

PREFACE

This *Guide* tells how to audit an employee benefit plan. It combines discussions of authoritative requirements and specifically tailored practice aids to help the auditor audit effectively and efficiently in accordance with professional standards and the audit requirements of the Employee Retirement Income Security Act of 1974 (ERISA) and related Department of Labor (DOL) regulations. The *Guide* applies to defined benefit pension plans, defined contribution retirement plans, and health and welfare benefit plans.

These types of plans may differ in the kinds of benefits they provide or the way benefits are determined, but they generally share certain characteristics unique to employee benefit plans. The audit approach in this *Guide* takes into account the following unique characteristics:

- Receipt of contributions that are determined by provisions of a plan document or by actuarial calculations.
- Assets that are invested in a wide variety of securities, trust arrangements, insurance contracts, mortgages, derivatives, or real estate and that are usually invested, processed, and held by outside service organizations such as bank and insurance company trust departments.
- For defined benefit plans, obligations to pay benefits many years in the future, the amount of which must be estimated by actuarial methods.
- Necessity of complying with complex legal and tax requirements related to nondiscrimination in favor of highly compensated employees with respect to plan coverage, contributions, or benefits.
- Fiduciary responsibility to invest plan assets in a prudent and diversified manner for the exclusive benefit of plan participants.
- Responsibility not to engage in certain transactions that are legally prohibited.
- Use of fair value in the plan financial statements.
- Audit and reporting requirements imposed by ERISA, the DOL, and other government agencies that may review audit reports and workpapers and can fine plan administrators if deficiencies are found and not corrected in a timely manner.

These characteristics and others mean that the plan auditor may need to give attention to internal controls of service organizations that invest, process, or hold plan assets or provide other services for the plan and may need to obtain a service auditor's report on controls at service organizations. The auditor may also have to make use of a specialist in auditing plan asset values or benefit obligations. Audit emphasis must also be placed on plan controls for adhering to nondiscrimination, fiduciary, and other provisions of the plan document, laws, or regulations and for preventing and reporting prohibited transactions. However, it can be difficult to gain an understanding of, or test, plan controls or transactions because the related authority and records may be dispersed among several employers, trustees, specialists, or service organizations. The audit approach, programs, and other practice aids in this *Guide* recognize these characteristics and needs. The audit programs and other practice aids help the auditor determine if, and how, to make use of a specialist or service auditor's report. Further, the audit programs clearly identify program steps required for an ERISA Section 103(a)(3)(C) audit and those for a non-Section 103(a)(3)(C) audit. These features help the auditor to perform those steps, but only those steps necessary for a particular audit engagement.

The AICPA's peer review program requires that at least one employee benefit plan engagement be selected for review if the firm performs such audits. *PPC's Guide to Audits of Employee Benefit Plans* will help auditors perform effective audits that would pass such a review.

A key consideration of these practice aids is the use of an audit approach that is predicated on the identification and assessment of risks of material misstatement and the development of further audit procedures that are responsive to those assessed risks. This approach allows the auditor to concentrate audit effort on those areas in the financial statements where there is a higher risk of material misstatement and, accordingly, limit procedures in areas of lower risk.

Relevant Standards and Interpretive Guidance Addressed by the *Guide*

Auditing Standards and Interpretive Guidance

The *Guide* addresses relevant auditing standards and interpretive guidance issued and effective by the Auditing Standards Board (ASB) of the AICPA through February 5, 2024.

Although not fully effective at the time of publication, the following auditing standard was issued before February 5, 2024 and is fully incorporated into the *Guide*, with extant guidance replaced:

- SAS No. 147, *Inquiries of the Predecessor Auditor Regarding Fraud and Noncompliance with Laws and Regulations*, is effective for audits of financial statements for periods beginning on or after June 30, 2023, and does not prohibit early implementation.

The following auditing standards were issued before February 5, 2024, are not yet effective at the time of publication, and are not fully incorporated into the *Guide*:

- SAS No. 146, *Quality Management for an Engagement Conducted in Accordance With Generally Accepted Auditing Standards*, is effective for engagements conducted in accordance with U.S. GAAS for periods beginning on or after December 15, 2025. The *Guide* provides an overview of SAS No. 146; however, the requirements of this standard have not been incorporated into this edition of the *Guide*. It is expected to be fully incorporated into a future edition of the *Guide*. SAS No. 146 does not prohibit early implementation.
- SAS No. 149, *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors and Audits of Referred-to Auditors)*, is effective for audits of financial statements for periods ending on or after December 15, 2026. While this *Guide* provides a brief description of SAS No. 149, it does not address audits of group financial statements.

The *Guide* also addresses the following interpretive guidance and regulations related to audits of employee benefit plans issued through February 5, 2024:

- AICPA Audit and Accounting Guide, *Employee Benefit Plans*, as of August 1, 2023.
- The Department of Labor's Rules and Regulations for Reporting and Disclosure under ERISA.

Compilation Standards and Interpretive Guidance

This *Guide* addresses relevant compilation standards and interpretive guidance issued and effective by the Accounting and Review Services Committee (ARSC) of the AICPA through February 5, 2024.

The following compilation standard was issued before February 5, 2024, is not fully effective at the time of publication, and is not fully incorporated into the *Guide*:

- SSARS No. 26, *Quality Management for an Engagement Conducted in Accordance With Statements on Standards for Accounting and Review Services*, is generally effective for engagements performed in accordance with SSARSs for periods beginning on or after December 15, 2025. The *Guide* provides an overview of the provisions of SSARS No. 26; however, the requirements have not been incorporated into this edition of the *Guide*. It is expected to be fully incorporated into a future edition of the *Guide*. SSARS No. 26 does not prohibit early implementation.

This *Guide* also addresses the AICPA Guide, *Preparation, Compilation, and Review Engagements*, as of September 1, 2023.

Accounting Standards

The primary focus of the *Guide* is on engagement standards rather than accounting standards; however, it does provide relevant industry accounting guidance. In addition, accounting standards with disclosure requirements are included in the Disclosure Checklist (EBP-CX-13).

This *Guide* addresses relevant accounting standards issued and effective by the Financial Accounting Standards Board (FASB) through February 5, 2024, and up to FASB Accounting Standards Update (ASU) No. 2023-09, *Income Taxes (Topic 740): Improvements to Income Tax Disclosures*.

Although not fully effective at the time of publication, the following relevant accounting standards were issued before February 5, 2024, and dual guidance is provided:

- ASU No. 2022-03, *Fair Value Measurement (Topic 820): Fair Value Measurement of Equity Securities Subject to Contractual Sale Restrictions*, is effective for fiscal years beginning after December 15, 2024, and interim periods within those years. Early adoption is permitted for financial statements that have not been made available for issuance.
- ASU No. 2023-08, *Intangibles-Goodwill and Other Crypto Assets (Subtopic 350-60): Accounting for and Disclosure of Crypto Assets*, is effective for fiscal years beginning after December 15, 2024, including interim periods within those years. Early adoption is permitted for financial statements that have not been made available for issuance.

Policy for Updating the Quality Control Materials Content

Thomson Reuters updates *PPC's Guide to Audits of Employee Benefit Plans* annually and generally releases a new edition each spring to reflect changes in standards and interpretive guidance, content enhancements, and the corrections of minor errors not previously updated. The *Guide* referenced herein was completed on February 5, 2024, and no changes have been made to this specific edition of the *Guide* since then.