Efficiency and Best Practices

Importance of Planning

- Proper planning is key to efficiency & effectiveness
- Can be challenging in EBP space
  - given the nature and duration of EBP audit engagements
- Standards & audit guide provide technical guidance
- We will focus on the practical/operational aspects
  - Best practices to avoid some common pitfalls
- Highlights based on common published deficiencies
  - Not intended to be all inclusive

Back to Basics

- Ensure you have the right team assigned
  - Adequately trained staff – understand the uniqueness of Plans
- Understand the plan document
  - Including amendments
- Understand the operating/control environment
  - Including critical user controls around outsourced services
- Assess risk
  - Discuss what could go wrong with the entire team (brainstorm)
    - Including fraud risks
- Design procedures accordingly
  - Assign tasks based on experience
- Establish a process to coach and review
  - Proper supervision is critical to effectiveness & efficiency
Best Practices

Communication & coordination are critical
- Resource Managers
  - Identify staffing needs early
  - Assignments s/b based on complexity/experience
  - Basic training is critical for inexperienced staff
- Client Service Leaders
  - Meet with the CSL to understand what’s new at the client
    - Personnel changes, acquisitions, major layoffs, etc
  - If you plan to rely on procedures from sponsor audit, ensure the procedures are designed to meet your needs
    - Payroll testing, IC documentation, testing electronic files

Best Practices

Begin the external communication process early
- Request plan documents & amendments early
  - Make them part of PBC list of sponsor audit (if appropriate)
  - Include EBP audit to agenda for client planning meeting
  - Most recent document essential for your planning meeting
- Request 3rd party information early to ensure you have time to review it in advance of planning meetings
  - SOC reports
    - Need to understand controls to plan the audit
      - Including key user controls identified in SOC Rpt
  - Investment/participant information
    - Trust statements often the basis for the trial balance

Best Practices

Meet with plan management
- Understand significant changes at the plan sponsor
  - Acquisitions, lay-offs, key personnel changes
- Discuss other events specifically impacting the Plan’s operation
  - Amendments, changes in providers, compliance issues, etc
- Make other relevant inquiries as appropriate
  - Reliance on electronic data
  - Alternative investments arrangements
  - Parties in interest & related parties
  - Excess revenue arrangements
Best Practices

Meet with plan management, continued...
- Gain a broad understanding of the Plan’s control environment
  - Identify key personnel involved with plan administration
  - Internal control and fraud interviews
  - Management interaction with third parties
  - Oversight/direction
  - Critical user controls

Understand operating/control environment
- Determine whether SOC reports can be relied upon
  - Identify key user controls to be assessed/tested
  - Inquire, observe, walkthrough processes and key controls
  - Begin developing internal control communication to those charged with governance
  - Over-reliance on SOC Reports
  - Lack of appropriate oversight of 3rd parties
  - Missing or poorly designed controls
  - Well designed, but poorly implemented control procedures

Service Organizations
Reliance on SOC 1 reports
Often organizations have multiple reports
- Separate reports for IT controls
- Separate reports for subservice organizations
Complimentary user entity controls (CUECs)
- Evaluating which ones are relevant
- Auditing the operating effectiveness
Evaluating modifications to the reports
Management’s use of SOC 1 reports
- Assessing overreliance – potential control weakness?
Restricted use of SOC 1 reports
- Need to be received directly from service organization
Best Practices

Team meeting to assess risk and design approach
- Should include the entire team
- Identify risk areas
  - Critical thinking essential – discuss what could go wrong
  - Assess potential fraud risks
- Evaluate controls and potential controls reliance
  - Plan tests of controls, as necessary
- Design audit approach to address specific risks identified above
  - Document approach, develop audit programs, make selections
- Assign responsibilities based on complexity and experience
  - Establish timetable for fieldwork
  - Completion of audit work, supervisory review, etc...
  - Delivery of audit report and required communications

Communication & coordination – Round 2
- Meet with the client to discuss the plan
  - Provide selections for testing
    - Now that the risk assessment is complete
    - Set appropriate expectations of the respective teams
    - Auditor/sponsor/other third parties
    - Establish a workable timetable that considers vacations/holidays – and have all parties commit to it
- Treat your team to a cocktail because you’ve done a great job planning the engagement

From Planning Stage Discussions
- Determination of what procedures can be done differently
- Any procedures performed last year that can be reduced or eliminated?
- Audit programs are not a substitute for creative thinking

From Risk Assessment Procedures
- Audit response should closely correspond to risks identified
- Continuous process of identifying risks
  - AICPA Audit & Accounting Guide
  - Chapters 5-9 suggest relevant assertions and “what could go wrong” for each key audit area

Improving Audit Efficiency
Improving Audit Efficiency

Out in the field
- Don’t start those workpapers yet!
  - Top-level work should be done first
- Discussions with management and governance may change the direction of the audit
- Gather all new or updated documents, contracts, etc.
- Read and understand the plan document
- Review the list of related parties, parties-in-interest
- Perform walkthroughs of key processes
  - Contributions/payroll
  - Benefit distributions
  - Investment transactions
  - Expenses

Identify key controls when gathering information through these initial fieldwork procedures
- AICPA Audit & Accounting Guide for Employee Benefit Plans Appendix B – Examples of Controls

Read the SOC 1
- Watch for exceptions, carve-outs
- For limited-scope audits, a SOC 1 for the trust department (regarding investment transaction services) is not necessary
  - Unless also providing services such as processing participant-level transactions
- EBPAQC SOC 1 Tool

Supervising the Audit – Best Practices
- Give detailed instructions to staff!
  - Avoid “black hole” of time to clear review notes
- Help prioritize the audit approach
  - Tackle the more complex areas early in fieldwork
- Monitor progress – check in with staff AND client
Improving Audit Efficiency

**Documentation Best Practices**
- If it’s not documented, it’s not done!
- Everything serves to support auditor’s opinion
- Basis of selection
- Relevant plan design areas
- Audit evidence obtained
- Nature and extent of exceptions (and actions taken to address)
- Conclusions reached
- Audit programs
  - Step sign-offs are not sufficient documentation of procedures performed

Best Practices – Participant Data

**Common audit deficiencies include:**
- Insufficient payroll testing
- No work performed
- Failure to test participant eligibility
- Failure to test allocations to participant accounts

**Key audit considerations:**
- Demographic data (birth date, hire date, etc.)
- Payroll data
- For DB plans – test data used for actuarial calculations
- Allocation testing – allocations to participant accounts
- Reconciliation of sum of participant accounts to total assets available for benefits
- Use of SOC 1 reports to reduce (not eliminate) testing

Best Practices – Investments

**Common audit deficiencies include:**
- Failure to test year end asset values
- No audit work performed
- Inappropriate reliance on SOC 1 reports
- Insufficient audit work performed

**Key audit considerations:**
- Testing of year end values for plan investments
- Sample of purchases and sales transactions
  - Review for proper authorization, pricing, gain/loss
- Testing of income
- Limited-scope audits – obtain proper certification
- Participant loans – properly authorized and re-payments being made
Best Practices - Contributions

- Common audit deficiencies include:
  - Insufficient audit work performed
  - No audit work performed
  - Failure to test accuracy of contributions
  - Compensation defined by plan
  - Failure to test timeliness of participant deferrals

- Key audit considerations:
  - Reconciliation of eligible compensation
  - Testing of salary deferrals, matching, discretionary contributions
  - Testing of forfeitures
  - Recomputation of contribution amounts
  - Allocations to participants, investment options
  - Timeliness

Best Practices – Parties-in-Interest

- Common audit deficiencies include:
  - Insufficient audit work performed
  - No audit work performed

- Key audit considerations:
  - Identification – every plan has parties-in-interest
  - Inquiries of plan management
  - Review of documents such as meeting minutes, correspondence, invoices, accounting records
  - Delinquent participant deferrals are considered prohibited transactions

Best Practices – Benefit Payments

- Common audit deficiencies include:
  - No audit work performed
  - Inappropriate reliance on SOC 1 reports
  - Insufficient audit work performed

- Key audit considerations:
  - SOC 1 may provide assurance on service provider controls over the valuation of benefit payments
  - SOC 1 may not test controls over whether the benefit payment was based on the provisions of the plan
Best Practices – Welfare Plan Benefit Payments

- Common audit deficiencies include:
  - No audit work performed
  - Insufficient audit work performed
  - No audit program
  - Insufficient sample size

- Key audit considerations:
  - Testing for validity of payments
  - Eligible participants receiving benefits
  - Accuracy of payments