



- Accounting & Auditing
- Business & Industry
- Practice Management
- Taxation
- Government & Nonprofit
- Personal Financial Planning
- Emerging CPAs



## Evolution of the EBP Audit

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March 18, 2008

CPAs embarked on a unique type of mandated audit more than 30 years ago with the passage of The Employee Retirement Income Security Act of 1974 (ERISA). CPAs were charged not only with auditing the financial statements of retirement plans, but also with seeing that plan trustees were performing their fiduciary duties. During the years that followed, CPAs would learn that independence as it related to ERISA audits was much more narrowly defined than in most audits. Nonattest services for ERISA audit clients were virtually taboo. Plan sponsors could become highly offended that seemingly minor offenses – such as deposits of employee contributions on the sixteenth day of the following month – had to be reported in the financial statement footnotes. Materiality also was considered at a lower level than for a commercial audit. These testy confrontations could put a strain on an otherwise amicable business relationship. Plan sponsors had, and still have, a hard time reconciling the fact that while they pay the CPA's fees, the CPA's primary responsibility is to plan participants.

Some firms, until relatively recently, mistakenly thought ERISA engagements were low-risk. Their position was that if a confirmation from the custodian was received, there was little else to be audited; and if there was a SAS 70, there was little work to be performed. This approach was not consistent with AICPA's Audit and Accounting Guide for Employee Benefit Plans, but that didn't seem to matter. These engagements suddenly began to receive a lot of attention when the Department of Labor began to examine workpapers and conduct field reviews at CPA offices. The lack of work by some practitioners soon became readily apparent. As a result, CPAs were brought before state boards, state societies, and the AICPA. Some were required to get additional education and/or submit to a review of subsequent work product, including accelerated peer reviews. Some were restricted as to the types of engagements they would be able to accept, and some lost their licenses to practice.

Then came Enron. Employees and retirees suffered enormous losses because of loose financial management, both in the corporation and plan. Unaware of all of the facts, loyal employees heavily invested retirement monies in company stock. Suddenly, because certain "professionals" felt a need to test GAAP, to stretch points that reasonable people wouldn't have given a second or maybe even a first look, the accounting world was turned upside down. Because of the Enron debacle, companies limited the amount of investment that a participant could make in the company's own stock.

The AICPA, wanting to draw attention to this specialized type of work, established the Employee Benefit Plan Audit Quality Center (EBPAQC). To become members, firms were required to have their partners and staff attend EBP-specific seminars, pay annual dues, and submit to follow-up efforts designed to assure that the EBPAQCs standards were being met. All members strove to enhance the quality of EBP audit work through education and participation in both live and online forums. EBP audits were finally being recognized as highly specialized engagements that required significant effort on the part of the firms that chose to perform them.

EBP audit engagements now will be subject to the same standards being applied to commercial and not-for-profit audits. Engagement planning will be more detailed, with greater documentation. Recent SASs covering audit risk and materiality, planning and supervision, understanding the entity and its environment, performing audit procedures that are responsive to the assessed risks, and evaluating the audit evidence will all factor into EBP audits. In some instances, these required steps are formalizations of procedures many auditors have done for years, but may not have thoroughly documented. Other steps set the benchmark of quality higher than it has been in the past. One thing is certain, however: today we are much closer to achieving the expectations of those who first enlisted the government to try to protect the retirement benefits of workers.

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