



Common deficiencies

Employee benefit plan audits



AICPA Professional Ethics Division

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REIMAGINE – AUDIT QUALITY

We invite you to learn how the AICPA is reimagining audit quality in employee benefit plan engagements. Think of this not just as a report on the deficiencies of other practices, but a guide of sorts to help you avoid unintentional pitfalls that could result in an ethics investigation. The next few sections explain how the report can benefit your practice, so read on!

What we've seen

AICPA Professional Ethics Division assists in standard setting, member enrichment and enforcement of professional standards. Our enforcement activities involve technical reviews of engagements that are subjects of investigations. Over the last two years, we've completed 569 investigations and 158 of these focused on **employee benefit plan audit** engagements. The list of quality issues in this report outlines the results of our technical reviews.

Our investigations often begin with referrals from state and federal regulatory agencies. Given the time lag that can result from these referrals, many issues reported here are for audits that were performed during 2013–2017. Don't let that keep you from taking a deeper dive. These issues have been areas of concern consistently over the past five years and those pain points in quality continue to exist. We've also included recent trends that might guide you in risk assessment and planning.

The most frequent quality issues we've seen across all engagements are deficiencies in **evidence** and **documentation**. We've also noted deficiencies in **disclosures** in the areas of fair value measurements and transactions with related parties and parties in interest.

Why it matters

Our profession strives for a high level of integrity and excellence. No one wants to produce deficient audits. Certainly, no one wants to be the subject of an ethics investigation! When a member violates professional standards, the ethics division may prescribe remedial measures, such as CPE or a pre-issuance review of an engagement. In more serious matters, sanctions could include disciplinary action and a public announcement on aicpa.org of a member's admonishment, suspension, or expulsion.

One of our primary goals as a division is helping members avoid investigations altogether. That's why we're doing everything possible to help our members identify and avoid non-compliance that could lead to problems with audit quality.

In addition to investigating potential violations of the AICPA Code of Professional Conduct (the code), we also create resources like this report and our podcast, [Ethically Speaking](#), to assist members with understanding, using, and complying with the code.

What you can do

First, use this report to identify potential areas of risk for your practice. Then take advantage of [CPE tailored to address specific areas of risk](#) and [tools to help you navigate current topics](#) like Statement on Auditing Standards No. 136. Issued in July of 2019, this standard will fundamentally change the report for

employee benefit plan audits. Instituting a **quality control review** of the financial statements and high-risk areas is another strategy that may help you avoid common deficiencies.

Challenge your team to **REIMAGINE** their approach to audit quality and discover new tools for efficiency and effectiveness. Consider joining the AICPA's [Employee Benefit Plan Audit Quality Center](#), a community of firms that demonstrate a commitment to quality in employee benefit plan engagements. Another resource available to you is the AICPA [Center for Plain English Accounting](#) (CPEA). The CPEA provides high quality, expert guidance to member firms with limited resources.

Keep reading!

This report is an interesting snapshot of one area of our profession; for that reason alone, it's worth your time to read.

But it can also help you identify potential areas of risk in your own practice that you may not have considered before — even if your practice is not employee benefit plan audit focused. Getting in front of problem areas, where they exist, will help you reduce risk and avoid a possible ethics investigation by our division or a federal or state regulatory agency.

We're all committed to the integrity of our profession and we're all in this together. So, take a moment to review the deficiencies in this report and consider how you might **REIMAGINE AUDIT QUALITY** in your firm.

Audit deficiencies

1. The auditor failed to obtain or document sufficient appropriate evidence to support the opinion on the financial statements. Although we saw this in all areas of the audit, these were the problems we saw most frequently:
 - a. The assumption that no audit procedures need to be performed on a limited scope audit.
 - b. Over reliance on the System and Organization Controls (SOC) reports.
 - c. Lack of testing of user-entity controls in the SOC report when reducing control risk based on the report.
 - d. Risk assessment not performed at the assertion level and no documented understanding of controls.
 - e. A failure to test participant contributions and trace allocation of those contributions to participant accounts in the amounts and to the investments selected by the participants.
 - f. A failure to perform payroll testing, especially with multi-employer plans.
 - g. A failure to test the allocation of investment income to participant accounts.
 - h. On defined benefit plans,
 - i. failure to test the reputation, assumptions used, conclusions, and qualifications of the actuary and the relationship to the plan and then over relying on the actuary's results.
 - ii. failure to test the information provided to the actuary.
 - i. A failure to test benefit payments, particularly for eligibility.
 - j. A failure to verify the value of investments at year end.
 - k. Minimal or no testing of party in interest transactions, commitments and contingencies, administrative expenses, and subsequent events.
 - l. Inadequate testing of unusual liabilities associated with health and welfare plans.
2. The auditor did not have the competence to complete the audit in accordance with professional standards. We usually cite this issue when there are documentation or evidence failures in substantially all audit areas.
3. The auditor failed to exercise due professional care as evidenced by these issues:
 - a. Contradictory disclosures.
 - b. Disagreement between financial statement amounts and note disclosures.
 - c. Misclassified amounts.
 - d. Misdated reports.
4. The firm either failed to undergo a peer review or misrepresented the composition of its practice and, as a result, failed to obtain an appropriate peer review.

Reporting, presentation and disclosure deficiencies

1. The report failed to disclose or had errors in disclosure of the following:
 - a. Fair value measurements, including but not limited to valuation methodologies, incorrect leveling, inclusion of cash and notes receivable from participants, and investments valued at net asset value.
 - b. Related party and party in interest transactions.
 - c. The amount and disposition of forfeited non-vested accounts.
 - d. Subsequent events.
 - e. The net change in fair value of each significant type of investment.
 - f. Problems with benefit-responsive contracts:
 - i. No recognition of the existence of such contracts.
 - ii. Investment in the statement of net assets reflected at contract value rather than at fair value with an adjustment to contract value.
 - iii. 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.
 - g. The basis of accounting used to prepare the financial statements.
 - h. The plan's policy with respect to participant loans such as limitations on loan amount and collateral.
 - i. Information that was certified by the trustee and not subject to audit procedures.
 - j. Risks and uncertainties.
 - k. Tax status.
 - l. Vesting provisions and policies regarding forfeited non-vested accounts.
 - m. The amount and policy for administrative expenses.
2. There were issues with the supplemental schedule of assets (held at end of year):
 - a. Not attached to financial statements.
 - b. Not formatted correctly.
 - c. No proper identification of parties in interest.
 - d. The terms or interest rates (or both) for participant loans not included.
3. The report failed to properly identify or report on the financial statements or supplementary information (or both).

4. The auditor's report on the financial statements failed to comply with the reporting requirements in accordance with AU-C section 700, *Forming an Opinion and Reporting on Financial Statements*.
5. The auditor performed limited scope audit procedures, but the report indicates a full scope audit was performed or vice versa.
6. Auditors improperly disclosed the existence of a benefit responsive contract when one did not exist.
7. Disclosures regarding certified information either do not include all information certified or include amounts or transactions (or both) not certified as complete and accurate.