# Pension Plan Fix-It Handbook

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# Being Prepared Can Make ERISA Audit Of Plan Less Onerous

*By Mary B. Andersen, CEBS, ERPA, QPA*

Who are those new people in the office asking you or your staff so many questions? They might be ERISA auditors conducting an audit on your retirement plan.

ERISA requires that certain employee benefit plans file an annual report (the Form 5500) detailing the plan's financial condition. In addition, the plan sponsor must engage an Independent Qualified Public Accountant on behalf of the plan's participants to audit the plan financials prepared by the plan sponsor. This is generally referred to as an ERISA audit.

Qualified retirement plans and funded health and welfare plans with more than 100 participants are required to be audited by an IQPA. Generally, small retirement plans (with fewer than 100 participants) are exempt if the conditions of the small-plan audit waiver regulation (see April story) are met. The auditor's opinion is attached to the Form 5500. Without the IQPA audit, the Form 5500 filing is incomplete and the plan sponsor is subject to penalties.

Each year, the American Institute of Certified Public Accountants publishes an Audit & Accounting Guide for Employee Benefit Plans as well as an Audit Risk Alert. The Audit Risk Alert summarizes recent regulatory guidance as well as any industry developments that might affect audits. Both publications give guidance to accountants and plan sponsors on the conduct of an ERISA audit, and are part of the AICPA's Employee Benefit Plan Audit Quality Center, which is a firm-based, voluntary membership center for firms that audit employee benefit plans.

July's column discussed recent government findings regarding the quality of audits and what plan sponsors should consider when hiring an auditor. This column will briefly outline what you can expect when the auditor arrives, and some of the issues noted in the Audit Risk Alert.

### The Planning Meeting

Your auditor typically will arrange a planning meeting sometime in May (for calendar-year plans). At the meeting, the auditor should:

- Ask if it will be a limited scope (see June 2014 column) or full-scope audit. The audit may be limited in scope, at the request of the plan sponsor, if financial information is available from the bank or similar institution. The information must be certified as complete and accurate. A limited scope audit relieves the auditor from performing auditing procedures on the financial information provided by banks or similar institutions. In the absence of information that will permit a limited scope audit, the auditor will perform a full-scope audit, which requires more testing.
- Seek contact information for the key players in the plan's administrative process, such as payroll, third-party administrators and technology staff, if needed.
- Provide a timeline of key dates in the audit process.
- Summarize the meeting in an engagement letter.
- Discuss what worked and what didn't work in last year's audit process.

The auditor may:

- suggest that you invite plan service providers (such as 401(k) recordkeepers or your actuary) to the meeting, either in person or by phone;

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## *Andersen* (continued from p. 1)

- ask for data electronically (for example, financial statements, trust statements, plan documents and associated amendments);
- ask for specific participant records; or
- schedule dates for auditors to be onsite.

### Onsite Audit Work

The auditor will develop an audit plan that takes into account economic conditions and other factors important to the company. In doing so, the auditor must determine what,if anything, has changed since the last audit that could require changes to last year's risk assessment procedures. Specifically, the auditor must consider business expansion or contraction, labor market conditions, credit availability and overall economic conditions, then determine whether those risks could affect the plan and adjust their risk assessment procedures accordingly. For example:

- Reinstatement of a previously suspended employer contribution will increase the testing requirements from those performed last year.
- Adding an automatic contribution escalation feature to a defined contribution plan requires testing to ensure that the contribution rate increased in accordance with the terms of the plan documents.
- Defined benefit plans that have implemented "de-risking" strategies will require the auditor's verification of plan amendments, demographic changes, the impact on actuarial assumptions and the plan's funding level before and after lump-sum payments are made.
- Increased retirement distributions due to an aging workforce and the impact of that on plan assets.



### Items of Particular Interest to Plan Sponsors

*SOC Reports*

Auditors routinely will request what is known as a Statement of Controls) report from a plan's service provider. (Note: this report also may be referred to by its old terminology, for example, an "SAS 70 report" or the "SAS 70"). There are SOC 1, SOC 2 and SOC 3 reports, with SOC 1 and SOC 2 primarily used by the auditors in ERISA audits. Very briefly, the SOC 1 report describes the controls for financial reporting at the service-provider level. Management and auditors use the SOC 1 report. The SOC 2 report is expanded to include governance, oversight and other issues, including privacy and security.

The auditor not only will ask for either the SOC 1 or SOC 2 report, he or she will ask if staff responsible for the plan have read it! It is quite possible that if relevant staff have not read the SOC 1 or SOC 2 report, that will be noted in the auditor's comment letter.

*Fraud*

The AICPA Audit Risk Alert notes that the auditor is responsible for maintaining "professional skepticism" during the audit and for looking for areas where management can override controls. Don't be surprised if the auditor asks the plan service provider to explain any instances in which the company asked the service provider to override a control and process a transaction (for example, contribution or distribution).

*Defined Benefit Plan Mortality Tables*

In 2014, the Society of Actuaries released new mortality tables (see November 2014 story). These tables are prescribed by IRS for determining the minimum funding levels for DB plans. The tables that IRS prescribed for 2014 and 2015 were issued before the Society of Actuaries released their new tables late last year. The Audit Risk Alert notes that "the IRS' potential later adoption is not a valid reason for a plan sponsor not to consider these updated mortality tables when estimating the actuarial present value of accumulated plan benefits for financial reporting purposes."

### The Auditor's Opinion

Part III of Schedule H of the Form 5500 asks (among other things) whether the auditor's opinion is an unqualified, qualified, disclaimer or adverse opinion. Briefly, the differences among the types of opinions are:

- *Unqualified* — the auditor was satisfied with the plan's financial statements.
- *Qualified* — the auditor was satisfied for the most part with the plan's financial statements, except for one or two things noted in the report.

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- *Disclaimer* — the auditor did not express an opinion because the audit was not sufficient in scope for that purpose.
- *Adverse* — the financial statements did not present the plan's financial position for the audited period in accordance with accounting rules.

A qualified or adverse opinion generally will result in a U.S. Department of Labor audit of your plan.

### Bottom Line for Plan Sponsors

For larger plans requiring an IQPA, the auditor's opinion is an important part of operating the plan. If procedures and controls have been implemented to ensure compliance with the plan procedures and you are able to demonstrate that, you should have smooth sailing.

Here are some important items that help prepare you for your own ERISA audit:

- Document all you do in administering the plan.
- Anticipate that your plan will be subject to an ERISA audit.
- Have ready a contact list for all the key players in the plan's administration.
- Familiarize yourself with the findings of the last ERISA audit.
- Know what mortality tables your pension plan uses, and be able to explain the rationale for the table in use.
- Have a protocol ready to prepare in advance for an ERISA audit. ❖

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