)

Other Practice Aids



- DOL webcast from May 8, 2008 at <http://www.dol.gov/ebsa/newsroom/webcasts.html>
- AICPA produces all types of checklists and practice alerts
- "PPC" is used by many accounting firms to produce audit workpapers and financial statements
 - <http://ppc.thomson.com>
- <http://www.fasb.org> to locate SAS

Get more information...




- *asap* 07-13 and *asap* 08-19
- www.freeERISA.com
- www.EFAST.dol.gov
- <http://www.sec.gov/edgar/searchedgar/companysearch.html>
- www.form5500help.com
- Call DOL Public Disclosure Room at 202/693-8673


FAQs May Be Helpful



- EBSA has posted a number of FAQs on its website to explain rules
 - Small Plan Audit Waiver
 - Delinquent Filer Voluntary Compliance
 - Late deposit of 401(k) withholding
- www.dol.gov/ebsa/faqs

 ASPPA
ADVANCING THE AMERICAN RETIREMENT


DOL Oversight and Current Enforcement Activity

 ASPPA
ADVANCING THE AMERICAN RETIREMENT

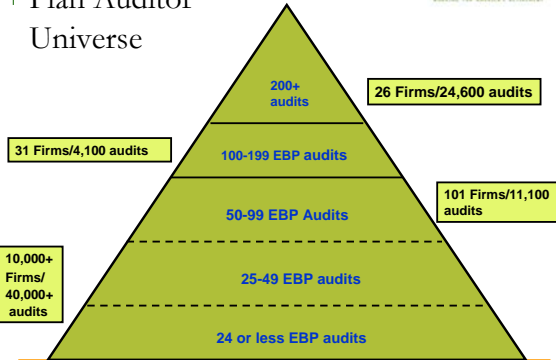
DOL Oversight of Audit Quality

- Assessed by the Office of the Chief Accountant [OCA]
- Historically unacceptable deficiency rates
- Audits performed by a variety of types of firms

ASPPA Webcast - 08-06-2008 11

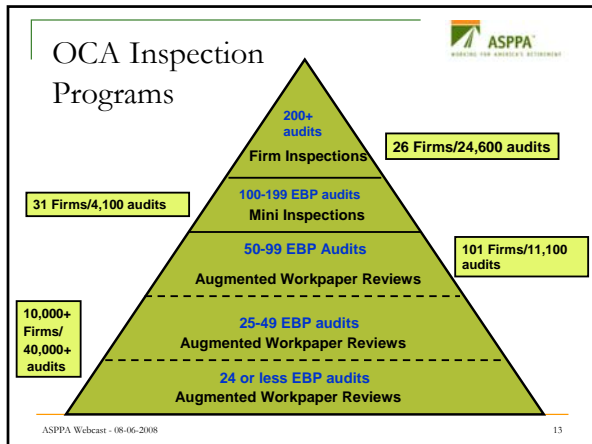
 ASPPA
ADVANCING THE AMERICAN RETIREMENT

Plan Auditor Universe



EBP Audits	Firms	Audits
200+	26 Firms	24,600 audits
100-199	31 Firms	4,100 audits
50-99	101 Firms	11,100 audits
25-49	10,000+ Firms	40,000+ audits
24 or less		

ASPPA Webcast - 08-06-2008 12



- ## Firm Inspection Program
- Firms with large employee benefit plan practices
 - Similar to PCAOB [Public Company Accounting Oversight Board] inspections
 - Top down approach
 - How is firm's employee benefit plan practice managed?
 - How are staff trained and supervised?
 - How is independence ensured?
 - Bottom up approach
 - Review of plan engagements
- ASPPA Webcast - 08-06-2008 14

- ## Results to Date
- OCA has completed inspections of 13 firms
 - Inspections of 3 firms are currently underway
 - Results have been largely satisfactory
- ASPPA Webcast - 08-06-2008 15

Firm Mini Inspections



- New for 2008 – 5 firms will be reviewed
- Focus is on firms performing 100-199 employee benefit plan audits
- Blends the firm inspection approach with augmented workpaper review approach
- Questionnaire sent to understand firm's employee benefit plan practice
- Review of select engagements in-house

Augmented Workpaper Reviews



- Focus is on firms performing a small number of employee benefit plan audits
- OCA reviews workpapers of selected audit areas
- Scope of review may be expanded
- Reviews performed in-house

Setting Engagement Expectations and Timeline



Setting Engagement Expectations



- Auditor needs to perform procedures until risks are reduced to an acceptable level (i.e. risks of fraud and / or error)
- Receipt of documentation is the starting point of audit work. Not the end.
- Audit / examination of initially requested items will almost always lead to further requests for information

Timelines



- Timelines – specify timing and party responsible
- Goal is to issue as many audit reports by the initial deadline (e.g. July 31) as possible
- Majority of plans extend beyond July 31

Accounting Developments

(Effective for 2006 and later audits)



- SAS 103 – *Audit Documentation*
 - Enhances documentation
 - Changes report date
 - Someone should be able to duplicate audit steps performed
- SAS 112 – *Communicating Internal Control Related Matters Identified in an Audit*
 - Requires evaluation of internal controls
 - Common example – auditor-prepared financial statements

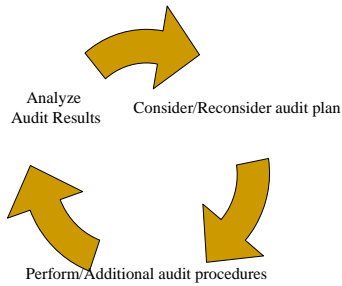
Auditing Developments



■ Risk Assessment Standards

- SAS 104-111
- Involves more in-depth understanding of plan, its environment and internal control
- Greater assessment of risk of misstatement due to error and fraud
- What are the risks and how do you audit those risks?

Auditing Developments



Issues Specific to the First Audit Year



First Audit of Plan



- Is the opening balance – first day of plan year - correct?
- Audit work needs to be done on historical activity
- The amount of work to be done is determined based on auditor judgment
- Comparative statements of net assets needs to be prepared

Role of SAS70 and Limited-Scope Certifications



Role of SAS 70



- SAS 70 – a report on the controls in place at the service organization and the tests performed on such controls
- Can reduce the amount of audit testing but NEVER eliminate testing
- Plan sponsors need to be aware of the “user controls” within the SAS 70 and what they are doing to address such controls

Importance of SAS 70

(Type II)



- Demonstrates establishment of effectively designed control objectives and control activities.
 - May limit user auditors visits but there are concerns about over-reliance on SAS 70

- Plan sponsors should carefully review
 - Many control objectives / activities place reliance on employer

Limited Scope Certifications



- Banks, insurance companies and trust companies

- Auditors can limit audit work related to the assets and investment activity that has been certified

- Has no impact on the amount of audit work to be performed at the participant level

Limited-Scope Certifications



- What *value* is being certified?
 - "Ordinary business records" may be best-available values, but may or may not reflect fair value.

- Who is responsible (and for what?)
 - Plan administrator
 - Trustee/custodian
 - Auditor

Limited-Scope Certifications

(continued)



- Limited scope audit certification may be suspect
 - May not be a “fair value” certification
 - May need to perform full scope audit procedures on assets that are not fair value
 - Audited financial statements need to clearly disclose what has been certified

“Fair Value” and Alternative Investments



Alternative Investments



- Increased plan investing in
 - Hedge funds
 - Real estate
 - Private equity funds
 - CCTs and PSAs
- Assets are often hard to value
- Some are filing as 103-12 IE

Valuation Issues – Fair vs. Contract Value



- **Fair value =**
 - *Current value* (term used in official instructions)
 - *Market value*
- **Contract value =**
 - *Book value*
- ERISA §3(26) defines “*current value*” as fair market value where available and otherwise the fair value as determined in good faith by a trustee or named fiduciary, assuming an orderly liquidation at time of determination.

Changing Accounting Guidance



- FASB Staff Position (FSP) AAG INV-1 and SOP 94-4-1, “*Reporting of Fully Benefit Responsive Investment Contracts Held by Certain Investment Companies Subject to the AICPA Investment Company Guide and Defined-Contribution Health and Welfare and Pension Plans*”
- FASB Statement No. 157, “*Fair Value Measurements*”

New Accounting Guidance for Stable Value Funds, GICs (the “FSP”)



- The FSP changes:
 - definition of *fully benefit responsive*
 - presentation on statement of net assets; financial statements will report fair value with an adjustment to contract value
 - disclosure requirements
- Impacts financial reporting only, not participant recordkeeping
- Does not change the statement of changes in net assets available for benefits
- Form 5500 instructions have not changed

Statements of Net Assets Available for Benefits Presentation – **previous guidance**



	<u>200X</u>	<u>200X</u>
Participant-directed investments (Note x)	<u>\$2,000</u>	<u>\$1,500</u>
 Total net assets available for benefits	 <u>\$2,000</u>	 <u>\$1,500</u>

Statements of Net Assets Available for Benefits Presentation – **new guidance**



	<u>2007</u>	<u>2006</u>
Participant-directed investments, at fair value (Note x)	<u>\$2,700</u>	<u>\$ 900</u>
Net assets reflecting all investments at fair value:	<u>2,700</u>	<u>900</u>
Adjustment from fair value to contract value for fully benefit-responsive contracts	<u>(700)</u>	<u>600</u>
Net assets available for benefits	<u>\$2,000</u>	<u>\$1,500</u>

Form 5500 Considerations:
New FSP



- No changes in Form 5500 Instructions
- Form 5500 historically required:
 - fully benefit responsive insurance contracts at contract value
 - stable value funds at fair value
 - synthetic contracts at fair value
- Reconciling footnote to financial statements may be required

SOP 94-4-1 Reminders



- Applies **ONLY** to defined contribution plans
 - But *fair value* reporting on Form 5500 applies to all plans
- Effective for plan years ending after December 15, 2006
- Applies to fully benefit responsive GICs, synthetic GICs and stable value funds in DC plans
- Requires retroactive presentation of comparative data

Alternative Investments – DOL Considerations



- DOL targets line 4g of Schedules H / I
- If no ready market exists, then auditor must evaluate plan's method for setting fair value
 - Is it appropriate?
 - Is it consistently applied?
 - Can the measurement be tested?
 - Should a specialist be engaged?

DOL Considerations [Continued]



- EBSA's Office of the Chief Accountant is:
 - Reviewing selected audit workpapers of 103-12 Investment Entities holding alternative investments
 - Reviewing policies and procedures plan administrators have in place to ensure that these investments have been properly valued

FASB Statement 157



- Redefines “fair value”
 - Establishes a framework for measuring fair value and expands disclosures
 - Effective for 2008 financial statements

- AICPA’s Expert Panel is seeking guidance regarding how certain assets are to be valued (such as participant loans, CDs, alternative investments)

Other Valuation Issues



- Alternative investments
 - Frequently misclassified by trustee / custodian
 - Financial statements or appraisals for fund often have different year end than plan

Tying to Form 5500



Auditor Review



- Form 5500, page 2, line 6 participant count
- Schedule H- statements of assets and changes in net assets
- Schedule H, Part III, lines 3a-c - name of auditor and type of opinion
- Schedule H, Part IV
 - Line 4a – late deposits
 - Line 4e – fidelity bonding
 - Lines 4i and 4j – schedules of assets held and 5% reportable transactions

Which Comes First?



- Draft Form 5500 or draft financial statements?
- Auditor reviews financial information reported in Form 5500 for consistency with financial statements
- Will review balance of filing looking for consistency between the auditor's understanding of plan and what is indicated on the Form 5500 report.

Best Practices

Tips for a Successful Audit Experience

Tips from the Auditor



- Planning meeting with all parties (sponsor, auditor, consultant or other service-provider)
- Be flexible – remember that there will likely be several requests for data

Thank You!

Questions welcome at
www.form5500help.com