Improving Employee Benefit Plan Audits

By Barbara Apostolou, Ph.D., CPA, CGMA, and Alan Reinstein, DBA, CPA, CGMA

The accounting profession has long sought to improve audit quality. While the popular press tends to emphasize improving the quality of public company audits, another important and relatively unnoticed area is employee benefit plan audits. This article describes the Employee Benefit Plan Audit Quality Center's (EBPAQC's) role in helping CPAs perform higher-quality benefit plan audits. These engagements entail trillions of dollars of economic value and are no less important than those supporting shares of stock in public companies. A quality audit provides assurance about an employee benefit plan's financial integrity, which is critical for employees who have earned their employer-provided retirement benefits.

The *Employee Retirement Income Security Act* of 1974 (ERISA) protects pension assets, valued at \$21.7 trillion in 2016,[1] from fraud, mismanagement and abuse – and ensures that workers receive their earned benefits. Congress delegated enforcement of ERISA provisions to the Department of Labor (DOL) and its Employee Benefit Security Administration (EBSA). However, the DOL and EBSA lack regulatory authority to correct audit deficiencies or provide sanctions, despite identifying and publishing these audit deficiencies. Even though this regulatory oversight of employee benefit plan audits exists, the accounting profession currently self-regulates the quality of this work.

ERISA requires employee benefit plans with over 99 participants to include key data with the annual Form 5500 filed with the DOL, consisting of financial statements, schedules and an independent auditor's report. ERISA wants auditors to assure the plan follows applicable laws and regulations, thus protecting employee benefit plan assets. ERISA permits either a regular, full-scope financial statement audit or a limited-scope election if conditions are satisfied.

A limited-scope audit does not audit certified investment information, but instead tests such participant information as contributions and benefit payments. A limited-scope audit results in an auditor disclaimer, because the most significant account (investments) is not audited. Legislators have debated the usefulness of limited-scope engagements since the 1970s. Despite concerns over the effectiveness of a limited scope, the proportion of plans that used limited-scope audits grew from 46 percent in 1987 to over 83 percent in 2013.

Regulatory Reviews of Employee Benefit Plan Audit Quality

We identified four major DOL studies of audit quality of employee benefit plan audits conducted from 1986-2011, plus one Government Accountability Office (GAO) report of additional analysis of the DOL findings, which we summarize in Table 1.

The DOL's Office of Inspector General's 1986 study of 279 randomly selected plan audits found 64 (23 percent) contained at least one auditing standards violation – of which 14 (5 percent) were referred to AICPA for investigation. A GAO follow-up investigation to the DOL study randomly selected 25 of the 50 deficient audits not referred to AICPA. It found egregious violations in nine of the 25 plans reviewed, primarily due to the auditor lacking specialized knowledge and not grasping auditing standards and ERISA requirements. In response to the DOL study, AICPA publicized audit problems to its membership, improved CPA education initiatives and expanded guidance on how to conduct benefit plan audits.

The DOL's review of the 1992 audits followed up on its 1986 analysis. After randomly sampling 276 of 51,352 conducted audits, it found 19 percent did not meet professional standards and 33 percent violated ERISA requirements. The DOL identified an overall deficiency rate of 33 percent in audits conducted in 2004, but did not publicly report the details of that review. Next, the 2011 deficiency rate grew to 39 percent, a rate inversely related to the number of CPA-conducted audits. Firms performing the fewest number of audits had a 76 percent deficiency rate, while those conducting the most had a much-lower 12 percent rate. The DOL added that 95 percent of CPA firms audit fewer than 25 plans annually and 1 percent audit over 100 plans. Fewer deficiencies also arose when the engagement partner in the recent three years earned continuing professional education (CPE) specific to employee benefit plans.

The DOL measured conformity with professional standards and compliance with applicable ERISA laws and regulations to assess audit effectiveness. It noted audit deficiencies related to (1) compliance with applicable professional standards, (2) inadequate understanding of employee benefit plans and (3) ineffective use of available technical support materials. The DOL acknowledged that increased limited-scope audits may establish an air of auditor carelessness; a remediable situation if the DOL disallowed limited-scope audits of employee benefit plans.

In summary, employee benefit plan audit deficiency rates have deteriorated in the nearly three decades covered by four major DOL studies (i.e., ranging from 23 percent in 1986 to 39 percent in 2011). The DOL seems tolerant of professional efforts to improve employee benefit plan audit quality. The EBSA Office of the Chief Accountant (OCA)[2] sought to improve employee benefit plan audit quality in 2005 by adopting: a CPA firm inspection program (akin to Public Company Accounting Oversight Board inspections) for firms with over 200 annual ERISA audits, a mini-inspection program for firms with 100-199 annual audits and an augmented workpaper review program for firms with one-99 annual audits. Enforcement actions for deficient work include rejecting Form 5500 filings and referrals to AICPA's Professional Ethics Division or State Board of Public Accountancy for disciplinary actions.[3]

Table 1: Summary of Regulatory Reports Employee Benefit Plan Audit Quality

Entity Conducting Study	Year of Report	Year of Audits Studied	Number of Audits	Deficiency Rate
Office of the Chief Accountant, DOL[5]	2015	2011	400	39%
Office of the Chief Accountant, DOL[6]		2004	Not reported	33%
Office of the Chief Accountant, DOL[7]	1997	1992	276	19%
Office of Inspector General, DOL[8]	1989	1986	279	23%
GAO[9]	1992	Subsample of the deficient audits found by DOL in 1986	50	18% egregious violations

Table 2: EPBAQC Membership Services

Service
1. Discussion forum for members
2. Timely technical updates
3. Communication of regulatory changes that impact employee benefit plans
4. Links to Department of Labor information
5. Best practices
6. Technical hotline
7. Marketing toolkit

How the EPBAQC Addresses the Deficiency Problem

AICPA recognizes the importance of employee benefit plan audit quality and that DOL scrutiny should provide an impetus to improve the quality of this work. AICPA's Employee Benefit Plan Audit Quality Center (EPBAQC) was established in 2004 to serve this objective by creating a central repository of information to help members conduct high-quality employee benefit plan audits. Membership is voluntary.

The EPBAQC offers many features to promote better outcomes than were demonstrated in the regulatory reviews since 1986, which are summarized in Table 2. Ultimately, the EPBAQC creates a community that engages those CPAs performing employee benefit plan audits to permit timely exchange of information regarding technical and regulatory updates, best practices and marketing tools. Potential clients may go to the EPBAQC and find a member CPA firm to conduct their audit.

Membership requirements for the EPBAQC are designed to provide a minimum quality standard to join and maintain participation. The firm must designate an audit partner who is responsible for employee benefit plan audit quality, including an annual webinar requirement. Personnel must complete eight hours of employee benefit plan CPE triennially. Each firm must conduct an internal quality inspection and provide these reports for AICPA's triennial peer review. Member CPA firms are listed on the EPBAQC website for the benefit of potential clients, including the partner name and contact information, organized by state in which the firm practices or alphabetically. A notable sidebar is that individuals who serve as peer reviewers of employee benefit plan engagements must be associated with CPA firms that are members of the EBPAQC.

AICPA's *Employee Benefit Plans–Audit and Accounting Guide* provides an essential resource for all employee benefit plan auditors. Other helpful publications include audit risk alerts and technical practice aids. Access to these items is generally available, but the EBPAQC member is informed quickly when updates occur to ensure timely implementation.

AICPA's Six-Point Plan to Improve Audits includes "CPA Learning and Support" as a key feature.[4] The EPBAQC provides resources to develop competency in conducting audits of a significant part of the U.S. economy.

As a result of the DOL study of audits conducted in 2011, it communicates with state boards of accountancy to find ways to ensure that only competent CPAs work on employee benefit plan engagements. The DOL has also suggested specific licensing requirements, including training and experience, for employee benefit plan auditors. The EPBAQC provides member firms with timely access to the tools that promote quality audits. ■

The authors wish to thank Natalie Churyk (Northern Illinois University), Dave Dupree (Comerica), John Fleming (Loscalzo Associates), Gerald Hepp (Gnosis Praxis Ltd.) and Mel Houston (attorney) for their helpful comments on this article.

Citations

1. https://globenewswire.com/news-release/2016/02/02/806920/0/en/U-S-Pension-Fund-Assets-Remain-Stable.html.
2. The OCA was created in 1988 to ensure audit quality: http://www.dol.gov/ebsa/enforcement/OCAManual/cha1.html.
3. http://www.dol.gov/ebsa/enforcement/OCAManual/cha4.html.
4. http://www.aicpa.org/InterestAreas/PeerReview/DownloadableDocuments/EAQ-6-point-plan.PDF.
5. *Assessing the Quality of Employee Benefit Plan Audits* issued by the Employee Benefits Security Administration, Office of the Chief Accountant (May 2015): http://www.dol.gov/ebsa/pdf/2014AuditReport.pdf.
6. The details of this study were not made publicly available; summary data appear on page 8 in http://www.dol.gov/ebsa/pdf/2014AuditReport.pdf (May 2015).
7. *Assessment of the Quality of Employee Benefit Plan Audits* issued by the Employee Benefits Security Administration (March 1997): http://www.dol.gov/ebsa/publications/ebpa-audits.html.
8. *Changes Are Needed in the ERISA Audit Process to Increase Protections for Employee Benefit Plan Participants* issued by the Office of Inspector General. Report No. 09-09-001-12-001 (1989).
9. *Employee Benefits: Improved Plan Reporting and CPA Audits Can Increase Protection Under ERISA* (April 1992): http://gao.gov/assets/160/151667.pdf.
10. http://www.aicpa.org/interestareas/employeebenefitplanauditquality/Pages/EBPAQhomepage.aspx.