FrankelZacharia LLC

Certified Public Accountants

What You Need to Know About Changes to Your Annual Employee Benefit Plan Audit

Employee benefits are important to your business, making it easier to retain quality talent while ensuring that they have the support they need during difficult times, such as illness or a family crisis. To keep your employee benefits plan working well and in sync with your company's end goals, it's important to undertake an annual employee benefit plan audit. This audit checks over the plan, notes specific performance issues and addresses reporting requirements under law.

With amendments made to the AICPA Statement on Auditing Standards (SAS), No. 136, Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to the Employee Retirement Income Security Act of 1974 (ERISA), there are a few issues you'll need to take into consideration. These address specific performance and reporting that is required for the audit of retirement plans that fall under the ERISA requirements, while changing both the form and the content required in an auditor's report.

The Standard was originally effective for audits of employee benefit plan financial statements subject to the ERISA for periods ending on or after December 15, 2020, but was delayed one year to December 15, 2021 due to the COVID-19 pandemic.

But why was this change put into effect? A 2015 study published by the U.S. Department of Labor's Employee Benefits Security Administration looked at audit quality that was being performed by independent qualified public accountants on a variety of employee benefit plans. In reviewing the results, 39% of the employee benefit plan audits were discovered to have one or more major issues that would need to be resolved. This pointed to a strong need to strengthen employee benefit plan audits while enhancing reporting by auditors. This issue was addressed by AICPA's SAS Number 136.

Though SAS Number 136 is 110 pages long, not all of the information addresses this specific issue. However, because the update does impact all phases of employee benefit plan audits, it's an important document to go over. It does include engagement acceptance to reporting, which can impact your plan's sponsors significantly. That being said, there are two areas that will have a higher impact on those undertaking employee benefit plan audits.

Management Responsibilities Communicated and Disclosed in Engagement Letter
To start, your management's responsibilities include maintaining the current plan instrument. This needs to include all amendments, administrations to the plan, record maintenance for plan benefits and transactions as well as the responsibility to provide financial statements. This information must also be included in the plan audit engagement letter. This includes an election by your company or organization's management for a Section 103(a)(3)(C) audit, which was previously known as a limited-scope audit, along with management's related responsibilities.

Similarly, your auditor's responsibilities will continue being disclosed in their report, with an emphasis on defining specific terms such as professional judgment, skepticism during audit and reasonable assurance. The report should also induce references to the auditor's independent state, as well as disclosing the auditor's requirement for other ethical responsibilities.

Changes to Limited-Scope Audits: ERISA Section 103(a)(3)(C)
In the past, audits that were being performed under ERISA Section 103(a)(3)(C) were allowed to only cover a limited scope, if desired. This had a range of potential tax benefits. However, with the introduction of SAS 136 ERISA Section 103(a)(3)(C), but with the change, there are no longer any limitations on scope. In the past, an auditor had previously had to issue an opinion disclaimer in their report due to the limitation on scope. This option now provides two options to help differentiate. These state clearly:

- That the auditor has an opinion that they have been presented with details in the company's financial statements that isn't covered by their certification process.
- That the auditor has an opinion on whether the qualified institution's held assets have been detailed by the institution's management team and determined that the situation qualifies for requirements under the Section 103(a)(C)(3)

When plan sponsors choose to use an ERISA Section (a)(3)(C) type of audit for their benefit plan, it's required that the plan sponsor provides the company's auditor a written acknowledgment to permit this type of audit. This document also ensures the certification that the plan's custodians and trustees is in line with the ERISA regulatory demands. In order to meet these requirements, only qualified institutions are allowed to release certificates confirming the investment details for the plan, while verifying that they agree with the completeness and accuracy of the plan. An authorized individual of the qualified institution must sign the certification.

As plan sponsors start to prepare for their upcoming retirement plan audits, it is important to understand their new responsibilities, evaluate current procedures and implement any new procedures deemed necessary to comply with the new requirements when an ERISA Section 103(a)(3)(C) audit is applicable.

If you're not sure where to start or if you have any questions, please contact at Frankel Zacharia, LLC, 402.496.9100.