

Stem audit fee escalation

How to keep your benefit plan audit fees down in a changing environment **Interviewed by Leslie Stevens-Huffman**

New audit standards go into effect this year for companies that have employee benefit plans subject to the Employee Retirement Income Security Act (ERISA), and who have 100 or more eligible participants. For many CEOs, audit fee increases will seem inevitable. But the audit tab doesn't have to be significantly higher, according to Jennifer Cavender, audit manager for Audit and Business Advisory Services Group at Haskell & White LLP.

"Keeping your benefit plan audit fees down can be done if you're willing to plan ahead and dedicate a little extra time to the process," she says. "Many times, companies are billed additional audit fees above their engaged fee because of delays in the process or additional work that was not anticipated at the front end."

Smart Business spoke with Cavender about the audit requirements for employee benefit plans and what CEOs can do to manage the cost.

When is a benefit plan financial statement audit required?

Generally, a plan is required to include audited financial statements with its Form 5500 filing if it has more than 100 eligible participants at the beginning of a plan year. This is an area where many companies have gotten into trouble in the past because they assume that they only need to include plan participants with account balances in the employee calculation, when, in fact, the calculation includes those who could participate but choose not to. A company that is moving in and out of the 100 eligible participant requirement should contact an accountant and legal adviser to analyze its status and determine whether an audit is necessary for their Dec. 31, 2007, plan year.

What are the audit changes effective for plans with a fiscal year ending Dec. 31, 2007?

The new audit procedures require auditors to really focus on the risks of the plan financial statements being misstated. In order to understand the plan's risks, we must understand the plan's internal control environment and the specific activity level controls in



Jennifer Cavender
Audit manager
Audit and Business Advisory Services Group
Haskell & White LLP

place. We must also consider the fraud risks associated with the plan and its operations. Once we understand the intimate details of the plan and its internal control structure, we can plan an audit that is tailored to the risks for the plan. This should help auditors to focus on what is key to the plan and its financial statements.

This is an opportunity for companies to really get value out of the audit process. These new standards will equip your auditors with the necessary information to provide you with valuable feedback on how you can improve the operations and management of your plan and reduce fraud risks.

How should companies prepare for the audit in light of the new standards?

Planning for the audit is the most important thing a company can do to keep audit fees at bay. If you are a company that has just reached the threshold and will need an audit of your benefit plan for the first time, you will need to engage an independent CPA that has experience auditing benefit plans and obtain a list of what that person will need well in advance. Next, communicate with your asset

custodian and third-party administrator because these people will be furnishing most of the information for the audit. Maintaining a good relationship with them throughout the course of the year is vital because if you've forgotten something and need them to send additional documentation once the auditor arrives, they'll be more responsive. Also, a good third-party administrator will keep your company informed about legal requirements throughout the course of the year and will help you meet the Form 5500 requirements on an ongoing basis. Last, companies need to have their internal controls well documented for the auditor in the form of narratives, flow charts or matrices.

What is the most important thing to remember when working with the auditor?

Start early. Benefit plan audits take a little longer than business audits because there are multiple parties involved and the asset custodians can become overwhelmed during peak times when everybody is making requests for information. Also, assign a company point person to the auditor who can answer questions and furnish documentation quickly. This is key to keeping fees down. If the auditor has to talk to multiple people in order to obtain every requested item, delays and frustration will result.

Are there any other benefits to employers for having a benefit plan audited?

A benefit plan helps a company attract and retain key employees because it positions the company as an employer of choice in the marketplace. While the audit may seem costly and cumbersome, it can provide assurance to the employees that their money is being handled correctly and responsibly. Consider sending an e-mail or a letter to your employees each year, letting them know that the audit has been completed by an independent CPA firm and that no irregularities were found; then thank them for their loyalty and hard work. By taking this extra step, CEOs can demonstrate good will toward their employees through the audit process. <<

JENNIFER CAVENDER is an audit manager for the Audit and Business Advisory Services Group at Haskell & White LLP. Reach her at jcavender@hwcpa.com or (949) 450-6200.

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