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As 401k Audit Season Starts, Sponsors Face Tougher Standards

NEW YORK--(BUSINESS WIRE)--June 12, 2008--July is vacation time for many executives, but a busy time for 401k plan sponsors, who face a July 31st deadline for submitting an audited 401k plan financial statement with their Form 5500 to the federal government. This year, they'll be busier than ever. Auditors will be asking more questions and requesting more documentation because new, stricter audit standards, known as the "risk assessment standards," now are effective for employee benefit plan audits for periods beginning on or after Dec. 15, 2006. This year, auditors are required to look at the plan sponsor as well as the plan, and the audit process will last longer and demand more management time.

Previously, auditors focused primarily on the books of the 401k plan, examining whether plan transactions and the balance sheet were sound. But now, the auditors are required to look beyond the books and judge whether management would be likely to make a material misstatement on its financial documents. "Basically, we are searching for clues that internal controls are weak or that management is operating in a difficult business environment," explains Joseph Musher, CPA, a senior partner at Buchbinder Tunick & Co., which devotes more than half of its practice to employee benefit plans. "It's a lesson from Enron: the books were balanced, but if you had looked at the company itself, you would have seen the risk and planned the audit accordingly."

Mark Newman, CPA, a senior partner with Buchbinder Tunick & Co., adds, "While many conscientious accounting firms traditionally have practiced good 401k plan audit methodology, now the AICPA has gone one step further to specifically spell out procedures for all auditors to follow." He also points out that the AICPA's "Statements of Auditing Standards" (SAS 104 – 111) call for thorough documentation of the audit, and the plan sponsor can face financial penalties if the audit is deemed deficient because documentation was incomplete.

Tips

Your 401k plan audit will be longer, more demanding, and expensive this year, but these tips will help make the process smoother.

1. START EARLY

The 401k plan audit will take longer. You'll be answering many new questions and substantiating your statements, so build in extra time.

2. REVIEW NEW REQUIREMENTS BEFORE THE AUDIT BEGINS

Your auditors should request a meeting to review the new requirements before the engagement starts. They can advise you on what documentation they'll need and how to assemble your internal team to manage the audit.

3. DETERMINE IF YOUR AUDITOR IS TRAINED IN THE NEW STANDARDS

To expedite the process and reduce the fee, use an auditor who has been trained in the new standards. Firms that belong to the AICPA Employee Benefit Plan Audit Quality Center are obligated to provide regular training to the employee benefit plan audit team.

4. RELY ON EXPERIENCED EMPLOYEE BENEFIT PLAN AUDITORS

The sheer magnitude of new audit requirements may overwhelm an auditor that does not perform employee benefit plan audits on a regular basis. The Department of Labor reports the primary reason audits are found to be deficient is because the auditor wasn't experienced.

About Buchbinder Tunick & Co.

More than half of Buchbinder Tunick & Company' s practice is devoted to employee benefit plans, serving clients nationwide from our offices in New York and suburban Washington, DC.