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Accounting

DOL Says Planning 'Key' to Complying With Section 401(k) Audit Standards

Adequate planning is the "key" to comply with tax code Section 401(k) plan audits, the Department of Labor told BNA June 19.

The New York-area accounting firm Buchbinder Tunick & Co. told BNA June 19 that as the Section 401(k) audit season starts, plan sponsors face tougher audit standards.

The firm noted that July 31 is the deadline for submitting an audited Section 401(k) plan financial statement with the Form 5500 Annual Return/Report of Employee Benefit Plan, and offered tips to help make the process smoother.

Citing the American Institute of Certified Public Accountants Statements of Auditing Standards, Risk Assessment Standards, SAS 104 -111, Buchbinder Tunick said AICPA has specifically spelled out procedures for all auditors to follow, pointing out that SAS 104 - 111 calls for thorough documentation of the audit. The firm also said the plan sponsor can face financial penalties if the audit is deemed deficient because documentation was incomplete.

According to Buchbinder Tunick, auditors previously focused on the books of the Section 401(k) plan, examining whether plan transactions and the balance sheet were sound. But now, auditors are required to look beyond the books and judge whether management would be likely to make a material misstatement on its financial documents.

Auditors should search for clues that internal controls are weak or that management is operating in a difficult business environment, according to the firm.

The Labor Department acknowledged that complying with these rules will take more time than in the past but said the employee benefit plan community will be better served.

Joseph Musher, certified public accountant and senior partner with Buchbinder Tunick, told BNA June 19 that "it's better to file for an extension than to submit a deficient audit and Form 5500 by July 31. An extension will give you until Oct. 15" to file.

'Heightened Awareness.' Auditors, pursuant to the new risk assessment standards, must maintain a "heightened awareness" of the environment in which plans operate, the Labor Department said. It added that during these challenging times for businesses and their employees, auditors will be paying heightened attention to the possibilities of fraud and the appropriateness of participant loans, hardship withdrawals, and forfeitures, as examples.

Additionally, according to the department, auditors must formally communicate in writing to those charged with the governance of plans any material weaknesses and significant deficiencies in the plans' operational procedures and control structure.

Auditors also are required to make greater efforts toward helping their clients understand the auditors' planned approach and key findings, the department said. Among other benefits, this two way communication will help clients to be better prepared for the upcoming audit season.

Tips for Smoother Process. While the Section 401(k) plan audit will be longer, more demanding, and expensive this year, these tips may help make the process smoother, Buchbinder Tunick suggested.

- *Start early*: The audit will take longer. Many new questions will need to be answered and substantiating statements will be needed. Build in extra time for the audit.
- *Review new requirements before the audit begins*: Auditors should request a meeting to review the new requirements before the audit starts. They can provide advice on what documentation will be needed and how to assemble an internal team to manage the audit.
- *Determine if the auditor is trained in new standards*: To expedite the process and reduce the fee, an

auditor should be used 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.

■ *Rely on experienced employee benefit plan auditors*: The scope of new audit requirements may overwhelm an auditor that does not perform employee benefit plan audits on a regular basis. Audit deficiencies may result from inexperienced auditors.

Brian H. Graff, executive director and chief executive officer of the American Society of Pension Professionals and Actuaries, told BNA June 19 that it is ''very important to hire an auditor that has been dealing with qualified audits for some time. It is probably the most important thing to consider when choosing a firm to audit a plan.''

Additional Tips. In addition to the tips suggested by Buchbinder Tunick, the Labor Department emphasized to BNA that plan administrators must make sure their plans can be audited. This means their plans' records have to be in order and up-to-date.

Also, according to the department, everyone involved with the operation of the plans, from human resources personnel and boards of trustees to third party service providers, must be available to answer questions and provide information while the audits are in progress. This should help to hold costs down, it said.

Buchbinder Tunick is a New York-area accounting firm whose clients include employee benefit plans. AICPA, New York, is a national professional association of certified public accountants that establishes, monitors, and enforces professional standards.

By Michael W. Wyand

Information on how AICPA's new risk assessment standards will affect plan sponsors is at http://www.buchbinder.com/html/news.htm. Click on ''As 401k Audit Season Starts, Plan Sponsors Face Tougher Standards.''