

AICPA Employee Benefit Plan Audit Quality Center

Common EBP Audit Deficiencies

Summarized below are the most common deficiencies found in EBP audits by the Department of Labor and AICPA Peer Review program. This document is intended to help EBP audit practitioners be alert to these areas and be aware of the related key audit issues.

Participant Data

Audit objective: To provide the auditor with a reasonable basis for concluding (a) whether all covered employees have been properly included in employee eligibility records and, if applicable, in contribution reports and (b) whether accurate participant data for eligible employees were supplied to the plan administrator and, if appropriate, to the plan actuary.

Common Deficiencies	Key Issues
<ul style="list-style-type: none"> ▶ No audit work performed or no audit documentation of testing participant data ▶ Testing of payroll data insufficient ▶ No testing of participant eligibility or forfeitures ▶ No testing of investment income allocation to participants ▶ Inadequate or missing disclosures 	<ul style="list-style-type: none"> ▶ GAAS requires to test allocation of total net assets to participant accounts ▶ Obtaining confirmations from participants ▶ Obtaining payroll data ▶ Defining eligibility requirements ▶ Obtaining forfeiture information ▶ Testing allocation of investment income to participant accounts

Relevant audit guidance

Chapter 10, *Auditing Participant Data, Participant Allocations and Plan Obligations*, of the AICPA Audit and Accounting Guide, *Employee Benefit Plans*

Investments

Audit objective:

Full scope audit – To provide the auditor with a reasonable basis for concluding (a) whether all investments are recorded and exist, (b) whether investments are owned by the plan and are free of liens, pledges, and other security interest or, if not, whether the security interests are identified, (c) whether investment principal and income transactions are recorded and investments are properly valued in conformity with generally accepted accounting principles, (d) whether information about investments is properly presented and disclosed, and (e) whether investment transactions are initiated in accordance with the established investment policies.

Limited scope audit - The auditor's responsibilities for any assets covered by the limited scope exception are (1) to compare the information certified by the plan's trustees or custodian to the financial information contained in the plan's financial statements, (2) to perform the necessary procedures to become satisfied that any received or disbursed amounts reported by the trustee or custodian were determined in accordance with the plan provisions, and (3) whether information about investments is properly presented and disclosed.

Common Deficiencies	Key Issues
<ul style="list-style-type: none"> ▶ No audit work performed or no audit documentation ▶ Failure to test end of year market values ▶ Failure to obtain proper certification for limited scope audit ▶ Inadequate or missing disclosures related to investments. ▶ Failure to document the evaluation of investment contracts for benefit responsiveness. ▶ Failure to evaluate the guaranteed investment contract for benefit responsiveness. 	<ul style="list-style-type: none"> ▶ Test valuations confirmed by Trustee ▶ Obtaining Common Collective Trust Funds (CCT) unit values ▶ Understanding the nature of investments ▶ Assessing proper disclosure and supplemental schedules ▶ Following up on inconsistencies on the custodian reports and supplemental schedules

Relevant audit guidance

Chapter 7, *Auditing Investments*, AICPA Audit and Accounting Guide, *Employee Benefit Plans*

Contributions

Audit objective: To provide the auditor with a reasonable basis for concluding (a) whether the amounts received or due the plan have been determined and recorded and disclosed in the financial statements in conformity with plan documents and generally accepted accounting principles, and (b) whether an appropriate allowance has been made for uncollectible plan contributions receivable in conformity with generally accepted accounting principles.

Common Deficiencies	Key Issues
<ul style="list-style-type: none"> ▶ No audit work performed or no audit documentation ▶ No audit program ▶ Insufficient testing on contributing employers for multi-employer plans ▶ Failure to test payroll internal controls ▶ Failure to test employee elective deferrals ▶ Inappropriate reliance on SAS 70 ▶ Timeliness of participant contributions not tested 	<ul style="list-style-type: none"> ▶ Documentation of testing internal controls for payroll ▶ Establishing payroll register is reliable ▶ Testing authorization of elective deferrals ▶ Defining compensation ▶ No paper trail ▶ Obtaining confirmation responses ▶ What information are you trying to confirm ▶ Alternative procedures to confirmations

Relevant audit guidance

Chapter 8, *Auditing Contributions Received and Related Receivables*, and Chapter 10, *Auditing Participant Data, Participant Allocations and Plan Obligations*, AICPA Audit and Accounting Guide, *Employee Benefit Plans*

Benefit Payments

Audit objective: Provide the auditor with a reasonable basis for concluding (a) whether the payments are in accordance with plan provisions and related documents, (b) whether the payments are made to or on behalf of persons entitled to them and only to such persons, and (c) whether transactions are recorded in the proper account, amount, and period.

Common Deficiencies	Challenges
<ul style="list-style-type: none"> ▶ No audit documentation or no audit work performed ▶ Failure to test participant eligibility to receive benefit payments ▶ Inappropriate reliance on SAS 70 ▶ Failure to test approval of benefit payments 	<ul style="list-style-type: none"> ▶ Eligibility to receive benefit ▶ When are distributions permitted ▶ Obtaining confirmation responses ▶ Viewing canceled checks or verification of proper receipt

Relevant audit guidance

Chapter 9, *Auditing Benefit Payments*, AICPA Audit and Accounting Guide, *Employee Benefit Plans*

Related Parties/Prohibited Transactions

Audit objective: The auditor should be aware of the possible existence of party in interest and material related-party transactions that could affect the financial statements or for which DOL Reporting Regulations and FASB Statement No. 57 require disclosure. The auditor should also be alert to party in interest transactions that may be prohibited by ERISA. When the auditor becomes aware of information concerning a possible prohibited party in interest transaction, the auditor should obtain an understanding of the nature of the transaction, the circumstances in which it occurred, and sufficient other information to evaluate the effect on the financial statements.

Common Deficiencies	Key Issues
<ul style="list-style-type: none"> ▶ No audit documentation or no audit work performed ▶ No related parties noted in workpapers 	<ul style="list-style-type: none"> ▶ Identifying related parties ▶ Definition of prohibited transactions ▶ Financial statement disclosure and supplemental schedules ▶ Affect on auditor's opinion

Audit Guidance

Chapter 11, *Party in Interest Transactions*, AICPA Audit and Accounting Guide, *Employee Benefit Plans*

Other Areas

- ▶ Failure to understand testing requirements on a limited-scope engagement
- ▶ Improper use of limited scope exemption because financial institution did not qualify for such an exemption.
- ▶ Inadequate disclosures related to participant directed investment programs.
- ▶ Incomplete description of the plan and its provisions
- ▶ Failure to properly report on and/or include the required supplemental schedules relating to ERISA and DOL

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