July 2020

ERISA employee benefit plan financial statement audit special considerations—2020

COVID-19 environment implications and financial statement disclosures

The 2020 audit season has many unique challenges for ERISA employee benefit plan audits, including working remotely and reevaluating approaches to working in a virtual environment; the effect of the COVID-19 pandemic on the plan environment, plan operations and controls; the economic fallout on the financial markets and effect on plan investments; consequences to plan sponsors, employee retention, and benefits; short-term liquidity and long-term solvency issues for plan sponsors; as well as possible changes to the plan due to the Setting Every Community Up for Retirement Enhancement (SECURE) Act enacted into law on December 20, 2019, and the Coronavirus Aid, Relief, and Economic Security (CARES) Act enacted into law on March 27, 2020.

The [AICPA FAQs — Audit Matters and Auditor Reporting Issues Related to COVID-19 (AICPA FAQs)](https://future.aicpa.org/resources/download/aicpa-risk-assessment-resources) is a useful aid for auditors in the current environment and can be downloaded from the AICPA Coronavirus Resource Center (see Audit & assurance COVID-19 resources) on the AICPA website. The AICPA FAQs, developed by the AICPA staff, provide nonauthoritative guidance on general auditing and financial reporting matters. Topics addressed include, among other things, subsequent events disclosures including market‐value declines; risks and uncertainties; going concern assumptions and disclosures; and emphasis‐of‐matter paragraphs. The AICPA FAQs also address remote audit planning; access to the client's books and records; client's internal control; fraud risk and inquiries; account confirmations; and the acceptability of management representation letter on "plain paper."

This non-authoritative EBPAQC tool is intended to help auditors identify whether there are any unique situations to consider from an employee benefit plan audit and/or financial reporting perspective for plan calendar years ending on December 31, 2019. This tool may be helpful in initiating discussions throughout the audit with the engagement team and the plan sponsor/administrator throughout the course of an audit, and is not intended to be retained as a part of the firm’s audit documentation under AU-C section 230, *Audit Documentation*.

This tool also includes references to additional AICPA resources on auditing in the COVID pandemic environment.

COVID-19 environment — special audit considerations

The COVID-19 environment and remote work environment may pose challenges for the financial statement preparation and audit processes. The following is a list of audit considerations in the COVID-19 environment that auditors may need to consider.

* Changes in business processes or the internal control environment at the plan sponsor/administrator or third-party administrator (e.g., an unfamiliar remote work environment at the sponsor, reductions in employees, or changes in financial reporting responsibilities or other conditions) that may have affected the internal control relevant to preparation of the financial statements and supplemental schedules (e.g., accruals and journal entries created subsequent to year end, evaluation of proper disclosures for risks and uncertainties, subsequent events, and going concern).

Obtaining an understanding of the entity and its environment, including its internal control, is a continuous, dynamic process of gathering, updating, and analyzing information throughout the audit (AU-C Section 315B, U*nderstanding the Entity and Its Environment and Assessing the Risks of Material Misstatement*).[[1]](#footnote-1) When performing audits of calendar-year 2019 plan financial statements, auditors need to remember that part of the plan’s system of internal control is closing its books; preparing journal entries; and preparing, reviewing and approving financial statements. Even though the plan year ended December 31, controls relevant to preparing, reviewing and approving the financial statements may still have been operating for periods past that December 31 date.

As plan sponsor/administrators shifted from the office environment to remote working, and as financial reporting processes moved from in-person to virtual, the risk of breakdowns in internal control may be heightened. The client’s relevant controls may have changed dramatically during the pandemic to accommodate remote workforces and process flows. When this is the case, the auditor may be required to conduct two evaluations of the design and implementation of relevant controls: one for controls that were in place before the pandemic and another for controls put in place after the pandemic commenced. This will depend upon the nature of the control and how the pandemic affected the client’s operations.

Appendix B, “Examples of Controls” of the AICPA Audit and Accounting Guide: *Employee Benefit Plans* includes examples of financial reporting controls including controls that should provide reasonable assurance that:

* + - the annual plan reports are complete, accurate, and generated on a timely basis;
		- accurate plan data is available to provide accurate results when annual testing is performed;
		- that access to computer resources, such as application programs, data files, sensitive utilities, and system commands, is limited to authorized individuals;
		- and remote access to recordkeeping systems are established for authorized individuals and customers.
* Completeness, accuracy and authenticity of plan records.

During the COVID pandemic, accessing client books and records may present hurdles for some auditors, especially in cases in which clients still maintain mostly paper records. Auditors may be able to obtain client‐prepared copies or scans of key records, but auditors need to consider the authenticity of those records and perhaps perform additional audit procedures to be satisfied that those records are complete, accurate, and authentic.

* Protecting confidential client information while working remotely.

When conducting an employee benefit plan audit, auditors receive and maintain large amounts of personal information (e.g., name, address, date of birth, Social Security number, financial account number, and health information) the confidentiality of which is protected by both federal (the Health Insurance Portability and Accountability Act (“HIPAA”) and Technology for Economic and Clinical Health (“HITECH”) Act), and state laws and regulations. Auditors can reduce the likelihood of a breach by employing reasonable safeguards to protect confidential information, such as the following:

* + - using of encryption when transferring electronic files;
		- using file passwords;
		- increasing physical safeguards over confidential information (e.g., safeguarding of computers that contain confidential information or proper safeguarding of physical documents);
		- de-identifying claims information in audit documentation;
		- returning written information not needed for audit file documentation.
* Additional management representations, including risks and uncertainties, subsequent event(s), going concern assumptions, or other matters per AU-C section 580, *Written Representations*.
* Possible audit scope limitations.

As auditors work with clients throughout the pandemic, there is a possibility that scope limitations will occur. For example, confirmations that are a key source of evidence may not be returned and alternative procedures may not be considered sufficient, or it may not be possible to evaluate the design and implementation of relevant controls at the client. Scope limitations that are material but are not pervasive to the financial statements result in a qualified opinion, while scope limitations that are both material and pervasive result in a disclaimer of opinion (see AU-C section 705B, *Modifications to the Opinion in the Independent Auditor’s Report*).

* The plan's ability to continue as a going concern, including the plan sponsor's ability to continue as a going concern and its ability to continue to fund the plan.

AU-C section 570B, *The Auditor’s Consideration of an Entity’s Ability to Continue as a Going Concern* provides guidance to auditors with respect to evaluating whether there is substantial doubt about the plan's ability to continue as a going concern. Employee benefit plans also may be affected by the plan sponsor's financial adversities. Events or conditions that raise substantial doubt about a defined benefit and/or health and welfare plan’s ability to continue as a going concern include substantial doubt about the plan sponsor’s ability to continue as a going concern and its ability to continue funding those plans. For defined contribution plans, the financial condition of the plan sponsor typically does not affect the plans’ ability to meet its obligations as they become due; however, consideration should be given to the level of company stock held by the plan, restrictions on withdrawals from certain investments held by the plan due to liquidity concerns, and plan terminations.

* Including an emphasis-of-matter paragraph in the auditor’s report.

As paragraph .06 of AU‐C section 706B, *Emphasis‐of‐Matter Paragraphs and Other‐Matter Paragraphs in the Independent Auditor’s Report*, notes, EOM paragraphs are included in the auditor’s report if the auditor considers it necessary to draw users’ attention to a matter appropriately presented or disclosed in the financial statements that, in the auditor’s professional judgment, is of such importance that it is fundamental to users’ understanding of the financial statements. Examples where an EOM paragraph might be appropriate to include in the auditor’s report are the plan sponsor declaring bankruptcy or substantial doubt about the ability of the plan sponsor to continue as a going concern, subsequent event(s), approval of a plan liquidation or termination, plan merger, and/or a change in the basis of accounting.

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| *Notes or comments:* |

Financial statement disclosures

Auditors will need to evaluate whether plan management has made adequate disclosures related to the COVID-19 pandemic, SECURE Act, CARES Act and other matters in the plan's financial statements. Potential disclosures may include risks and uncertainties in accordance with Financial Accounting Standards Board (FASB) Codification*®* ASC 275, *Risks and Uncertainties*; subsequent events in accordance with FASB ASC 855, *Subsequent Events*; and/or going concern issues in accordance with FASB ASC 205-40, *Presentation of Financial Statements—Going Concern*. Financial statement disclosures will vary depending on whether there have been any plan changes or amendments for the SECURE Act, CARES Act or other changes to the plan, including a plan freeze or partial or full termination; circumstances at the plan sponsor (financial position, ability to fund the plan currently and in the future, etc.); potential market volatility; and other factors.

The following is a list of certain plan financial statement disclosure considerations in the current environment.

*Risks and uncertainties*

* Did management consider whether to include disclosures in the plan’s financial statements related to risks and uncertainties in the current environment (e.g., heightened market risk and volatility associated with the pandemic that could materially affect participants' account balances and the amounts reported in the statements of net assets available for benefits and the statements of changes in net assets available for benefits)?

FASB ASC 275 requires disclosures that focus primarily on risks and uncertainties that could significantly affect the amounts reported in the financial statements in the near term or the near‐term functioning of the reporting entity. The risks and uncertainties addressed can stem from the nature of an entity’s operations, the use of significant estimates, and current vulnerabilities due to certain concentrations. The effects of COVID‐19 may negatively affect significant estimates and exacerbate a vulnerability due to certain concentrations.

*Subsequent events*

* Did management consider whether to disclose events or transactions in the plan’s financial statements that occurred after the plan year end but before the financial statements are issued (or for SEC filers, are available to be issued) (e.g., the effects of the COVID-19 pandemic including significant declines in fair value of investment securities; changes in the plan for the SECURE Act, CARES Act, or other changes made to the plan after the plan year end; a plan freeze or partial or full termination)?

*COVID-19 pandemic*

For calendar year‐end 2019 financial statements, COVID‐19 related subsequent events identified likely are to be nonrecognized subsequent events. Some nonrecognized subsequent events may be of such a nature that financial statement disclosure is required to keep the statements from being misleading. In these situations, financial statements need to include disclosure of the nature of the event(s), and an estimate of the financial statement effect of the event(s), or a statement that the estimate cannot be made.

The following is a list of items that may have occurred after year-end but subsequent to the issuance of the auditor’s report that may result in subsequent event considerations:

* Has the plan been terminated, frozen or closed to new participants?
* Have there been layoffs or other workforce downsizing resulting in a partial plan termination?

A partial plan termination may occur generally when 20% or more of participants are terminated. Such a determination may involve plan legal counsel. Upon full or partial termination of a plan, affected participants become fully vested in accrued benefits at the termination date. See IRS guidance on partial termination of plans at <https://www.irs.gov/retirement-plans/partial-termination-of-plan>.

* Have there been any adverse financial conditions at the plan sponsor that could affect the plan?
* Have any employer contributions receivables been reviewed for collectability?

Plans may have contributions receivable from the plan sponsor(s) such as funding contributions for defined benefit plans, and matching, discretionary matching, and profit-sharing contributions for defined contribution plans. These receivables, which may result from deferment of plan contributions or the plan sponsor’s inability to fund the plan as required, should be reviewed for collectability.

*SECURE Act*

The following is a list of items relating to SECURE Act that may result in subsequent event considerations:

* Changes to the plan due to the SECURE Act, either by plan amendment or that were placed in operation without amending the plan, such as the following:
* increasing the cap on payroll contributions from 10 percent to 15 percent for automatic-enrollment safe harbor plans (section 102);
* allowing long-term part-time workers to participate in 401(k) plans (except in the case of collectively bargained plans) (section 112);
* allowing in-service withdrawals for child birth and adoption expenses (section 113);
* allowing retirees to delay taking required minimum distributions (RMDs) until age 72, up from the current age of 70 1/2, for participants in 401(k) and other defined-contribution plans, defined-benefit pension plans (section 114).

The SECURE Act provisions are included as "DIVISION O" in HR 1865 "Further Consolidated Appropriations Act, 2020." Click [here](https://nam05.safelinks.protection.outlook.com/?url=https%3A%2F%2Fclick.e2.aicpa.org%2F%3Fqs%3D192de99450c5929af439694fb8647527a05a26333e38c0d6a4fc5f2be4c7be73e2b426ecd352334270a08d8f76c519710c5244913e500bbf&data=02%7C01%7CIan.MacKay%40aicpa-cima.com%7Ce6717cb8e12a4e8c49b808d7a34b1204%7Cab44e261e3294327bbdd17a5478226a1%7C1%7C0%7C637157415148250562&sdata=pXUKjC7hvOKAYkyFC6y9nYGCqZdwvJwEHx%2BhPOvEKAo%3D&reserved=0).

*CARES Act*

The following is a list of items relating to CARES act that may result in subsequent event considerations:

* Changes to the plan due to the CARES Act, either by plan amendment or that were placed in operation without amending the plan, such as the following:
* allowing participants to take a coronavirus-related distribution of up to $100,000 (not to exceed the participant’s account balance) from their retirement plan without a 10% early withdrawal penalty. Eligible distributions can be taken up to December 31, 2020. Coronavirus-related distributions may be repaid within three years. The plan administrator may rely on an employee's certification that the employee satisfies the conditions for a coronavirus-related distribution. (Sec. 2202. Special rules for use of retirement funds.)
* allowing participants to borrow up to $100,000 from qualified plans—an increase from $50,000 previously allowed under Internal Revenue Code section 72(p)—for loans made from March 27, 2020 through September 22, 2020, and repayment can be delayed. (Sec. 2202. Special rules for use of retirement funds.)
* allowing suspension of loan payment due March 27, 2020 through December 31, 2020 for up to one year. (section 2202(b)(2))
* allowing suspension of 2020 required minimum distributions. (section 2203)

Click [here](https://www.congress.gov/bill/116th-congress/house-bill/748/text?q=%7B%22search%22%3A%5B%22CARES%22%5D%7D&r=1&s=6&utm_medium=email&SubscriberID=110098857&utm_source=EBPQAC20&Site=AICPA&LinkID=8795820&utm_campaign=EBPAQC_AlertMAR444&cid=email:EBPQAC20:EBPAQC_AlertMAR444:https%3a%2f%2fwww.congress.gov%2fbill%2f116th-congress%2fhouse-bill%2f748%2ftext%3fq%3d%257B%2522search%2522%253A%255B%2522CARES%2522%255D%257D%26r%3d1%26s%3d6:AICPA&SendID=267844&utm_content=A20MAR444_EBPAQC_Alert444) for full text of the CARES Act.

*Going concern*

* Did management consider whether there is substantial doubt about the plan's ability to continue as a going concern, including the plan sponsor's ability to continue as a going concern and its ability to continue to fund the plan?

FASB ASC 205‐40 requires management to evaluate an entity’s ability to continue as a going concern within one year after the date the financial statements are issued (or available to be issued, when applicable). (See “Going concern” bullet point under “Special audit considerations” for additional detail on management’s responsibilities.) Substantial doubt about an entity’s ability to continue as a going concern exists when conditions and events, considered in the aggregate, indicate that it is probable that the entity will be unable to meet its obligations as they become due within one year after the date that the financial statements are issued (or within one year after the date that the financial statements are available to be issued when applicable). Disclosures in the notes to the financial statements are required if management concludes that substantial doubt exists or that its plans alleviate that substantial doubt.

Examples of financial statement disclosures

The SEC Form 11-K Employee Stock Plan Annual Report database for annual report filings of employee stock purchase, savings and similar plans is an excellent source for example financial statement presentation and related note disclosures for employee benefit plans. (Note that these financial statements may contain some disclosures that are not necessary for non-SEC plans; however, for the purposes discussed here, this can be a useful tool.) Utilize the "Search Full-Text of Form 11-K" search page and enter "COVID", "SECURE Act", CARES Act” or other text into the "Search for Text" field. This will result in a listing of SEC Form 11-K plan filings with related disclosures. [Click here](https://nam05.safelinks.protection.outlook.com/?url=https%3A%2F%2Fclick.e2.aicpa.org%2F%3Fqs%3D45c452f5f48392d9ece91d4ca2b800fcf78cfcb8335e25b66a570630710a594cda7ea87b5e1b0a0f103846ecb7354404067b611d4c8ff476&data=02%7C01%7CIan.MacKay%40aicpa-cima.com%7C56ae1318637846f0bd9d08d8072bbce1%7Cab44e261e3294327bbdd17a5478226a1%7C1%7C0%7C637267231732999075&sdata=ufQgecOPkzFTkDUilV96D6sYuacrNAd9686Pez%2F68LQ%3D&reserved=0) for the SEC Form 11-K Employee Stock Plan Annual Report database.

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| *Notes or comments:* |

Additional AICPA resources

AICPA Journal of Accountancy articles

* [*Pandemic considerations for EBP financial statements*](https://www.journalofaccountancy.com/news/2020/jun/employee-benefit-plan-financial-statements-coronavirus-considerations.html) (June 17, 2020) by Ken Tysiac (interviews with Lisa Todd, Moss Adams; David Torrillo, CPA/ABV, Torrillo & Associates LLC; and Gwen Stoute, HoganTaylor)
* [*Auditing during COVID-19: 6 areas to focus on*](https://www.journalofaccountancy.com/issues/2020/may/auditing-during-coronavirus-pandemic.html) (May 15, 2020) by Bob Dohrer, CPA, CGMA, and Carl Mayes, CPA
* [C*oronavirus concerns for ESOPs and ESOP auditors*](https://www.journalofaccountancy.com/news/2020/may/coronavirus-concerns-for-esop-auditors.html) (May 11, 2020) by Scott Miller, CPA/ABV
* [*Overcoming site visit limitations in the pandemic*](https://www.journalofaccountancy.com/news/2020/may/overcoming-auditing-site-visit-limitations-during-coronavirus-pandemic.html) (May 8, 2020) by Reza Mahbod, CPA, CGMA, and Mike Fredrickson, CPA
* [*Tips for auditing with changed controls during the pandemic*](https://www.journalofaccountancy.com/news/2020/apr/auditing-with-changed-controls-during-coronavirus-pandemic.html) (April 13, 2020) by Bob Dohrer, CPA, CGMA, AICPA Chief Auditor).

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1. All AU-C sections can be found in AICPA *Professional Standards*. All references that contain a “B” designation (e.g., AU-C section 240B”) can be found in the June 1, 2020 version of the *Professional Standards* and reflect those standards effective as of June 1, 2020, and have not been updated for SAS Nos. 134-140. [↑](#footnote-ref-1)