DOWNEY & COMPANY, LLP

Selecting an Auditor

Federal law requires employee benefit plans with 100 or more participants to have an audit as part of their obligation to file an annual return/report (Form 5500 Series) with some exceptions. If your plan is required to have an audit, one of the most important duties of the plan administrator is to hire an independent and qualified public accountant. When selecting an auditor, the plan administrator should consider the following:

<u>Ensure the auditor is licensed</u>

Federal law requires that an auditor engaged for a plan audit be licensed or certified as a public accountant by a state regulatory authority. When engaging an auditor, you may wish to discuss the auditor's work for other 401(k) clients. If you have additional questions, you may also wish to verify with the appropriate state regulatory authority that the potential auditor holds a valid, up-to-date license or certificate to perform auditing services.

<u>Ensure the auditor is independent</u>

Auditors should not have any financial interests in the 401(k) plan or in the plan sponsor which would affect their ability to render an objective, unbiased opinion about the financial condition of the plan.

<u>Ensure the auditor has experience with employee benefit plans</u>

One of the most common reasons for deficient accountant's reports is the failure of the auditor to perform tests in areas unique to employee benefit plan audits. The more training and experience that an auditor has, the more familiar the auditor will be with plan practices and operations, as well as the special auditing standards and rules that apply to such plans.

In some instances, a less experienced auditor may be assigned to perform routine audit procedures in order to reduce audit costs. When this happens, you should confirm that an experienced employee benefit plan auditor will review his/her work, as well as perform the more complicated audit procedures.

<u>Ensure you select a quality auditor</u>

A quality audit will help protect the assets and the financial integrity of your plans and ensure that the necessary funds will be available to pay retirement, health, and other promised benefits to your employees. Also, a quality audit will help you carry out your legal responsibility to file a complete and accurate annual return/report for your plan each year. An incomplete, inadequate or untimely audit report may result in penalties being assessed against you as the plan's administrator. For these reasons, the selection of an experienced and reliable auditor is very important.

<u>Other Considerations</u>

Ask the potential auditor if they are a member of the AICPA's Employee Benefit Plan Audit Quality Center. The center is a national community of CPA firms that demonstrate a commitment to employee benefit plan audit quality and is designed to raise awareness about the importance of ERISA audits. Membership in the AICPA's Employee Benefit Plan Audit Quality Center enables members to access a wealth of comprehensive resources to assist in providing high quality employee benefit plan audits.

In addition, members of the Employee Benefit Plan Audit Quality Center are committed to adhering to the highest quality standards by voluntarily agreeing to the rigorous membership requirements, which include designating a partner responsible for the employee benefit plan practice, establishing quality control programs, performing annual internal inspection procedures, and making peer review report findings publicly available.

For more information on employee benefit plans, please contact Paul McGovern at pmcgovern@downeycocpa.com.

Our website has been refurbished. Please visit our new website at www.downeycocpa.com.