Why Organizations Change Employee Benefit Plan Auditors

HIGHLIGHTS

Regulator focus on employee benefit plan audit quality renews importance of auditor selection

Analysis shows common reasons why organizations switch employee benefit plan auditors

Evaluating these themes may indicate whether you need a new provider

A transition plan makes changing plan auditors easier for all parties

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Your employee benefit plan needs a quality plan auditor. Period. The independent financial statement audit is an important part of the safeguards established by Congress in the Employee Retirement Income Security Act of 1974 (ERISA) to protect plan participants. Regulators like the Department of Labor (DOL) use the information in the plan audit and Form 5500 to verify that plan management (which includes plan sponsors, administrators, and trustees) is doing its part to safeguard employee benefit plan participants' retirement, health and other promised benefits.

To demonstrate your compliance, you need an employee benefit plan auditor you can trust who produces a high quality audit of your plan. The million dollar question then becomes: How do I know my organization has a quality employee benefit plan auditor?

The DOL recently commissioned a report, an Analysis of Benefit Plan Auditors that gives some indication. An Analysis of Benefit Plan Auditors (2018 Report) examined annual Form 5500 filings and the DOL's Employee Benefit Security Administration's Audit Quality Work Paper Review Database between 2011 and 2015. The review focused on the reasons plans gave for switching their plan auditor, CPA exits from the employee benefit plan audit space, and patterns that would indicate whether plans would change their CPA provider.

Information from the 2018 Report could help your organization in two keys ways:

1. **The 2018 Report indicates the pain points that led organizations to change their CPA firm that provided their employee benefit plan audit.**
2. **It illustrates some of the qualities of the CPA firms to which organizations switched.**

Taken together, the two points of insight provide a more quantitative look at the qualitative question of employee benefit plan audit quality.

This publication has been prepared to provide plan sponsors, administrators or trustees (collectively plan management) with an understanding of insights into the independent audits of the financial statements of an employee benefit plan.

A Quick Recap on the Employee Benefit Plan Audit

A financial statement audit is conducted by an independent certified public accountant (CPA). The independent auditor's overarching goal is to obtain reasonable—but not absolute—assurance that the financial statements prepared by plan management are fairly presented.

Financial statement audits provide an independent, third-party opinion to participants, plan management, the DOL, and other interested parties that the plan's financial statements provide reliable information to assess the plan's present and future ability to pay benefits. A financial statement audit helps protect the financial integrity of the employee benefit plan, which helps users determine whether the plan has the necessary funds to pay retirement, health and other promised benefits to participants. The audit may also help plan management improve and streamline plan operations by evaluating the strength of the plan's internal control over financial reporting and identifying control weaknesses or plan operational errors. And the audit helps the plan sponsor carry out its legal responsibility to file a complete and accurate Form 5500 for the plan with the DOL.

Generally speaking, large plans (i.e., plans that have more than 100 participants) and some small plans that hold certain types of alternative plan investments ("non-qualifying assets") not fully covered by a fidelity bond must have an audit of their plans' financial statements as part of plan management's obligation to file their information return, the Form 5500.

Plan management can elect to undergo a full scope employee benefit plan audit or what has been known as an "ERISA limited scope audit" (soon to be called a "103(a)(3)(C) audit" based on a recently issued auditing standard change for ERISA audits).

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Plan management is ultimately responsible for the accuracy of its employee benefit plan audited financial statements, and one of the chief ways to know they are getting a quality employee benefit plan audit is to make sure that they are using a quality auditor.

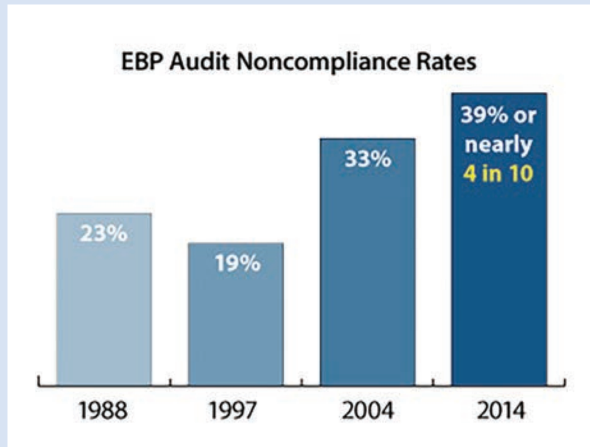
Why Employee Benefit Plan Audit Quality Is Such a Big Deal

Quality in the employee benefit plan audit space may be more difficult to come by than you would expect. One of the reasons the DOL commissioned its 2018 Report stems back to an earlier study. A few years ago, the Employee Benefits Security Administration (EBSA) released an employee benefit plan audit quality study (commonly known as the 2014 Study, even though it was released in 2015). The 2014 Study found that nearly 40% of the employee benefit plan audits it surveyed contained major deficiencies.

EBSA periodically reviews employee benefit plan audits for accuracy as part of its ongoing compliance monitoring. The results in the 2014 Study raised some red flags.

A Closer Look at the Latest Employee Benefit Plan Audit Quality Study

EBSA has been reviewing audits of plans subject to ERISA since 1988. Its 2014 Study on audit quality revealed the highest noncompliance rate in the history of the study: nearly 4 in 10 of the 400 employee benefit plan audits it surveyed failed to meet at least one professional standard.



As part of the report summary, EBSA proposed working with accounting firms and accounting organizations like the AICPA on ways to improve employee benefit plan audit quality.

Regulator scrutiny and the general issue surrounding employee benefit plan audit quality should raise some red flags for organizations subject to ERISA audit requirements as well. Major deficiencies in an employee benefit plan audit may at first seem like an issue only for the CPA firms providing the employee benefit plan audit service, but the deficiencies could invalidate the audit of the plan, putting the organizations sponsoring the audited plan at risk of ERISA noncompliance.

Problems with ERISA compliance mean problems with the tax-preferred status of the employee benefit plan and its investments. If left completely unchecked, ERISA compliance issues could result in an organization's plan losing its qualified, tax-exempt status.

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Plans that lose a qualified status could mean that plan contributions, distributions, and investments would become taxable, which spells trouble for all parties involved, from the employees trying to make tax-free contributions to their retirement plan, to the organization sponsoring the plan and holding the plan investments, to the retired employees receiving distributions from their retirement plan.

Organizations and their plan management can reduce the risk of the worst case scenario happening by understanding their role in ensuring their benefit plan receives a quality employee benefit plan audit. Chiefly, organizations can pick a quality employee benefit plan auditor.

The 2018 Report provides some reference points that might be helpful for your organization in evaluating its current plan auditor and determining whether a change in provider is warranted.

Why Plan Sponsors Say They Left Their Employee Benefit Plan Auditor

The 2018 Report found that on average, 7.7% of plans change their employee benefit plan auditors each year. It's a low number, but organizations may be unaware of their employee benefit plan auditor options, and what quality indicators they should be looking for when they lock into their CPA firm.

Only 7.7% of plans change their CPA firm each year

Organizations that decide to change their employee benefit plan auditor will indicate why they chose to change providers in Part III of their Form 5500, which is where EBSA pulled its information for the 2018 Report. A review of the CPA firm termination information in Form 5500s found nine common reasons why organizations cited an accounting provider change:

1. **They went through a competitive bidding process**
   Cost concerns or other issues led some organizations to go through a competitive bidding process for their employee benefit plan audit.
   During the bid review, plan sponsors may have found audit fees more in line with what they envisioned for their employee benefit plan audit, or they may have found a provider who offered the organization more value for the employee benefit plan audit price point.

2. **Their current plan auditor had staffing changes**
   Staffing turnover, including an accountant retiring or resigning from the firm, can be disruptive to the employee benefit plan audit. New staff typically come with a learning curve. Staffing changes may also mean that there is no longer a personality fit between the plan auditor and the organization.

3. **The business relationship had deteriorated with their current plan auditor**
   Aside from relationship issues, plans noted that changes in the CPA firm providing the employee benefit plan audit, such as service restructuring or consolidation, led them to change accounting providers.

4. **They were unsatisfied with their current service**
   Poor service is a common reason plans noted for why they chose to look elsewhere for employee benefit plan audit services. If your auditor does not provide the quality solution that you can rely on, is not responsive to questions or feedback, misses deadlines, or does not bring valuable guidance to the table that could improve plan management, you will be more likely to look for a provider who can.

5. **They had to make a change as part of standard business practice**
   Public companies are required to periodically change up their financial statement audit team as a way to minimize fraud risk or errors. Some organizations may voluntary implement a requirement to change accounting providers as part of their internal governance protocol. A small percentage of plans noted they changed providers as part of their standard operating procedures in their Form 5500 filings.

6. **They wanted a CPA firm in closer proximity**
   Travel expenses for employee benefit plan auditors can add up and make the service more costly. A small percentage of organizations said they changed their provider to a firm that was physically closer.

7. **They were concerned about their current CPA firm's independence**
   Even if an employee benefit plan auditor performs a clean, accurate review of the Form 5500 and plan materials, if the auditor's firm has independence issues, it could invalidate the employee benefit plan audit. Conflicts of interest are also a problem, and a small number of organizations were concerned enough about their current accounting provider to make the switch.

8. **They wanted a larger CPA firm**
   Many organizations indicated that they wanted a larger CPA firm. There could be a number of reasons organizations want to go to a larger provider. They might see that a larger CPA firm can devote more of its time and resources to employee benefit plan audits. The number of employee benefit plan audits a CPA firm performed was also an indicator of a lower deficiency rate in the 2014 Study, which could also be an underlying reason for the move.

9. **Current provider conducted a plan audit with an audit deficiency**
   Although a very small number of plans (25out of 25,326) said they changed because of a problem with their last audit, EBSA found that audit deficiencies could predict whether a CPA firm decided to stop performing employee benefit plan audits all together. CPA firms that audit fewer than 100 plans had a nearly 25% chance of leaving their employee benefit plan audit field if EBSA discovered a major deficiency in their plan audits.

Employee Benefit Plan Auditor Quality Indicators That Stood Out

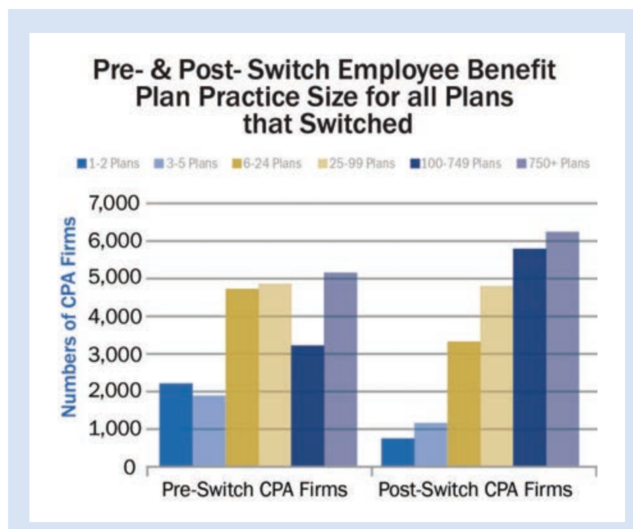
EBSA also reviewed characteristics of the plans' original CPA firms compared to the ones selected when a plan changed providers. It used some of the noncompliance factors identified in the 2014 Study as a guide, including size of a provider's employee benefit plan audit practice, professional membership participation, and peer review.

Number of Plan Audits

One of EBSA's focus areas involved the size of the CPA firm's employee benefit plan audit practice. The 2018 Report found plans consistently changed to CPA firms that performed a higher number of EBP audits per year.

Plan sponsors were more likely to change accounting providers if their current auditor conducted fewer than 6 employee benefit plan audits per year.

EBSA found that plans' original CPA firms completed a median of 42 employee benefit plan audits per year. Post-change, the median number of EBP audits was 144. A closer review of indicates that the majority of plans moved to accounting providers that performed more than 100 plan audits per year.



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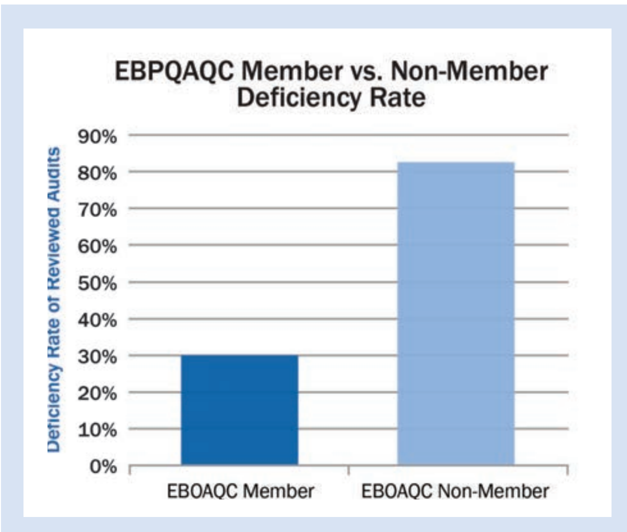
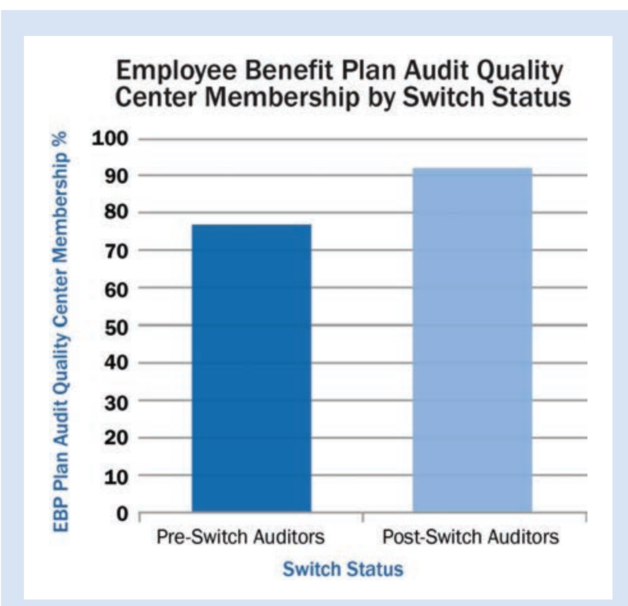
AICPA's Employee Benefit Plan Audit Quality Center Membership Status

The 2014 Study uncovered that employee benefit plan auditors that belonged to the AICPA's Employee Benefit Plan Audit Quality Center (EBPAQC) had an average of 30% audit deficiency rate, while firms that were not members had an average 82.3% audit deficiency rate.



The 2018 Report examined EBPAQC status as well. It found a much smaller difference between the membership rates in the original CPA firms and the firms to which plans switched: 86% compared to 91.3%.



Employee Benefit Plan Auditor Quality Indicators That Did Not Stand Out

As part of ongoing efforts to encourage audit quality, the AICPA created a Practice Monitoring Peer Review Process. Both the 2014 Study and the review of why organizations change employee benefit plan auditors looked at Peer Review Status to see whether there were any quality patterns associated with it. A clean peer review had little bearing on employee benefit plan audit compliance in the 2014 Study (approximately 52% of firms that had clean peer reviews also had deficient EBP audits). Participation in the peer review process didn't seem to affect plans switching CPA firms, either. Nearly 99.1% of the pre-switch CPA firms participated in the peer review process whereas 98.2% of post-switch firms participated.

There was also not a clear association between state CPA memberships and organizations changing auditors. A little over 95% of the pre-switch CPA firms belonged to state CPA societies compared to a little over 97% of post-switch CPA firms.

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How Organizations Can Put EBSA Report Data to Use

EBSA's check-in with employee benefit plan auditor quality presents an opportunity for organizations to review their own situation. Consider some of the reasons CPA firms gave for switching providers, and use them as a guide for evaluating your current employee benefit plan auditor and the CPA firm providing the work.

Employee Benefit Plan Audit Evaluation

- Are your EBP audit fees in line with expectations?
  Do EBP audit fees align with what was agreed upon? Is the price commensurate with the value received?
- Are you comfortable with your current audit team?
  Are the individuals from the audit firm who service your plan easy to work with? Do their personalities mesh well with your staff, and are they accountable? Has the audit team been stable, or has there been frequent turnover?
- Are you satisfied with the service being offered by your current provider?
  Does the audit firm meet with you regularly? Are the auditors available by phone or email when needed? Do the auditors answer your questions in a timely manner with complete information? Are they knowledgeable about ERISA issues?
- Are you concerned about your EBP auditor's independence?
  Does your EBP auditor have any financial interests in your plan? Does the provider have any ties to the plan sponsor that would affect the provider's ability to issue an unbiased, objective opinion?
- Have there been issues with your EBP audit in the past?
  Has the DOL ever rejected your EBP audit? Does your current firm consistently meet deadlines and produce quality, accurate work?
- Does your auditor perform fewer than 100 plan audits per year?
  Are EBP audits a core part of your accounting provider's audit practice? Does the CPA firm have dedicated ERISA resources?

The yes's and no's in your employee benefit plan audit evaluation may indicate whether your organization should consider a new accounting provider.

Final Thoughts

Results from the 2014 Audit Quality Study have regulators and the accounting industry looking carefully at what they can do to improve ERISA compliance. EBSA conducted this 2018 Report. The AICPA's Auditing Standards Board recently announced new auditing standards for employee benefit plan audits effective in 2022. CPA firms who have dabbled with employee benefit plan audits—only performing a handful each year—may be discontinuing their employee benefit plan audit service offering.

As the employee benefit plan auditing community evolves and grapples with employee benefit plan audit quality initiatives, plan management will want to monitor the changing landscape. Employee benefit plan audit quality matters to your organization as well, and you will want to do what you can to ensure you have the service your employee benefit plan needs.

About MHM

MHM (Mayer Hoffman McCann P.C.) is a national, independent CPA firm with offices in most major markets throughout the country. Our firm is a member of the EBPAQC and our dedicated team of employee benefit plan audit professionals has more than 30 years of employee benefit plan audit experience. MHM performs more than 1,100 employee benefit plan audits per year for more than 2.5 million total employee benefit plan participants.

We work closely with CBIZ, a business consulting, tax, and financial services provider.

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