

Hot Topics for ERISA Employee Benefit Plan Audits

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WEALTH ADVISORY | OUTSOURCING | AUDIT, TAX, AND CONSULTING

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Create Opportunities

Learning Objectives

- Understand changes associated with the new employee benefit plan (EBP) audit standard
- Understand how the new EBP audit standard will impact plan sponsors





New Employee Benefit Plan Audit Standard - Summary

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New EBP Auditing Standard

- Issued final balloted draft
- Intend to issue final standard in spring 2019
 - Waiting on proposed auditor reporting standards to be finalized and incorporated
 - Anticipate structure changes to auditor's report
- Effective for plan year ends after 12/15/2020
- No early adoption allowed



New EBP Auditing Standard – Why?

- Audit quality concerns
 - Department of Labor (DOL) 2014 Audit Quality Study
 - ◇ 39% of the 400 plans audited by 232 accounting firms failed
 - ◇ 76% of firms performing less than 2 or fewer EBP audits annually failed
 - DOL released *An Analysis of Benefit Plan Auditors* report in early 2019



New EBP Auditing Standard – How it Evolved

- AICPA worked with DOL to address some of the common deficiencies
 - Determined that an auditing standard was needed to address required EBP audit procedures and a more transparent auditor's report
- 2017 - Initial proposed standard was not well received by plan auditors and other stakeholders
- After many drafts, the current standard was created



New EBP Auditing Standard - Goals

- Improve auditor's understanding of his/her responsibilities
- Improve management's understanding of their responsibilities
- Provide a framework for auditing procedures for plans subject to ERISA
- Create more transparent auditor's reports



New EBP Auditing Standard – Engagement Acceptance

- Obtain agreement from management about its responsibilities
 - Maintaining current plan instrument and plan amendments
 - Maintaining sufficient records with respect to each of the participants
 - Administering the plan and determining transactions in conformity with plan provisions



New EBP Auditing Standard – Engagement Acceptance (continued)

- If management elects 103(a)(3)(C) audit, management agrees it is responsible for determining the following:
 - 103(a)(3)(C) audit is permissible
 - Investment information is prepared and certified by a qualified institution
 - Certification meets certain requirements
 - Certified information is appropriately measured, presented, and disclosed



New EBP Auditing Standard – Engagement Acceptance (continued)

- Under 103(a)(3)(C) audit, auditor should inquire of management of how they determined the certifying party is a qualified institution
- Management needs to agree to providing to the auditor a substantially complete draft Form 5500 prior to issuing the audit report



New EBP Auditing Standard – Risk Assessment and Response

- Plan document is essential in the risk assessment process
- Auditor should consider relevant plan provisions when performing risk assessment



New EBP Auditing Standard - Limited Scope Audits

- Now called ERISA Section 103(a)(3)(C) audits
- Clarified responsibilities for management and auditors when performing a 103(a)(3)(C) audit
- Addressed certified parties who act as agents for another party



New EBP Auditing Standard - Limited Scope Audits (continued)

- Auditor Procedures
 - Identify which investments are certified
 - Obtain certification and read
 - Compare certified information to financial statements
 - Read disclosures relating to certified information in financial statements to assess whether they are in accordance with the reporting framework



New EBP Auditing Standard – New Written Representations

- Management has provided the auditor with the most current plan instrument for the audit period, including all plan amendments
- Administering the plan and determining transactions in conformity with plan provisions including maintaining sufficient records with respect to each of the participants to determine the benefits due or which may become due to such participants



New EBP Auditing Standard – New Written Representations (continued)

- Under a 103(a)(3)(C) audit, acknowledgement that management is responsible for determining:
 - A 103(a)(3)(C) audit is permissible under the circumstances
 - Investment information is prepared and certified by a qualified institution
 - Certification meets requirements
 - Certified investment information is appropriately measured, presented, and disclosed in accordance with the applicable financial reporting framework



New EBP Auditing Standard – Reportable Findings

- Applies only to relevant plan provisions
- An instance of noncompliance or suspected noncompliance with laws or regulations
- A finding that is significant and relevant to those charged with governance regarding their responsibility to oversee the financial reporting
- Deficiencies in internal control that are of sufficient importance



New EBP Auditing Standard – Communication with Governance

- Reportable findings that rise to level that need to be communicated to governance should include the following:
 - Description of finding sufficient to enable governance and management to understand
 - Explanation of potential effects of the reportable findings on the financial statements or to the plan



New EBP Auditing Standard - Other Changes

- Auditor should consider whether relevant compliance tests have been performed and corrections made
- Auditor should evaluate prohibited transactions identified have been properly reported in supplemental schedules



New EBP Auditing Standard – Auditor’s Report

- Unmodified opinion
- ERISA Section 103(a)(3)(C) Audit



New EBP Auditing Standard – Unmodified Opinion

Current Sections

- Report on the Financial Statements
- Management’s Responsibility for the Financial Statements
- Auditor’s Responsibility (3 paragraphs)
- Opinion
- Report on Supplemental Information

Sections Under New Standard

- Opening paragraph
- Management’s Responsibility for the Financial Statements (2 paragraphs)
- Auditor’s Responsibility (3 paragraphs)
- Opinion
- Other Matter – Supplemental Schedules Required by ERISA (3 paragraphs)



New EBP Auditing Standard – Significant Unmodified Opinion Changes

- Management responsibilities regarding maintaining current plan document added
- Enhanced supplemental schedules section by specifying the auditor is expressing an opinion on the form and content in conformity with the DOL's Rules and Regulations for Reporting and Disclosure under ERISA



New EBP Auditing Standard – 103(a)(3)(C) Audit Report

Current Sections

- Report on the Financial Statements
- Management’s Responsibility for the Financial Statements
- Auditor’s Responsibility
- Basis for Disclaimer of Opinion
- Disclaimer of Opinion
- Other Matter
- Report on Form and Content in Compliance With DOL Rules and Regulations

Sections Under New Standard

- Opening paragraph
- Nature of the ERISA Section 103(a)(3)(C) Audit (2 paragraphs)
- Management’s Responsibility for the Financial Statements (2 paragraphs)
- Auditor’s Responsibility (5 paragraphs)
- Opinion
- Other Matter – Supplemental Schedules Required by ERISA (3 paragraphs)



New EBP Auditing Standard – Significant 103(a)(3)(C) Audit Report Changes

- Nature of the ERISA Section 103(a)(3)(C) Audit
- Enhanced Auditor's Responsibility
- Provides an opinion vs. disclaiming an opinion
- Enhanced supplemental schedules section by specifying the auditor is expressing an opinion on the form and content except for certified information





New Employee Benefit Plan Audit Standard – Impact to Plan Sponsors

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Considerations Prior to Your Audit

- Understand your responsibilities regarding the Plan
 - Maintaining a current plan instrument
 - Administering and determining if plan transactions are presented and disclosed in the plan's financial statements in conformity with plan provisions
 - Maintaining sufficient records on each participant



Considerations Prior to Your Audit

- If you elect a 103(a)(3)(C) audit you will need to provide your auditor with additional management representations acknowledging three key points:
 - An ERISA section 103(a)(3)(C) audit is permissible
 - The entity preparing and certifying the investment information is qualified to do so
 - The certified investment information is appropriately measured, presented, and disclosed



Considerations Prior to Your Audit

- You will need to provide your auditor with a completed draft of the plan's Form 5500
 - Should include forms and schedules that could have a material effect, qualitatively and quantitatively, on the financial statements
 - This draft is required before they can date their report



What to Expect During Your Audit

- Under current audit standards, a disclaimer of opinion is issued for limited-scope audits
 - Certified investment information was not audited
- Under new SAS, a new, two-pronged opinion unique to ERISA employee benefit plan audits
 - Whether the information not covered by the certification is presented fairly
 - Whether the certified investment information in the financial statements agrees to or is derived from the certified investment statements.



What to Expect During Your Audit

- Auditor will consider certain plan provisions that affect the risk of material misstatement
 - Eligibility provisions
 - Vesting provisions
- After testing plan provisions, the auditor will evaluate the results and communicate in writing reportable findings that are significant and relevant to those charged with governance.





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Questions?

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