

SELECTING AN AUDITOR FOR YOUR EMPLOYEE BENEFIT PLAN



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Under Federal law, most employee benefit plans with 100 or more participants must submit audited plan financial statements when they file an annual return/report (commonly called the “Form 5500”).¹ If your employee benefit plan must have an annual audit, hiring an independent qualified public accountant is one of the plan administrator’s most important fiduciary responsibilities. The employer or employee organization sponsoring the plan is the plan administrator unless another individual or entity is specifically designated to perform that role.

A well performed audit is a vital protection for your employee benefit plan. It is in your best interest and that of your plan’s participants to maximize the value of the audit process. The following material will assist you, as plan administrator, in selecting an auditor and reviewing the audit work and report.

SELECTING AN AUDITOR

Why is the choice of an auditor important?

A good quality audit will help protect the assets and the financial integrity of your employee benefit plan and provide the plan administrator with information to help ensure that the necessary funds will be available to pay retirement, health, and other promised benefits. One aspect of an audit is to evaluate the strength of the plan’s internal controls over financial reporting, identifying control weaknesses or plan operational errors. This may help plan management improve and streamline plan operations. A quality audit also will help you as the plan administrator carry out your legal responsibility to file a complete and accurate Form 5500 annual return/report for your plan. Also, as the plan’s administrator, you might be assessed a civil penalty for an incomplete, inadequate, or untimely audit report. Selecting an experienced, competent, and reliable auditor can help you avoid that.

¹ Some types of employee benefit plans are exempt from the annual audit requirement under regulations published by the DOL. The most common exemptions from the audit are those for pension plans with fewer than 100 participants that meet certain conditions relating to their investments, fidelity bonding, and participant disclosure, welfare benefit plans with fewer than 100 participants, and welfare benefit plans with 100 or more participants that are fully insured or pay benefits out of the general assets of the employer. More information on audit exemptions is available at the compliance assistance section of the DOL website at [dol.gov/agencies/ebsa/employers-and-advisers/plan-administration-and-compliance/reporting-and-filing](https://www.dol.gov/agencies/ebsa/employers-and-advisers/plan-administration-and-compliance/reporting-and-filing).

Is a plan auditor required to be licensed or certified?

Yes. An auditor engaged for an employee benefit plan audit must be licensed or certified as a public accountant by a State regulatory authority. Some states require auditors to have their work independently reviewed by other licensed auditors, often called “peer review.” Ask if your auditor’s work on employee benefit plans has been “peer reviewed” and request the results.

Is a plan auditor required to be independent?

Yes. Auditors of employee benefit plans should not have any financial or other conflicts of interests with respect to the plan or the plan sponsor that would affect their ability to render an objective, unbiased opinion about the plan’s financial condition.

Should a plan auditor have training and experience in auditing employee benefit plans?

One of the most common reasons for a deficient audit report is the auditor’s failure to test areas unique to employee benefit plan audits due to lack of experience with such audits. The decision regarding which auditor to hire should be based on an assessment of all the relevant factors, including the training and experience of the auditor with respect to employee benefit plans and the quality and cost of the services. You should not consider just one factor, such as a lowest fee bid for services, to the exclusion of any other factor.

Should I request references and check licenses?

Yes. When engaging an auditor, you should obtain references and discuss the auditor’s work on other similar employee benefit plans. You should also verify with the appropriate State regulatory authority that the auditor holds a valid, up-to-date license or certificate to perform auditing services.

WHAT YOU SHOULD KNOW ABOUT THE AUDIT

What is an engagement letter?

Before the audit, the auditor will prepare a contract, called an “engagement letter,” describing the audit work to be performed, the timing of the audit, and the fees for the work. This letter should describe the respective responsibilities of the auditor and plan administrator. You should review this letter carefully and resolve any questions before engaging the auditor.

Can the engagement letter say the audit will not cover asset statements from banks and insurance companies?

Federal law and DOL regulations permit the plan administrator to agree that the plan auditor will not perform auditing procedures with respect to a statement or information regarding plan assets held by a bank or similar institution or insurance company if the statement or information is prepared and certified to by the bank, similar institution, or insurance company holding the assets. The plan administrator is responsible for deciding on the audit engagement and for determining whether the conditions for using the DOL regulations have been met. The plan administrator is always responsible for making sure the plan's assets, including those held by banks and insurance companies, are properly reported on the plan's Form 5500. You should consult with your accountant, attorney, or plan advisor to determine whether this audit approach is appropriate for your plan.

Will I have to furnish or prepare documents for the auditor?

Yes. The plan administrator is legally responsible for maintaining complete and accurate plan records. You will need to provide various financial, accounting, and other plan records to the auditor for review in the course of the plan audit. If a third-party service provider performs recordkeeping for the plan (for example, a contract administrator or a claims processing agent), you will have to make arrangements for those service providers to make records available to the auditor that are needed to complete the plan's audit.

REVIEWING THE AUDIT REPORT

What happens when the audit is complete?

At the conclusion of the audit, the auditor will issue a report which states an opinion on the plan's financial statements as well as any schedules that must be included as a part of the plan's annual report filing. Auditors will also report on substantial problems, such as identified significant deficiencies or material weaknesses in the plan's internal controls and prohibited transactions. The auditor may also suggest ways for you to improve internal controls and to correct operational defects. This is a good time for you to ask questions about the auditor's report and recommendations.

What questions should I ask about the auditor's work?

The DOL's Employee Benefits Security Administration frequently finds employee benefit plan audits are deficient because the auditor failed to perform audit procedures in areas unique to employee benefit plans. Accordingly, you should ask your plan auditor how they addressed the following in their audit:

- Whether plan assets covered by the audit have been fairly reported;
- Whether plan obligations are properly stated and described;
- Whether contributions to the plan were properly calculated and timely received;
- Whether benefit payments were made in accordance with plan terms;
- Whether employees were properly included or excluded from participation in the plan;
- If applicable, whether participant accounts are fairly stated;
- Whether issues were identified that may impact the plan's tax status; and
- Whether any transactions prohibited under ERISA were properly reported.

RESOURCES

Employee Benefits Security Administration
Office of the Chief Accountant: 202-693-8360 (not a toll-free number)

Websites: dol.gov/agencies/ebsa
efast.dol.gov/welcome.html

EFAST Help Line: 1-866-463-3278

Reporting and Disclosure Guide for Employee Benefit Plans
(View this publication at dol.gov/sites/default/files/ebsa/about-ebsa/our-activities/resource-center/publications/reporting-and-disclosure-guide-for-employee-benefit-plans.pdf. Or order a copy: 1-866-444-3272.)

The American Institute of Certified Public Accountants, Employee Benefit Plan Audit Quality Center: aicpa.org/interestareas/employeebenefitplanauditquality/membership/ebpacmembership.html.



U.S. Department of Labor
Employee Benefits Security Administration

