

Preparing for Your Employee Benefit Plan Audit

What You'll Need for Your Employee Benefit Plan Audit

- Payroll report
- Access to personnel files
- Listing of all employees
- Reconciliation of employee withholding per payroll reports to plan records
- Plan census (plan participants' activity for the year)
- Listing of participant loans
- Listing of distributions
- Listing of rollovers
- Form 5500
- Discrimination testing results
- Plan documents, amendments
- Certification statement from qualified institution
- Memo of internal controls related to plan
- Committee meeting documentation (minutes, etc.)

How to Choose the Right Auditor

- Experience and professional development
- Employee benefit plan audit experience and continuing professional education
- Identifying quality audit firms
- Peer review results
- Memberships such as [Employee Benefit Plan Audit Quality Center \(EBPAQC\)](#)

- Firms that are members of EBPAQC are required to establish higher standards of audit quality in their policies and procedures specific to the practice area
- Obtain references

Independence

- CPA professional standards require that the auditor be independent for purposes of auditing financial information and issuing an auditor's report on the financial statements.
- The auditor's independence is essential for a successful audit because it enables him or her to approach the audit with the necessary professional skepticism.
- Independent auditors must adhere to rules of auditor independence established by the AICPA (and the SEC and the Public Company Accounting Oversight Board, if applicable).

Licensing

- Federal law requires that an auditor engaged for an employee benefit plan audit be licensed or certified as a public accountant by a State regulatory authority



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Changes in Form 5500 May Benefit Small Businesses

Several changes were recently made in the requirements for filing IRS Form 5500 or the simpler Form 5500-SF (Short Form Annual Return/Report of Small Employee Benefit Plan). One of the changes is an adjustment in the counting methodology of plan participants, and it may offer some relief to sponsors of smaller benefit plans.

Form 5500 must be filed annually by companies that sponsor certain types of employee benefit plans with 100 or more eligible participants, subject to the “80-120 rule.” The sponsor must also have the plan audited annually and file an independent qualified public accountant (IQPA) report with their Form 5500 returns. Plans with fewer than 100 eligible participants are typically allowed to file Form 5500-SF, a simplified short form version that does not require an independent plan audit.

The “80-120 participant rule” allows certain plans that would otherwise be considered large to continue to file as “small plans” and use the simpler Form 5500-SF, Short Form Annual Return/Report of Small Employee Benefit Plan. Under the 80-120 participant rule, if a sponsor filed as a small plan last year and the number of plan participants is fewer than 121 at the beginning of the next plan year, it may continue to follow the Form 5500-SF requirements for that year.

The key phrase here is “eligible participants,” as any employee who *might* enroll in the plan was previously counted, even if they did not actually participate. However,

a recent change to the Form 5500 filing rules may provide some relief for smaller businesses whose plans have fewer than 100 participants. Starting on January 1, 2023, only participants with a plan balance will count toward the plan’s head count. Previously, any eligible individual had to be included in the plan count, whether they participated or not. In some cases, this “any eligible person” rule pushed a smaller plans employee count over the 120-person threshold and required a plan sponsor to file the more complicated Form 5500. The new rule now counts only active participants who have a balance in the plan on the first day of the plan year toward the head count.

This is good news for many smaller businesses who have been on the cusp of exceeding the 120 “eligible participants” level, as they may continue to report using Form 5500-SF.

For additional details and assistance please contact us at (781) 407-0300.



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