Professional Ethics

Most Frequent Violations of Professional Standards

Employee Benefit Plan Investigations

As of June 30, 2016

Executive Summary

The AICPA Professional Ethics Division has compiled the following list of quality issues found in its investigations of employee benefit plan audits during the last two years. Over that time, the Division has completed 596 investigations, 258 of which involved employee benefit plans. In instances where reporting, disclosure, and auditing errors were noted, the practitioner often could have benefited from additional experience and specific continuing professional education in this specialized area. A quality control review of the financial statements and risk areas could have detected the errors. When such quality issues are identified, the member is subject to remediation (for example, continuing professional education, pre-issuance reviews of select engagements by an independent third party) and in some instances sanctions that include publication and admonishment, suspension, or expulsion from AICPA membership.

Firm Management

1. The firm failed to undergo a peer review or misrepresented the composition of its practice and, as a result, failed to obtain an appropriate peer review.
2. The auditor did not have the competence to complete the audit in accordance with professional standards.

Auditor’s Reporting

1. The auditor’s report was not properly dated. This was usually because the report was reissued as a result of additional disclosures or audit procedures, and the report was not dual dated or re-dated. However, we have also seen instances where the report was dated before sufficient evidence was obtained.
2. The first paragraph of the report did not identify the financial statements and/or supplementary schedules being reported upon.
3. The auditor failed to opine on all statements included in the financial statements or on supplementary information attached to the financial statements.
4. The auditor did not opine on one or more of the prior year financial statements that were presented.
5. The auditor performed limited scope audit procedures but the report indicates a full scope audit was performed.

Audit Procedures

1. The auditor did not obtain sufficient competent evidential matter to support the opinion on the financial statements. Although we see this in all areas of the audit, the most frequently seen problems are with:
    a. The assumption that no audit procedures need to be performed on a limited scope audit. Performing such audits only eliminates procedures over certified investments but other transactions and balances must be audited as is stated in the auditors report.
    b. Over reliance on the service auditor's report. Relying on the SOC reports allows the auditor to reduce substantive testing over covered areas, not eliminate testing.
    c. Benefit responsive contracts – failure to evaluate the contract for benefit responsiveness
    This likely occurs due to the failure to recognize these types of investments or that there are specific disclosures required.
    d. Contributions – allocation to participants and tracing to participant accounts and in the amount and to the investments selected by the participants.
    e. Participant's data – frequently we see that the auditor failed to perform payroll testing especially with multi-employer plans.
    f. On defined benefit plans:
        i. Testing the reputation, assumptions used, conclusions, and qualifications of the actuary and their relationship to the plan and then over relying on the actuary's results. Often the auditor believes they do not need to do any procedures because they work with the actuary on several accounts or have worked with them for many years.
        ii. Testing the information provided to the actuary.
    g. Benefit payments – particularly over eligibility
    h. Investments – most frequently we see that values were not verified at year end or for purchase and sale transactions.
    i. Parties in interest, commitments and contingencies, administrative expenses, and subsequent events – little or no work is evident in the work papers.
    j. Particular to health and welfare plans – the liabilities associated with the plans are unusual and are often not properly audited or even understood.

    There are many reasons for the failure to obtain sufficient evidence including lack of knowledge in the subject matter, over reliance on the service auditor's report, familiarity with the client (leading to the auditor being too comfortable and not performing testing), and not understanding the audit area.

2. Inadequate documentation of procedures performed. This is seen in all areas but most frequently the auditor does not document any procedures on the internal controls assessment, subsequent events, commitments and

contingencies, related parties, and risk assessment. Signing the audit program is not adequate documentation.

3. The auditor failed to obtain an appropriately tailored management representation letter.

Financial Statement Deficiencies

1. Benefit responsive contracts:
    a. Not recognizing the existence of such contracts.
    b. Reflecting the investment in the statement of net assets at contract value rather than at fair value with an adjustment to contract value.
    c. Failure to disclose the average yield, the crediting interest rate, the fair values, and a general description of the basis and frequency of determining crediting interest rate resets and any minimum crediting interest rate under the terms of the contract and any limitation on related liquidity guarantees.
2. Improperly disclosing the existence of a benefit responsive contract when one does not exist (this may be because the auditor just copied sample disclosures found in guidance or does not understand the nature of such contracts).
3. Fair value disclosures required by FASB ASC 820 are omitted or errors are made in the disclosures. Right now this is our most frequently seen disclosure problem. Often, we see failure to correctly describe valuation methodologies for all investments, incorrect leveling (common collective trusts or pooled accounts reflected as Level 1), inclusion of cash and participant loans in the fair market value disclosures and absence of disclosures required for investments valued at net asset value as a practical expedient.
4. Disclosures particular to health and welfare plans, notably post-retirement benefit obligations are omitted.
5. The net change in fair value of each significant type of investment.
6. The financial statement failed to include the reconciliation between the amounts in the Form 5500 and the financial statements.
7. Omission of risks and uncertainties, subsequent events, tax status, and party in interest disclosures.
8. Disclosures about the amount and disposition of forfeited nonvested accounts were not made.
9. A comparative Statement of Net Assets Available for Benefits was not presented in the financial statements as required by the DOL.
10. The schedule of assets held (end of year) was not attached to financial statements, not formatted correctly, or failed to identify parties-in-interest as required by the DOL.
11. Disclosures regarding certified information do not include all information certified or include amounts and/or transactions not certified as complete and accurate.
12. The financial statements did not present investment income exclusive of changes in fair value.

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