New Plan Audit Standards Shift Burdens to Plan Fiduciaries

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In an effort to address shortcomings in auditing procedures and reporting raised by the DOL, in July 2019, the Auditing Standards Board of the American Institute of Certified Public Accountants issued a revised Statement on Auditing Standards No. 136 entitled, "Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA" ("***SAS 136***"). SAS 136 applies to plan financial statement periods ending on or after December 15, 2021.

The updated audit standards imposed by SAS 136 add new audit procedures and significantly shift the burden for producing many plan-related documents to the plan sponsor. The new requirements will make it essential for plan sponsors to be able to produce quality, error-free records that demonstrate compliance in areas like compensation, deferrals, distributions, and vendors' fees. Even before these new standards went into effect, it was often difficult for plan sponsors to produce such documentation, particularly when it had to be obtained from third parties, such as administrators or tax-deferred annuity providers in the case of 403(b) plans. The shift in reporting obligations imposed by SAS 136 may prove to make obtaining a clean plan audit even more challenging.

The new audit standards prescribed by SAS 136 are important because, in general, tax-qualified retirement plans with 100 or more participants are required to submit an audit issued by an Independent Qualified Public Accountant with the plan's Form 5500 annual report. If a plan subject to the audit requirement files a Form 5500 without an audit, the Form 5500 will be rejected by the DOL. Because of the additional reporting and disclosure obligations created by SAS 136, it is more important than ever for plan sponsors to start the plan audit process early and ensure they have implemented good payroll procedures and are maintaining quality plan records.

SAS 136 is available here.