University of Mississippi

eGrove

Industry Guides (AAGs), Risk Alerts, and Checklists

American Institute of Certified Public Accountants (AICPA) Historical Collection

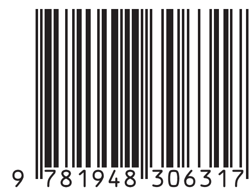
2018

Employee benefit plans industry developments - 2018; Audit risk alerts

American Institute of Certified Public Accountants (AICPA)

Follow this and additional works at: https://egrove.olemiss.edu/aicpa_indev

Part of the Accounting Commons



9 781948 306317

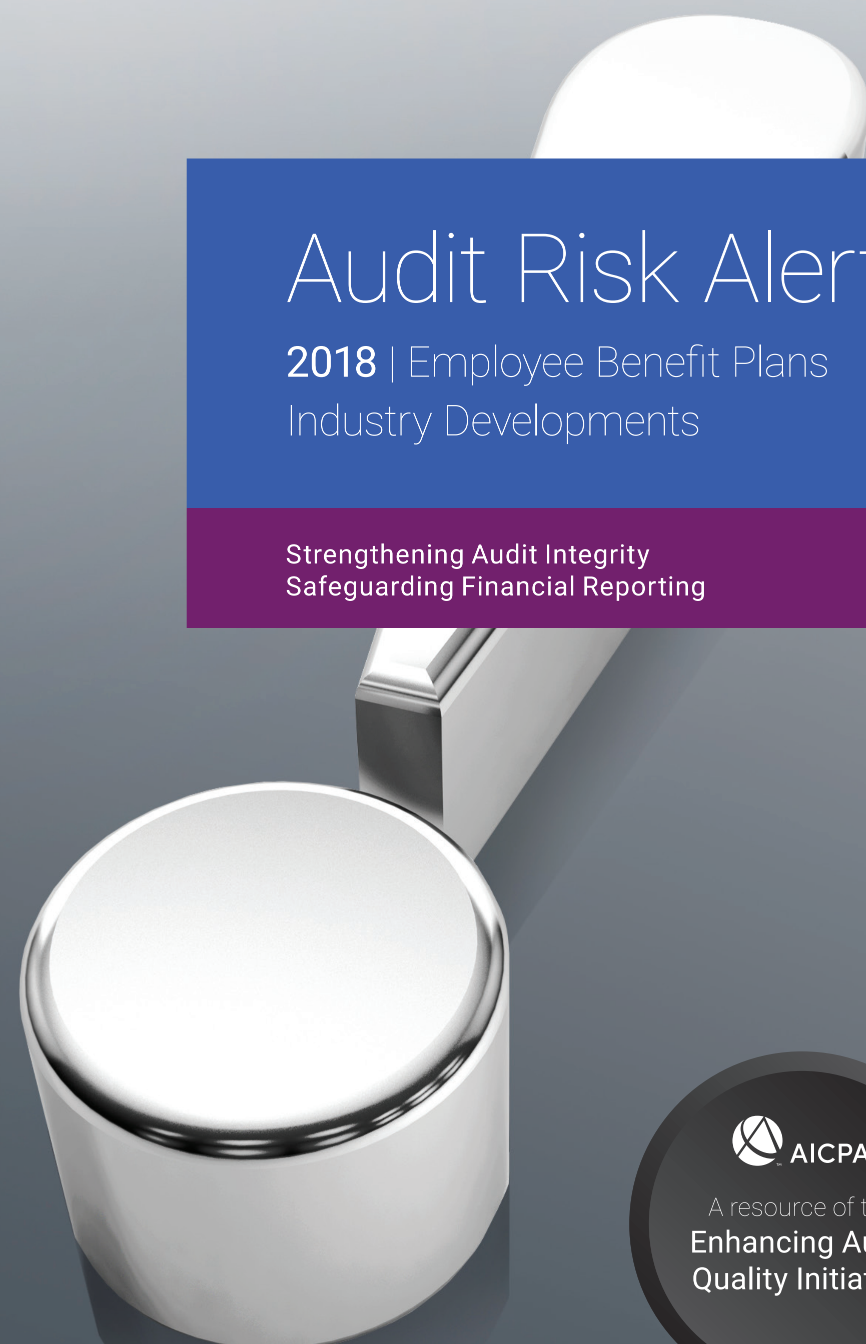
ARAEBP18P

aicpa.org | AICPAStore.com

Audit Risk Alert

2018 | Employee Benefit Plans Industry Developments

Strengthening Audit Integrity
Safeguarding Financial Reporting

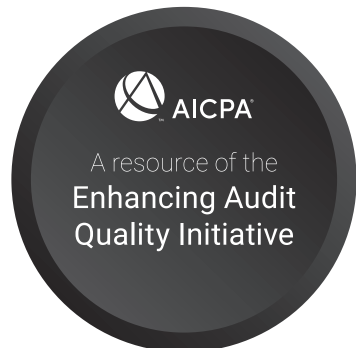


ARA-EPB-Cover.indd All Pages 23/03/18 2:27 PM

Audit Risk Alert

2018 | Employee Benefit Plans Industry Developments

Strengthening Audit Integrity
Safeguarding Financial Reporting



23574-349

ARA-EPB-Title.indd 1 23/03/18 2:27 PM

Copyright © 2018 by
Association of International Certified Professional Accountants. All rights reserved.

For information about the procedure for requesting permission to make copies of any part of this work, please email copyright@aicpa.org with your request. Otherwise, requests should be written and mailed to Permissions Department, 220 Leigh Farm Road, Durham, NC 27707-8110.

1 2 3 4 5 6 7 8 9 0 AAP 1 9 8

ISBN 978-1-94830-631-7

ARA-EBP-Copyright.indd 1 4/19/18 12:55 PM

Notice to Readers

This Audit Risk Alert (alert) replaces *Employee Benefit Plans Industry Developments—2017*.

This alert is intended to provide auditors of employee benefit plan financial statements with an overview of recent economic, industry, regulatory, and professional developments that may affect the audits and other engagements they perform. It also can be used by plan management and plan sponsors to address areas of audit and accounting considerations.

This publication is an *other auditing publication,* as defined in AU-C section 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance With Generally Accepted Auditing Standards*.[1] *Other auditing publications* have no authoritative status; however, they may help the auditor understand and apply generally accepted auditing standards.

In applying the auditing guidance included in an *other auditing publication*, the auditor should (using professional judgment) assess the relevance and appropriateness of such guidance to the circumstances of the audit. The auditing guidance in this document has been reviewed by the AICPA Audit and Attest Standards staff and published by the AICPA and is presumed to be appropriate. This document has not been approved, disapproved, or otherwise acted on by a senior technical committee of the AICPA.

Recognition

2018 Employee Benefit Plan Audit Risk Alert Task Force

Bertha Minnihan, *Task Force Chair*
Mark Blackburn
Eileen Brassil
Michelle Buckley
Sandi Carrier
Greg Clark
Kriste DeAngelo
Andrea Dudek
Monique Elliott
Judy Goldberg
Josie Hammond
Chip Harris
Marilee Lau
David Leising
Kathleen McLaughlin
Stacy Meyer
Dennis Polisner
Deborah L. Smith
Beth Thompson
David Torrillo
Diane M. Walker
Diane M. Wasser
Michele M. Weldon

The AICPA gratefully acknowledges those members of the Auditing Standards Board, the AICPA Technical Issues Committee, and the AICPA Employee

[1] All AU-C sections can be found in AICPA *Professional Standards*.

Benefit Plans Audit Risk Alert Task Force who helped identify the interest areas for inclusion in this alert. The AICPA also gratefully acknowledges the contributions of the Office of the Chief Accountant, the Employee Benefits Security Administration, and the U.S. Department of Labor.

AICPA Staff
Weiwei Tang
Manager
Product Management and Development—Public Accounting

Feedback

The Audit Risk Alert *Employee Benefit Plans Industry Developments* is published annually. As you encounter audit or industry issues that you believe warrant discussion in next year's alert, please feel free to share them with us. Any other comments you have about the alert also would be appreciated. You may email these comments to A&APublications@aicpa.org.

 ©2018, Association of International Certified Professional Accountants

TABLE OF CONTENTS

Paragraph

Employee Benefit Plans Industry Developments—2018 .01-.191
How This Alert Helps You .01-.03
Economic and Industry Developments .04-.09
The Current Economy .04-.09
Hot Topics .10-.20
Cybersecurity .10-.15
Auditing Standards Board Employee Benefit Plan Auditor Reporting Project .16-.20
Accounting Issues and Developments .21-.37
Direct Versus Indirect Investment in Fully Benefit-Responsive Investment Contracts .21
Readily Determinable Fair Value .22-.24
ASU No. 2015-07, Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent) .25-.29
Disclosures When a New FASB Codification Update Is Issued .30-.31
ASU No. 2017-06, *Plan Accounting: Defined Benefit Pension Plans (Topic 960), Defined Contribution Pension Plans (Topic 962), Health and Welfare Benefit Plans (Topic 965): Employee Benefit Plan Master Trust Reporting (A Consensus of the Emerging Issues Task Force)* .32-.37
Auditing Issues and Developments .38-.50
Plan Sponsor System-Generated Information and Reports .38-.43
Use of Outside Service Provider System-Generated Information and Reports .44-.46
Trends in Legal Action .47-.50
Employee Benefit Plan Guide Update .51
Form 11-K Filers .52-.62
PCAOB AS 3101, *The Auditor's Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion* .52-.61
Other Amendments to PCAOB Standards .62
Auditing Interpretation No. 4 to AU-C Section 700 .63
Defined Benefit Pension Plans .64-.83
IRS Mortality Assumption Changes .65-.70
FASB ASC 960 Expected Long-Term Rate of Return .71-.76
Continued Adoption of Cash Balance Plans .77-.79
PBGC Premiums .80-.83
Health and Welfare Benefit Plans .84-.102
Economic and Demographic Assumptions .85-.98

©2018, Association of International Certified Professional Accountants

Paragraph

Employee Benefit Plans Industry Developments—2018—continued
Other Assumptions .99
Retiree Reimbursement Account or Arrangement .100-.102
Audit Quality .103-.118
AICPA Peer Review Enhanced Oversight Program—Findings That Led to Nonconforming Engagements .103-.108
Preparing for Peer Review .109-.113
Tools to Further Audit Quality .114-.118
Recent Pronouncements .119-.123
Recent Auditing and Attestation Pronouncements and Related Guidance .120
Recent Accounting Standards Updates .121
Recently Issued Technical Questions and Answers .122-.123
Regulatory Developments—DOL .124-.129
2017 Form 5500 Annual Report .124
The DOL Extends Transition Period for Fiduciary Rule Exemptions .125-.129
Regulatory Developments—IRS .130-.162
IRS Announces 2018 Pension Plan Limitations; 401(k) Contribution Limit Increases to $18,500 for 2018 .130-.133
Mortality Tables for Pension Plans Updated for 2018 .134-.136
Disaster Tax Relief For Retirement Plans .137-.138
Retirement Plans Can Make Loans and Hardship Distributions to Victims of Hurricanes Maria, Irma, and Harvey .139-.143
IRS Updates Procedures for Issuing Opinions on Preapproved Plans .144
IRS Issues New Guidance on Hardships .145-.150
Required Amendments From the IRS .151-.152
Tax Reform's Effect on ESOPs .153-.154
PBGC Expanded Missing Participants Program .155-.159
IRS Extends Relief to Frozen Defined Benefit Pension Plans .160.162
Regulatory Developments—Multiemployer Plans .163-.165
Multiemployer Pension Reform Act of 2014 Benefit Suspension .163-.165
On the Horizon .166-.170
Auditing and Attest Pipeline .168
Independence and Ethics Pipeline .169-.170
Employee Benefit Plan Resources .171-189
Employee Benefit Plan Audit Certificate Programs .172-.173
Publications .174
Continuing Professional Education .175-.176
Webcasts .177
Member Service Center .178

 ©2018, Association of International Certified Professional Accountants

Paragraph

Employee Benefit Plans Industry Developments—2018—continued
Hotlines .179-.180
Online Professional Library: Accounting and Auditing Literature .181
Codified Clarity Standards .182-.184
Financial Reporting Center of AICPA.org .185-.187
Industry Conferences .188-.189
Appendix A—Additional Internet Resources .190
Appendix B—Health and Welfare Plans .191

©2018, Association of International Certified Professional Accountants

How This Alert Helps You

.01 This Audit Risk Alert (alert) helps you plan and perform your employee benefit plan audits and can also be used by plan management and plan sponsors to address audit and accounting considerations. It provides information to assist you in achieving a more robust understanding of the business, economic, and regulatory environments in which your clients operate. This alert is an important tool to help you identify the significant risks that may result in the material misstatement of financial statements and delivers information about emerging practice issues and current accounting, auditing, reporting, and regulatory developments. For developing issues that may have a significant effect on the employee benefit plan industry in the near future, the "On the Horizon" section provides information on these topics.

.02 It is essential that the auditor understand the meaning of audit risk and the interaction of audit risk with the objective of obtaining sufficient appropriate audit evidence. Auditors obtain audit evidence to draw reasonable conclusions on which to base their opinion by performing the following:

- Risk assessment procedures
- Further audit procedures that comprise
  - — tests of controls, when required by generally accepted auditing standards (GAAS) or when the auditor has chosen to do so, and
  - — substantive procedures that include tests of details and substantive analytical procedures

.03 The auditor should develop an audit plan that includes, among other things, the nature and extent of planned risk assessment procedures, as determined under AU-C section 315, *Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement*.[1] AU-C section 315 defines *risk assessment procedures* as the audit procedures performed to obtain an understanding of the entity and its environment, including the entity's internal control, to identify and assess the risks of material misstatement, whether due to fraud or error, at the financial statement and relevant assertion levels. As part of obtaining the required understanding of the entity and its environment, in accordance with paragraph .12 of AU-C section 315, the auditor should obtain an understanding of the relevant industry, regulatory, and other external factors, including the applicable financial reporting framework. This alert assists the auditor with this aspect of the risk assessment procedures and further expands the auditor's understanding of other important considerations relevant to the audit.

Help Desk: See the new Audit Guide *Assessing and Responding to Audit Risk in a Financial Statement Audit* for further information regarding identifying high-risk audit areas. This Audit Guide can be obtained through www.aicpastore.com.

[1] All AU-C sections can be found in AICPA *Professional Standards*.

©2018, Association of International Certified Professional Accountants

Economic and Industry Developments

The Current Economy

General Discussion

.04 Recognizing that economic conditions and other external factors relevant to an entity and its environment constantly change, it is important for auditors to evaluate whether changes have occurred since the previous audit that may affect their reliance on information obtained from their previous experience with the entity. These changes may affect the risks and risk assessment procedures applicable to the current year's audit.

.05 When planning an audit, auditors need to understand the economic conditions facing the industry in which an entity operates, as well as the effects of these conditions on the entity itself. These external factors—such as interest rates, availability of credit, consumer confidence, overall economic expansion or contraction, inflation, and labor market conditions—are likely to have an effect on an entity's business and, therefore, its financial statements. Regulatory changes and updates to accounting, auditing, and reporting standards can also have an effect on the current year's audit. Considering the effects of external forces on an entity is part of obtaining an understanding of the entity and its environment.

.06 The year 2017 was marked by steadily increasing employment rates, lackluster wage growth, and an increase in long-term interest rates. The U.S. stock market continued to hit record high levels despite a number of hurricanes, wildfires, and other natural catastrophes that made 2017 the most expensive year on record for natural disasters.

.07 At its December 2017 meeting, the Federal Reserve increased the target federal funds rate by 25 basis points, to a range of 1.25 percent to 1.50 percent, as it continues to scale back post-economic-crisis incentives amid strong growth and less unemployment. The challenge for the U.S. economy for 2018 will be continuous growth at a sustainable pace while deterring higher-than-normal inflation.

Employee Benefit Plan Considerations

.08 Part of obtaining an understanding of the entity and its environment is considering how external forces affect an employee benefit plan. This consideration allows the auditor to plan and perform the audit to address risks identified. Gaining a new perspective with each audit is helpful because economic conditions and trends in the employee benefit plan industry may create additional risks of material misstatement that did not previously exist or did not have a material effect on the audit of the employee benefit plan in prior years.

.09 The following are trends or events that have occurred over the past few years that may be important for auditors to consider when gaining an understanding of the industry, in light of the current economic environment:

- Increases in company mergers, spin-offs, and acquisitions causing significant plan transfer activity and potential missing participant data

 ©2018, Association of International Certified Professional Accountants

- Continued downsizing of companies leading to a full or partial plan termination
- Increases in auto enrollment and escalation features in defined contribution (DC) plans adding to changes in operational risks as well as potential missing participant data
- Increases in hardship withdrawals and participant loans as a result of economic conditions in areas affected by the natural disasters
- Release of the Society of Actuaries (SOA) "Mortality Improvement Scale MP-2017," which reflects an increase in age-adjusted U.S. population mortality rates
- Release of updated Static Mortality Table by the IRS for minimum-funding purposes
- Increases in lump-sum buy-out windows offered to terminated vested participants or other de-risking strategies to reduce obligations for defined benefit plans
- Increase in legal action and settlements involving the appropriateness of investment offerings and fees, resulting in fiduciary and nonexempt transaction considerations
- Changes to plan investment options and fee arrangements, as plan sponsors consider the current economic conditions and best practices in plan oversight
- Significant modifications to the determination letter program for individually designed plans, as well as changes to pre-approved plans by the IRS that combine the master and prototype and volume submitter programs into one program
- Participants working beyond their normal retirement date, requiring plan sponsors to monitor minimum-required distribution rules
- Increases in participant data breaches for benefit plans relating to cybersecurity risk
- Increases in employer wellness programs as preventative care to compliment traditional health and welfare (H&W) benefits

Hot Topics

Cybersecurity

.10 Since the last edition of this alert, cybersecurity continues to be one of the top issues on the minds of management and boards in nearly every company in the world—large and small, public and private. According to the report issued by the 2016 Advisory Council on Employee Welfare and Pension Benefit Plans (2016 Council), *Cybersecurity Considerations for Benefit Plans*,[2] cyber threats include data breaches whereby sensitive, protected, or confidential data have potentially been viewed, stolen, or used by someone unauthorized to do so. Individuals, organizations, and industries, including employee benefit plans and their service providers, are susceptible to cyber threats. Common cyber risks

[2] See https://www.dol.gov/sites/default/files/ebsa/about-ebsa/about-us/erisa-advisory-council/2016-cybersecurity-considerations-for-benefit-plans.pdf.

©2018, Association of International Certified Professional Accountants

to employee benefit plan participants include identity theft, privacy breaches, and theft of assets. The cost of a breach, which includes detecting the extent of the breach, recovering the data, and restoring technological systems, can be substantial.

.11 Cyber threats cannot be eliminated, but they can be managed. Employee benefit plans often maintain and share sensitive employee data and asset information across multiple unrelated entities as part of the employee benefit plan administration process. Because employee benefit plans are regulated by the Employee Retirement Income Security Act of 1974 (ERISA), it is important for anyone who interacts with the plan to be particularly aware of the effect that breaches have on participants and beneficiaries and the associated rights and duties of plan fiduciaries and service providers arising under ERISA.

Help Desk: When performing risk assessment procedures, it is important for auditors to consider risks related to cybersecurity threats that could affect the financial statements (for example, requiring disclosure and recording a loss contingency).

.12 Plan sponsors commonly have policies and procedures in place related to plan investments, conflicts of interest, and plan expenses, but they may not have a cybersecurity strategy for protecting the data or assets for their employee benefit plans. They may have a cybersecurity strategy for their business needs, but not a separate strategy for their employee benefit plans. Cybersecurity concerns for ERISA plans require special consideration because they are unique and differ from the business enterprise's issues.

.13 It is important for plan sponsors and fiduciaries to consider cybersecurity in safeguarding employee benefit plan data and assets, as well as when making decisions to select or retain a service provider. In the report, the 2016 Council recommended that the DOL provide information to plan sponsors, fiduciaries, and service providers to educate them on cybersecurity risks and potential approaches for managing these risks. The 2016 Council drafted a sample document titled "Employee Benefit Plans: Considerations for Managing Cybersecurity Risks" for the Department of Labor (DOL). See the "Regulatory Developments—DOL" section of this alert for more information.

Help Desk: To help organizations report on their cybersecurity risk management efforts, the AICPA has introduced a market-driven, flexible, and voluntary cybersecurity risk management reporting framework. As part of the reporting framework, the following two distinct but complementary sets of criteria were developed:

- *Description criteria*. For use by management in explaining its cybersecurity risk management program in a consistent manner and for use by CPAs to report on management's description
- *Control criteria*. Used by CPAs providing advisory or attestation services to evaluate and report on the effectiveness of the controls within a client's program

The use of common criteria enhances the comparability of entity-prepared communications about cybersecurity matters.

 ©2018, Association of International Certified Professional Accountants

.14 Since 1997, the AICPA has maintained a set of criteria used to evaluate and report on controls over the security, availability, processing integrity, confidentiality, or privacy of information systems. Organizations may use the revised *2017 Trust Services Criteria for Security, Availability, Processing Integrity, Confidentiality, and Privacy* (trust services criteria)[3] as the control criteria by which the effectiveness of controls may be evaluated. However, the reporting framework is flexible in that it permits management to use criteria other than the trust services criteria as control criteria (for example, the National Institute of Standards and Technology Critical Infrastructure Cybersecurity Framework and International Organization for Standardization 27001/27002).

.15 See https://www.aicpa.org/interestareas/frc/assuranceadvisoryservices/pages/cyber-security-resource-center.aspx#featured for additional information.

Auditing Standards Board Employee Benefit Plan Auditor Reporting Project

.16 In April 2017, the Auditing Standards Board (ASB) released an exposure draft of proposed Statement on Auditing Standards (SAS) *Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA*. The proposed SAS reflects the ASB's proposal for a new reporting model for audits of ERISA plan financial statements that, among other things, changes the form and content of the auditor's report for an ERISA plan audit and prescribes certain new performance requirements. The proposed SAS would apply to audits of single employer, multiple employer, and multiemployer plans subject to ERISA.

.17 The proposed SAS includes the following:

- New engagement acceptance requirements
- New performance requirements that serve as a basis for a new reporting requirement
- Required audit procedures to be performed relating to the investment information certified by a qualified institution, as permitted by ERISA
- A new form of report specific to an audit of an ERISA plan when management imposes an ERISA-permitted audit scope limitation
- A required emphasis-of-matter paragraph in the auditor's report when certain situations exist and are disclosed in the notes to the financial statements
- Considerations relating to the Form 5500 filing, which the auditor's report accompanies
- Expanded communication on the ERISA supplemental schedules

.18 The public comment period for the exposure draft closed on September 29, 2017. A task force under the ASB is in the process of evaluating the comment letter responses. Practitioners who are interested in following this project can do so by consulting the ASB meeting materials and highlights as the ASB continues to deliberate this project.[4]

---

[3] The *2017 Trust Services Criteria for Security, Availability, Processing Integrity, Confidentiality, and Privacy* are codified in TSP section 100 of AICPA *Trust Services Criteria*.

[4] See https://www.aicpa.org/research/standards/auditattest/asb/asbmeetingmaterialsandhighlights.html.

.19 In addition, in November 2017, the ASB issued the following exposure drafts (for which the public comment period closes on May 15, 2018). These proposed standards may also affect the proposed employee benefit plan reporting standard mentioned previously:

- *Auditor Reporting and Proposed Amendments—Addressing Disclosures in the Audit of Financial Statements*
- *The Auditor's Responsibilities Relating to Other Information Included in the Annual Reports*
- *Omnibus Statement on Auditing Standards—2018*

.20 Practitioners are encouraged to consult the full text of the proposed SASs on the AICPA's website at www.aicpa.org/research/exposuredrafts/accountingandauditing.

Accounting Issues and Developments

Direct Versus Indirect Investment in Fully Benefit-Responsive Investment Contracts

.21 Subsequent to the implementation of FASB Accounting Standards Update (ASU) No. 2015-12, *Plan Accounting: Defined Benefit Pension Plans (Topic 960), Defined Contribution Pension Plans (Topic 962), Health and Welfare Benefit Plans (Topic 965): (Part I) Fully Benefit-Responsive Investment Contracts*, stakeholders questioned the distinction being made between a direct investment in a fully benefit-responsive investment contract (FBRIC) and an indirect investment in an FBRIC. The FASB *Accounting Standards Codification*® (ASC) glossary limits FBRICs to direct investments between the plan and the issuer. Plans may indirectly hold FBRICs through beneficial ownership of common collective trust funds (CCTs) and pooled separate accounts (PSAs) (which own FBRICs). Indirect investments in FBRICs through investment companies (for example, those included in the underlying investments of stable-value CCTs or PSAs) would not meet the definition of an FBRIC. Accordingly, the plan's investment in the CCT or PSA is required to be reported at fair value. These funds typically calculate net asset value (NAV) per share (or its equivalent) in a manner consistent with the measurement principles of FASB ASC 946, *Financial Services—Investment Companies*. This NAV represents the plan's fair value because this is the value at which the plan transacts with the fund. Chapter 8 of the AICPA Audit and Accounting Guide *Employee Benefit Plans* (the guide) discusses required disclosures related to fair value measurements in accordance with FASB ASC 820, *Fair Value Measurement*. (See the "Readily Determinable Fair Value" section.)

Readily Determinable Fair Value

.22 Subsequent to the amendments to the FASB ASC Master Glossary definition of *readily determinable fair value* (RDFV) made by ASU No. 2015-10, *Technical Corrections and Improvements*, stakeholders have continued to question whether certain investments (such as CCTs and PSAs) meet condition (*c*) of the definition[5] and, therefore, would be considered to have an RDFV.

[5] FASB ASC Master Glossary defines *readily determinable fair* value as follows (underlining added for emphasis):

(continued)

 ©2018, Association of International Certified Professional Accountants

The conclusion reached regarding RDFV is important because it determines whether an investment is eligible to estimate fair value using the NAV practical expedient as permitted by FASB ASC 820-10-35-59. FASB ASC 820-10-15-4 indicates that the NAV practical expedient in FASB ASC 820-10-35-59 is available only if both of the following criteria are met: (*a*) the investment does not have a readily determinable fair value and (*b*) the investment is in an investment company within the scope of FASB ASC 946 or is an investment in a real estate fund for which it is industry practice to measure investment assets at fair value on a recurring basis and to issue financial statements that are consistent with the measurement principles in FASB ASC 946. An investment that is considered to have an RDFV is required to be included in the fair value hierarchy disclosure in accordance with FASB ASC 820-10-35-37. In accordance with "Pending Content" in FASB ASC 820-10-35-54B, an investment within the scope of paragraphs 4 and 5 of FASB ASC 820-10-15 for which fair value is measured using NAV per share (or its equivalent) as a practical expedient should not be categorized within the fair value hierarchy disclosure. (See the section "ASU No. 2015-07, *Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*" of this alert for further discussion about using NAV as a practical expedient.) In November 2017, Technical Questions and Answers (Q&A) section 2220.18,[6] "Applicability of Practical Expedient," was revised to reflect conforming changes necessary due to the issuance of ASU No. 2015-10.

.23 Also in November 2017, Q&A section 2220.28, "Definition of *Readily Determinable Fair Value* and Its Interaction With the NAV Practical Expedient," was issued. This section provides nonauthoritative guidance concerning the definition of RDFV and its interaction with the NAV practical expedient. Q&A section 2220.28 states that

> if an investment has RDFV, it cannot be measured using the NAV practical expedient and would be subject to the fair value measurement disclosures required by FASB ASC 820-10-50-2, including the requirement to categorize the investment within the fair value hierarchy. In contrast, an investment whose fair value is measured using the NAV practical expedient should not be categorized within the fair value hierarchy and would be subject to the disclosures required by FASB ASC 820-10-50-6A.

(footnote continued)

An equity security has a readily determinable fair value if it meets any of the following conditions:

a. The fair value of an equity security is readily determinable if sales prices or bid-and-asked quotations are currently available on a securities exchange registered with the U.S. Securities and Exchange Commission (SEC) or in the over-the-counter market, provided that those prices or quotations for the over-the-counter market are publicly reported by the National Association of Securities Dealers Automated Quotations systems or by OTC Markets Group Inc. Restricted stock meets that definition if the restriction terminates within one year.

b. The fair value of an equity security traded only in a foreign market is readily determinable if that foreign market is of a breadth and scope comparable to one of the U.S. markets referred to above.

c. The fair value of an equity security that is an investment in a mutual fund or in a structure similar to a mutual fund (that is, a limited partnership or a venture capital entity) is readily determinable if the fair value per share (unit) is determined and published and is the basis for current transactions.

[6] All Q&A sections can be found in *Technical Questions and Answers*.

.24 FASB discussed questions raised in connection with condition (*c*) of the definition of RDFV and indicated the following:[7]

> The Board could not identify a pervasive measurement issue on the basis of outreach conducted with stakeholders. While the Board acknowledged that the interpretation of the Master Glossary definition of readily determinable fair value could have implications on which set of disclosures may be used for certain investments (that is, fair value measurement disclosures or net asset value per share practical expedient disclosures), some Board members concluded that users of the financial statements would not be misled when provided either set of disclosures. Therefore, the Board would encourage entities to provide the disclosures that are consistent with the conclusions previously reached on the measurement of the investment. Management is responsible for determining whether an investment has a readily determinable fair value and the appropriate accounting and disclosures.

ASU No. 2015-07, *Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*

.25 In May 2015, FASB issued ASU No. 2015-07, *Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities That Calculate Net Asset Value Per Share (or Its Equivalent)*. FASB ASC 820 permits a reporting entity, as a practical expedient, to measure the fair value of certain investments using the NAV per share (or its equivalent) of the investment. Prior to adoption of ASU No. 2015-07, investments for which fair value is measured using the practical expedient were categorized within the fair value hierarchy on the basis of whether the investment is redeemable with the investee at NAV on the measurement date, never redeemable with the investee at NAV, or redeemable with the investee at NAV at a future date. ASU No. 2015-07 removes the requirement to categorize investments for which fair value is measured using NAV as a practical expedient in the fair value hierarchy. Although such investments are not categorized within the fair value hierarchy, entities are required to provide the amount measured using the NAV (or its equivalent) practical expedient to permit reconciliation of the fair value of investments included in the fair value hierarchy to total investments measured at fair value on the statement of net assets available for benefits.

Help Desk: Using NAV as a practical expedient does not apply to investments with an RDFV, as discussed in FASB ASC 820-10-35. See paragraphs 8.26–.27 of the guide for discussion about using NAV as a practical expedient.

.26 In accordance with pending content in FASB ASC 820-10-50-6A, entities should disclose information about investments for which fair value is measured using NAV as a practical expedient to help financial statement users understand the nature and risks of the investments, including whether it is

---

[7] For further information, see the minutes of the March 1, 2017, FASB meeting, which are available on the FASB website.

 ©2018, Association of International Certified Professional Accountants

probable that the investments will be sold at amounts different from NAV. These disclosures include the following:

a. The fair value measurement (as determined by applying paragraphs 59–62 of FASB ASC 820-10-35) of the investments in the class at the reporting date and a description of the significant investment strategies of the investees in the class

b. For each class of investment that includes investments that can never be redeemed with the investees, but the reporting entity receives distributions through the liquidation of the underlying assets of the investees, the reporting entity's estimate of the period of time over which the underlying assets are expected to be liquidated by the investees

c. The amount of the reporting entity's unfunded commitments related to investments in the class

d. A general description of the terms and conditions upon which the investor may redeem investments in the class (for example, quarterly redemption with 60 days' notice)

e. The circumstances in which an otherwise redeemable investment in the class (or a portion thereof) might not be redeemable (for example, investments subject to a lockup or gate) (Also, for those otherwise redeemable investments that are restricted from redemption as of the reporting entity's measurement date, the reporting entity should disclose its estimate of when the restriction from redemption might lapse. If an estimate cannot be made, the reporting entity should disclose that fact and how long the restriction has been in effect.)

f. Any other significant restriction on the ability to sell investments in the class at the measurement date

g. If a group of investments would otherwise meet the criteria in FASB ASC 820-10-35-62 but the individual investments to be sold have not been identified (for example, if a reporting entity decides to sell 20 percent of its investments in private equity funds but the individual investments to be sold have not been identified), so the investments continue to qualify for the practical expedient in FASB ASC 820-10-35-59, the reporting entity should disclose its plans to sell and any remaining actions required to complete the sale or sales

.27 The requirement to make certain disclosures for all investments that are eligible to be measured at fair value using NAV as a practical expedient is eliminated. Rather, those disclosures are required only for investments to which the entity applies the practical expedient to estimate fair value.

Effective Date and Transition Guidance

.28 The amendments in ASU No. 2015-07 were effective for public business entities for fiscal years beginning after December 15, 2015, and for interim periods within those fiscal years. For all other entities, the amendments were effective for fiscal years beginning after December 15, 2016, and for interim periods within those fiscal years. A reporting entity should apply the amendments retrospectively to all periods presented. Earlier application is permitted.

©2018, Association of International Certified Professional Accountants

> **Help Desk:** Employee benefit plans are excluded from the definition of a public business entity in the FASB ASC Master Glossary. Therefore, ASU No. 2015-07 is effective for fiscal years beginning after December 15, 2016, for all employee benefit plans. Earlier application is permitted.

.29 Paragraph BC16 of ASU No. 2015-07 states that the reporting entity should be required to disclose only the nature of and reason for the change in accounting principle (that is, the requirements of item (a) in FASB ASC 250-10-50-1). Refer to the "Disclosures When a New FASB Codification Update Is Issued" section of this alert for discussion about when an entity is required to disclose information about a change in accounting principle.

Disclosures When a New FASB Codification Update Is Issued

.30 FASB ASC 250, *Accounting Changes and Error Corrections*, provides guidance on the disclosures related to a newly issued codification update. FASB ASC 250-10-45-2 requires a reporting entity to change an accounting principle if the change is required by a newly issued codification update. Paragraphs 1–3 of FASB ASC 250-10-50 describe the information an entity is required to disclose about a change in accounting principle. These disclosures are required in the fiscal year in which the change is made.

.31 A FASB ASU may reach conclusions about transition to the new guidance, including conclusions about whether disclosures about changes in the accounting principles in paragraphs 1 through 3 of FASB ASC 250-10-50 should apply to the amendments, and may include a discussion of those conclusions in the "Basis for Conclusions" section of the ASU.

> **Help Desk:** Plans that file financial statements with the SEC (for example, plans that file Form 11-K) should disclose the effect on the plan's financial statements of new authoritative accounting guidance that has been issued but has not yet been adopted by the registrant. (SEC Staff Accounting Bulletin No. 74, Topic 11.M, *Disclosure of the Impact that Recently Issued Accounting Standards Will Have on the Financial Statements of the Registrant When Adopted in a Future Period*).

ASU No. 2017-06, *Plan Accounting: Defined Benefit Pension Plans (Topic 960), Defined Contribution Pension Plans (Topic 962), Health and Welfare Benefit Plans (Topic 965): Employee Benefit Plan Master Trust Reporting (A Consensus of the Emerging Issues Task Force)*

.32 In February 2017, FASB issued ASU No. 2017-06, *Plan Accounting: Defined Benefit Pension Plans (Topic 960), Defined Contribution Pension Plans (Topic 962), Health and Welfare Benefit Plans (Topic 965): Employee Benefit Plan Master Trust Reporting (A Consensus of the Emerging Issues Task Force)*, to improve the usefulness of the information reported to users of employee benefit plan financial statements and to provide clarity to preparers and auditors. ASU No. 2017-06 relates primarily to the reporting by a plan of its interest in a master trust. The amendments clarify presentation requirements for a plan's interest in a master trust and require more detailed disclosures of the plan's

 ©2018, Association of International Certified Professional Accountants

interest in the master trust. The amendments also eliminate a redundancy relating to 401(h) account disclosures.

.33 The master trust disclosure requirements have been aligned in FASB ASC 960, *Plan Accounting—Defined Benefit Plans*, 962, *Plan Accounting—Defined Contribution Plans*, and 965, *Plan Accounting—Health and Welfare Benefit Plans*, to be consistent for all types of plans. Presentation and disclosures for a plan that holds an interest in a master trust have been clarified or amended to require that a plan do the following:

- Present its interest in each master trust and the change in its interest in each master trust in separate line items in the statement of net assets available for benefits and the statement of changes in net assets available for benefits, respectively.
- Disclose each general type of investment held by the master trust and the dollar amount of the plan's interest in each of those general types of investment held by the master trust (ASU No. 2017-06 includes an example of this disclosure).
- Disclose the master trust's other assets and liabilities and the dollar amount of its interest in each of those other assets and liabilities (ASU No. 2017-06 includes an example of this disclosure).

Help Desk: The following are examples of a master trust's other assets and liabilities:

a. Amounts due from brokers for securities sold

b. Amounts due to brokers from securities purchased

c. Receivables relating to derivatives

d. Payables relating to derivatives

e. Accrued interest and dividends

f. Accrued expenses

- Disclose the net appreciation or depreciation in the fair value of investments in the master trust and investment income for each period that a statement of changes in net assets available for benefits is presented.
- Describe the basis used to allocate net assets and total investment income to the plan.
- Disclose the plan's percentage interest in the master trust for each period that a statement of net assets available for benefits is presented. This disclosure applies only to a plan with an undivided interest in the master trust (that is, when the plan has a proportionate, rather than a specific, interest in the master trust). ASU No. 2017-06 removes the requirement to disclose the percentage interest in the master trust for a plan with divided interests.

.34 Paragraph BC20 of the "Background Information and Basis for Conclusions" section of ASU No. 2017-06 states that

> Although GAAP does not currently require disclosures for the underlying investments held by a master trust (for example, disclosures in Topics 815 and 820), the FASB Emerging Issues Task Force (EITF) understands that the majority of plans provide these disclosures on

the basis of nonauthoritative guidance. This nonauthoritative guidance includes (*a*) AICPA Technical Practice Aid TIS Section 6931.11,[8] *Fair Value Measurement Disclosures for Master Trusts*, and (*b*) the AICPA Audit and Accounting Guide *Employee Benefit Plans*. While some EITF members said that explicit GAAP requirements should be provided, other EITF members thought there was no need for standard setting in this area. Ultimately, the EITF decided not to address this issue, noting that it does not appear to be a significant current practice issue for which standard setting is warranted and there is no intent to change current practice.

.35 FASB ASC 965-205-50-5 was added to state that an H&W plan is not required to provide investment disclosures (for example, the disclosures required by FASB ASC 815 on derivatives and hedging and FASB ASC 820 on fair value measurement) for 401(h) account assets. The plan should disclose the name of the defined benefit pension plan that allocated the funds to the H&W benefit plan and that provided the related investment disclosures.

Effective Date and Transition Guidance

.36 The amendments in FASB ASU No. 2017-06 are effective for fiscal years beginning after December 15, 2018. Early adoption is permitted. An entity should apply the amendments retrospectively to each period for which financial statements are presented. Although not effective until December 31, 2019, year-ends, the 2019 financial statements will need to show comparative information (for example, as of and for the years ended December 31, 2018 and 2019). Thus, plan sponsors and service providers are encouraged to begin a readiness assessment including a determination of system upgrades, if any, for implementation.

.37 Paragraph BC25 of the "Background Information and Basis for Conclusions" section of ASU No. 2017-06 states that "a reporting entity should be required to disclose only the nature of and reason for the change in accounting principle (that is, the requirements of paragraph 250-10-50-1(a))." Refer to the "Disclosures When a New FASB Codification Update Is Issued" section of this alert for discussion about when an entity is required to disclose information about a change in accounting principle.

Auditing Issues and Developments

Plan Sponsor System-Generated Information and Reports

.38 Auditors often use plan sponsor system-generated information and reports (for example, payroll and human resource reports) for a variety of purposes, including the selection of samples for control or substantive testing. In addition, system-generated information (for example, payroll or participant data screen shots) is often used as a source of audit evidence to support various areas such as contributions or benefit payments. AU-C section 500, *Audit Evidence*, addresses the auditor's responsibility to design and perform audit procedures to obtain sufficient appropriate audit evidence. During planning, the auditor should evaluate the relevance and reliability of the system-generated

---

[8] TIS section 6933.11 has been renamed Q&A section 6933.11 and can be found in *Technical Questions and Answers*.

 ©2018, Association of International Certified Professional Accountants

reports and information to be used during the audits. The reliability of evidence depends on the nature and source of the evidence and the circumstances under which it is obtained. The reliability of system-generated audit evidence depends on the controls over the initiation, processing, and maintenance of such electronic information.

.39 Before relying on electronic information as audit evidence, it is important for an auditor to consider the IT application used to generate the information, understand how the original information was entered or converted into the IT application, and understand how any reports were generated. For electronic information coming from plan sponsor systems, the auditor may need to test the input or conversion into the IT application to be able to rely on the output. The input process may be manual, electronic, or both, and an auditor may need to understand and test more than one data flow to determine reliability of the IT application output. For reports used by the auditor, the auditor may need to perform further tests of completeness and accuracy to rely on the report for sample selections or other auditor procedures.

.40 In accordance with paragraph .09 of AU-C section 500, the auditor should evaluate whether information is sufficiently reliable for the auditor's purposes, including, as necessary, obtaining audit evidence about the accuracy and completeness of the information, which may include determining, in accordance with AU-C section 620, *Using the Work of an Auditor's Specialist*, whether to involve an auditor's specialist in that process.

.41 The following are example procedures the auditor may perform when determining whether to rely on electronic audit evidence for tests of controls or substantive procedures:

- Determining the source of the audit evidence and the circumstances under which it is obtained (which manual process or IT application inputs the information and which IT application produces the information)
- Performing tests of the electronic audit evidence (for example, reperforming the circumstances under which it is obtained and entered into the IT application) to determine the completeness of the data flow from the original document or source to its electronic form
- Testing the mathematical accuracy of the electronic audit evidence
- Understanding the internal control relevant to the IT application producing the information (see the section "General Computer Controls (In-House System or Service Organization)" in exhibit B-1 in appendix B of the guide for examples of controls)

.42 If the auditor determines that the control environment does not support the prevention or detection and correction of material misstatements, the auditor may do the following:

- Manually test the clerical accuracy of audit evidence (for example, testing mathematical accuracy of payroll register).
- Perform tests of the electronic information to determine the completeness of the data flows to and from original source documents (for example, comparing activity from the payroll cash account to

©2018, Association of International Certified Professional Accountants

the payroll register and selecting individual employees from payroll records to agree information to source documents for pertinent participant data information).

.43 In accordance with paragraph .10 of AU-C section 500, if the auditor has doubts about the reliability of information to be used as audit evidence, the auditor should determine what modifications or additions to audit procedures are necessary to resolve the matter and should consider the effect of the matter, if any, on other aspects of the audit.

Use of Outside Service Provider System-Generated Information and Reports

.44 Many employers outsource certain aspects of the administration of their employee benefit plans. Examples of significant areas outsourced include recordkeeping, benefit and claim payments, payroll, investments, and participant data maintenance. Most plans allow participants to initiate transactions by telephone or electronic means (such as the internet or intranet). Often, the plan sponsor does not maintain independent accounting records supporting the transactions or a general ledger for the plan. AU-C section 402, *Audit Considerations Relating to an Entity Using a Service Organization*, addresses the user auditor's responsibility for obtaining sufficient appropriate audit evidence in an audit of the financial statements of a user entity that uses one or more service organizations. It is common for the auditor to use service provider system-generated reports for testing selections or other audit evidence. A common example is when auditors use the payroll register produced by an outside service provider to compare participants to the recordkeeping report for completeness. Another example is the use of the service provider system-generated summary plan reports as the general ledger for the plan (for example, trial balance used for the financial statements). After gaining an understanding regarding which service provider system-generated information and reports are covered by the type 2 SOC 1® report[9] if one is available, many auditors will rely on the type 2 SOC 1 report to support their completeness and accuracy assertion. Paragraph 4.25 of the guide provides further information about requirements for evaluating and using SOC 1 reports. Also, refer to the AICPA Employee Benefit Plan Audit Quality Center (EBPAQC) Practice Aid *Documentation of Use of a Type 2 Service Auditor's Report in an Audit of an Employee Benefit Plan's Financial Statements* on documenting the use of SOC 1 reports (this practice aid is available only to EBPAQC members).

.45 In some instances, an auditor may not be able to rely on the type 2 SOC 1 report control testing to reduce the nature, timing, and extent of substantive procedures. In these circumstances, the auditor may need to perform further tests of completeness and accuracy, or other auditor procedures, to rely on the service provider reports for sample selections. The following are examples of additional procedures the auditor may want to consider when no type 2 SOC 1 report is available:

---

[9] In 2017, the AICPA introduced the term *system and organization controls* (SOC) to refer to the suite of services practitioners may provide relating to system-level controls of a service organization and system- or entity-level controls of other organizations. Formerly, SOC referred to service organization controls. By redefining that acronym, the AICPA enables the introduction of new internal control examinations that may be performed (*a*) for other types of organizations, in addition to service organizations, and (*b*) on either system-level or entity-level controls of such organizations.

 ©2018, Association of International Certified Professional Accountants

- Assessing the mathematical accuracy of the service provider system-generated reports
- Reconciling the service provider system-generated reports to other comparable information tested during the audit
- Selecting individual transactions and agreeing to source documents
- Testing the validity of inputs by agreeing to source data

.46 In addition, because it is uncommon for service providers to maintain hard copy information relating to participant data, auditors will typically receive screenshots or other electronic information as evidence to support substantive testing. Auditors are encouraged to use caution when using such information from the service provider without reliance on the SOC 1 report or performing tests of controls.

Trends in Legal Action

Legal Action Themes

.47 There has been an increase in litigation over the past year relating to DC retirement plans. The subjects of the lawsuits include unreasonable fees charged and failure to monitor plan fees charged to participant accounts, providing improper investment options, and failing to monitor investment performance. Many of the lawsuits allege the plan oversight governing bodies have not operated for the exclusive benefit of the participants.

Consideration of Laws and Regulations

.48 The litigation may relate to plan transactions with parties in interest that could be deemed prohibited under Sections 406 and 407 of ERISA. Paragraphs .17–.18 of AU-C section 250, *Consideration of Laws and Regulations in an Audit of Financial Statements*, and paragraphs 9.09–.11 of the guide provide guidance for when the auditor becomes aware of information concerning an instance of noncompliance or suspected noncompliance with laws and regulations. Prohibited transactions under Sections 406 and 407 of ERISA are required, without regard to their materiality, to be disclosed in the Form 5500 and included in Schedule G, Part III, "Nonexempt Transactions."

Accounting and Reporting for Monies Due to the Plan

.49 The final outcome or settlement of the litigation may result in monies being due to the plan to be allocated to current or former participants. As discussed in paragraph 5.78*b* of the guide, the Financial Reporting Executive Committee recommends employer contributions relating to nonrecurring items be disclosed in the notes to the financial statements. Paragraph 5.238 of the guide provides guidance regarding auditing contribution allocations to individual accounts. Amounts received from the settlement of litigation should be recorded when the plan has an enforceable right in accordance with the gain contingency provisions of FASB ASC 450-30. Contingencies arising from prohibited transactions may also need to be disclosed in accordance with the requirements of FASB ASC 450, *Contingencies*.

.50 Plan sponsors often focus on litigation from an employer standpoint and on whether a contingent payable needs to be recorded on the plan sponsor's financial statements. It is important to remind plan sponsors of the unique

©2018, Association of International Certified Professional Accountants

accounting and reporting aspects relating to the plan (for example, nonexempt transactions and contingencies), which are different from the accounting and reporting aspects relating to the employer when considering these legal actions.

> **Help Desk:** Refer to paragraphs 2.95–.128 of the guide for further information on accounting and auditing for parties in interest transactions. In addition, see paragraph 10.11 of the guide for additional discussion on litigation, claims, and assessments.

Employee Benefit Plan Guide Update

.51 The guide has been updated as of January 1, 2018, for recently issued accounting and auditing standards and for other relevant industry developments. The guide reflects the revised auditing standards due to the issuance of SAS No. 132, *The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern* (AU-C section 570). The guide has been updated to reflect changes to the illustrative auditor's report for an employee benefit plan that is filing Form 11-K with the SEC as a result of PCAOB Auditing Standard (AS) 3101, *The Auditor's Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion*.[10]

Form 11-K Filers

PCAOB AS 3101, *The Auditor's Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion*

.52 The SEC requires employee stock purchase, savings, and similar plans with interest that constitutes securities registered under the Securities Act of 1933 to file Form 11-K (or other applicable SEC filings, such as Form 10-K/A) pursuant to Section 15(d) of the Securities Exchange Act of 1934. Plans that are required to file Form 11-K are deemed to be issuers and must submit to the SEC an audit performed in accordance with the auditing and related professional practice standards promulgated by the PCAOB.

.53 On June 1, 2017, the PCAOB adopted AS 3101. The SEC approved AS 3101 and related amendments on October 23, 2017. AS 3101 retains the pass or fail opinion of the existing PCAOB auditor's report but makes significant changes to the existing auditor's report, including the following:

- *Requires communication of critical audit matters (CAMs).* Any matter arising from the audit of the financial statements that was communicated or required to be communicated to the audit committee and that
  - — relates to accounts or disclosures that are material to the financial statements and
  - — involved especially challenging, subjective, or complex auditor judgment.

---

[10] PCAOB auditing standards can be found in AICPA *PCAOB Standards and Related Rules*.

 ©2018, Association of International Certified Professional Accountants

- *Requires disclosure of auditor tenure*. The year in which the auditor began serving consecutively as the company's auditor is required to be disclosed.
- *Includes other improvements to the auditor's report*. Clarification of the auditor's role and responsibilities—such as a statement regarding the requirement for the auditor to be independent with respect to the company—making the auditor's report easier to read.

.54 Among the other revisions, AS 3101 specifies the form of report, including requirements related to the order of presentation and section titles.

Effective Date and Transition

.55 All the changes, except those relating to CAMs, are effective for audits of fiscal years ending on or after December 15, 2017.[11] The new standard allows for early adoption.

Key Changes Effective December 15, 2017

Addressee

.56 Paragraph .07 of AS 3101 requires the auditor's report to be addressed to the shareholders and the board of directors (or equivalent for companies not organized as corporations). The auditor's report may include additional addressees. *Staff Guidance—Changes to the Auditor's Report Effective for Audits of Fiscal Years Ending on or After December 15, 2017*,[12] states that

> For example, if a company is not organized as a corporation, the auditor's report would generally be addressed to (1) the plan administrator and plan participants for a benefit plan, (2) the directors (or equivalent) and equity owners for a broker or dealer, and (3) the trustees and unit holders or other investors for an investment company organized as a trust. The auditor's report may include additional addressees. Because inclusion of additional addressees is voluntary, auditors can assess, based on individual circumstances, whether or not to include additional addressees in the auditor's report.

Form of the Auditor's Report

.57 Paragraphs .08–.09 of AS 3101 require that the first section of the auditor's report include the section title "Opinion on the Financial Statements" and the second section include the section title "Basis for Opinion." *Staff Guidance—Changes to the Auditor's Report Effective for Audits of Fiscal Years Ending on or After December 15, 2017*, states that, in general, the order of the remaining sections of the auditor's report is not specified. The auditor is required to use an appropriate section title if an emphasis paragraph is included in the auditor's report. Other PCAOB standards may specify the location of required explanatory paragraphs within the auditor's report and may also have

---

[11] *Staff Guidance—Changes to the Auditor's Report Effective for Audits of Fiscal Years Ending on or After December 15, 2017* (AICPA, *PCAOB Standards and Related Rules,* PCAOB Staff Guidance, sec. 300.04) (updated as of December 28, 2017), was prepared by PCAOB staff to help firms when implementing changes to the auditor's report effective for audits of fiscal years ending on or after December 15, 2017.

[12] AICPA, *PCAOB Standards and Related Rules*, PCAOB Staff Guidance, sec. 300.04. Updated as of December 28, 2017.

requirements for an appropriate section title when an explanatory paragraph is included.

Auditor Independence

.58 Paragraph .09g of AS 3101 requires a statement in the "Basis for Opinion" section that the auditor is a public accounting firm registered with the U.S. PCAOB and is required to be independent with respect to the plan in accordance with the U.S. federal securities laws and the applicable rules and regulations of the SEC and the PCAOB.

Auditor Tenure

.59 Paragraph .10b of AS 3101 requires a statement in the auditor's report containing the year the auditor began serving consecutively as the plan's auditor. For purposes of this subparagraph, references to the auditor include other firms that the auditor's firm has acquired or that have merged with the auditor's firm. If there is uncertainty about the year the auditor began serving consecutively as the plan's auditor, such as due to firm or plan mergers, acquisitions, or changes in ownership structure, the auditor should state that the auditor is uncertain about the year the auditor became the plan's auditor and provide the earliest year of which the auditor has knowledge. *Staff Guidance—Changes to the Auditor's Report Effective for Audits of Fiscal Years Ending on or After December 15, 2017*, provides guidance relating to the determination and reporting of tenure. AS 3101 does not specify a required location within the auditor's report for the statement on tenure. Example auditor's reports included in appendix B of AS 3101 and *Staff Guidance—Changes to the Auditor's Report Effective for Audits of Fiscal Years Ending on or After December 15, 2017*, include the statement on auditor tenure at the end of the report; however, auditors have discretion to present auditor tenure in the part of the auditor's report they consider appropriate.

Auditor Reporting Regarding Internal Control Over Financial Reporting

.60 As described in paragraphs .59–.60 of AS 3105, *Departures from Unqualified Opinions and Other Reporting Circumstances*, the "Basis for Opinion" section should be revised in situations in which management is required to report on the effectiveness of internal control over financial reporting (ICFR) but such report is not required to be audited and the auditor has not been engaged to perform an audit of management's assessment of the effectiveness of ICFR. In such circumstances, paragraph .60 of AS 3105 provides an example of appropriate language to include in the auditor's report. Footnote 7 to *Staff Guidance—Changes to the Auditor's Report Effective for Audits of Fiscal Years Ending on or After December 15, 2017*, states that "a similar paragraph may voluntarily be included in the auditor's report in situations in which management is not required to report on ICFR and neither is the auditor."

Illustrative Auditor Report

.61 The guide has been updated to reflect changes to the illustrative auditor's report for an employee benefit plan that is filing Form 11-K with the SEC that conform to the requirements of AS 3101.

Other Amendments to PCAOB Standards

.62 Among other amendments to various PCAOB standards, AS 1301 was amended to require the auditor to provide to and discuss with the audit

 ©2018, Association of International Certified Professional Accountants

committee a draft of the auditor's report. As a result, to comply with this requirement, auditors may need to draft the auditor's report earlier in the audit process than has historically been done.

Auditing Interpretation No. 4 to AU-C Section 700

.63 In March 2018, the ASB issued Auditing Interpretation No. 4, "Reporting on Audits Conducted in Accordance With Auditing Standards Generally Accepted in the United States of America and the Standards of the PCAOB" (AU-C section 9700 par. .14–.21), of AU-C section 700, *Forming an Opinion and Reporting on Financial Statements*, to provide guidance on how an auditor complies with AU-C section 700 while also complying with AS 3101, when the audit is not within the jurisdiction of the PCAOB as defined by the Sarbanes-Oxley Act of 2001, as amended. Please note that, although the auditing interpretation has been determined to be consistent with GAAS, it should not be construed to be an interpretation of PCAOB standards. This interpretation does not apply to Form 11-K filings because plans that are required to file Form 11-K are deemed to be issuers.

Defined Benefit Pension Plans

.64 Defined benefit (DB) plans continue to have unique challenges, such as mortality assumption changes, investment return volatility, changes in plan design, and increases in Pension Benefit Guaranty Corporation (PBGC) premiums. This section discusses how these and other topics are affecting DB plans.

IRS Mortality Assumption Changes

.65 The 2006 Pension Protection Act (PPA) established requirements for the use of IRS-approved mortality tables by DB plans. These requirements apply to the following:

- Minimum funding requirements
- Funded ratios referred to as "adjusted funding target attainment percentage" (AFTAP), which affect funding requirements and benefit limitations
- PBGC variable-rate premiums
- Minimum lump sum payments from plans

.66 The initial regulation that addressed these requirements was finalized in 2008 and specified tables that were based on the RP-2000 Mortality Tables developed by the Society of Actuaries (SOA). Under the provisions of the PPA, the IRS is required to consider updates to these tables at least every 10 years, taking into account more recent mortality experience and trends that have been observed.

.67 In 2014, the SOA completed a study that was based on more current data than the data used for the RP-2000 study. The 2014 study resulted in the release of updated mortality tables called the RP-2014 Mortality Tables. The updated tables included separate male and female rates and separate tables for white-collar, blue-collar, and mixed-collar workers. At the same time the RP-2014 tables were released, the SOA also released a mortality improvement scale (MP-2014) that may be used in conjunction with the rates in the base mortality table to project those rates in anticipation of future mortality improvement. The

©2018, Association of International Certified Professional Accountants

mortality improvement scale has been updated annually since its release. The RP-2014 tables and related improvement scales have generally been considered for plans reporting under FASB ASC 960 since their release; however, they were not initially adopted by the IRS.

.68 In October 2017, the IRS issued its final regulation related to mortality tables. The final regulation specifies that the generally applicable mortality tables are derived from the family of RP-2014 tables and the MP-2016 projection scale. Like the previous tables mandated by the IRS, the new mortality tables are gender distinct and provide separate mortality rates for annuitants and non-annuitants. The adoption of the new mortality tables will likely increase the funding liability or funding target for most DB pension plans. The size of that increase will depend on many factors such as the type of plan, the benefit formula, the maturity of the plan, and the distribution of participants between males and females.

.69 The final regulation provides an option to use custom mortality rates in place of the applicable tables that are specified in the final rules. For plans that choose this option, guidance regarding constructing a substitute mortality table is provided. A custom table can be developed by applying a ratio to the standard mortality tables or blending the sponsor's experience with the RP-2014 table to the extent that experience is not fully credible. This option can be applied to all plans with at least 100 deaths during the study period. This guidance, and the process for seeking IRS approval to use an alternative plan-specific mortality assumption, are covered in Revenue Procedure 2017-55.

.70 The final regulation on mortality is generally effective for plan years that begin on or after January 1, 2018. The IRS anticipates updating the mortality projection scale, perhaps annually, to reflect changes in the expectations for future mortality improvement. There is a one-year deferral option available when applying the new mortality assumption for funding purposes for single employer plans, but the delayed effective date is not available for plans using an alternative plan-specific table. In order to qualify for the one-year delay, the plan sponsor must inform the actuary that the application of the new mortality table is either administratively impracticable or would have a non–*de minimis* adverse business impact. The deferral option is available only for funding purposes and does not apply to the determination of lump sum payments.

FASB ASC 960 Expected Long-Term Rate of Return

.71 When auditing estimates, it is important for the auditor to understand the assumptions used to discount future benefit payments. FASB ASC 960 provides two alternatives that may be used to discount future benefit payments to the benefit information date. This discounted present value represents a plan's benefit obligation, which is referred to under FASB ASC 960 as the *actuarial present value of accumulated plan benefits*. The more common of the two alternative discount rates is a rate that reflects the expected long-term rate of return on plan assets. The selection of a discount rate is one of the most significant assumptions used in valuing the FASB ASC 960 benefit obligation. Plan management should carefully select the assumption and document their selection process. This assumption is not expected to change each year due to its long-term nature, but management will want to review their assumptions annually to determine the appropriateness of continuing to use one rate versus the other. Given the current interest rate environment and volatile investment markets, coupled with certain pension plan risk management strategies being

 ©2018, Association of International Certified Professional Accountants

implemented by many plan sponsors, there has been increased scrutiny over long-term rate of return assumptions.

.72 The selection process for this assumption, and the regular reevaluation of the assumption, should involve the use of various data by the plan sponsor when determining the best estimate of future long-term returns. Some of the key factors that are commonly considered include the following:

- The plan's asset allocation
- Economists' views regarding expected returns by asset class
- Plan investment expenses that should be netted against expected returns
- Inflation assumptions that may be built into expected nominal rates of return or treated separately when applying a building block approach with real rates of return
- The possibility of excess rates of return expected from active management, referred to as "alpha"
- Historical returns
- Rates used by similar plans based on survey data

.73 The best information to use in the selection process is normally based on a modeling process that uses Monte Carlo simulations to develop a probability distribution for future returns. The models that are commonly used will reflect either nominal or real rates of return, which reflect a passive investment strategy and take into account the plan's asset allocation. These models may not reflect investment expenses, which may have to be manually netted against the expected returns. Models of this type are normally provided by the plan's investment advisor or the plan's actuary or, in some cases, by both.

.74 The typical starting point in the selection of the assumption would begin with the 50th percentile rate from the model, which equates to a best estimate expected return. This rate could then be adjusted (plus or minus) based on certain plan-specific factors. The recognition of an alpha, assuming it can be supported, would normally suggest a rate in excess of the 50th percentile passive rate.

.75 Historical returns and survey data can be useful inputs in support of an assumption that has been selected using a forward-looking process using a modeling technique. However, such information would rarely be used as the primary support for this assumption. Historical returns are subject to many factors that would either not be applicable to the selection of future returns or might distort expectations about future returns. One primary concern with historical returns relates to the historical period being used. It is often a 5-year or 10-year period or even longer. The length of the period matters, and even more important are the end points of the historical periods used. If the beginning of the period was at a market low and the end of the period at a market high, the use of the resulting rate of return for that period could significantly overstate a reasonable expectation for the future. Other changes that may have occurred, such as investment manager changes and asset allocation, will result in historical returns that are not reflective of current and future conditions. As such, great care should be taken in the use of historical returns.

.76 The use of survey information as a basis to select the long-term rate of return can also be flawed. This data is often reflective of current returns,

which may or may not be useful in developing a long-term assumption. Additionally, it is often difficult to determine whether the information in a given survey bears any relationship to a specific plan given differences in asset allocation, investment strategy, or other factors. As is the case with historical data, survey information should not be used as a primary factor in the selection process.

Continued Adoption of Cash Balance Plans

.77 The Pension Protection Act of 2006 and the 2010 and 2014 IRS cash balance regulations helped create interest in cash balance plans (see paragraph 6.04 of the guide for further information on cash balance plans). The following information, based on the *2017 National Cash Balance Research Report* by Kravitz,[13] relates to cash balance plans:

- Cash balance plans represent 34 percent of all DB plans.
- The number of cash balance plans now exceeds 20,000, with about 2,600 new plans added in 2016.
- More than 90 percent of cash balance plans cover fewer than 100 participants.
- Cash balance plans typically relate to medical groups, law firms, and groups in the technology, retail, and manufacturing industries.
- Approximately 60 percent of cash balance plans have a fixed-interest crediting rate.
- More than 6 percent of cash balance plans now have an actual rate of return on plan assets interest crediting rate, with limits.

.78 Almost all new cash balance plans are offered in combination with a DC plan, usually a 401(k) or profit-sharing plan.

.79 Setting the interest crediting rate equal to the actual return on plan assets is becoming a more popular plan design. With this type of design, participants are able to share in some of the actual investment return, within limits. In addition, the plan sponsor does not bear the entire investment risk. The total of the participants' notional account balances may be closer to the plan's total net assets. This design is particularly attractive to partnerships.

PBGC Premiums

.80 PBGC premium rates for single employer plans continue to increase as provided in the Bipartisan Budget Act of 2015 as follows:

- The flat-rate premium for 2018 is $74 (increased from $69 in 2017). The flat-rate premium will increase to $80 in 2019. This rate and other rates will be indexed going forward.
- The variable-rate premium for 2018 is $38 (increased from $34 in 2017) per $1,000 of unfunded vested benefits. There is a variable-rate premium cap of $523 (increased from $517 in 2017) per participant. The variable-rate premium is subject to indexing, but indexing had no effect in 2018.

---

[13] Kravitz, *2017 National Cash Balance Research Report*, September 2017, https://www.cashbalancedesign.com/wp-content/uploads/2017/08/nationalcashbalanceresearchreport2017.pdf.

 ©2018, Association of International Certified Professional Accountants

.81 The flat-rate premium for multiemployer plans for 2018 is $28 and is unchanged from 2017. Multiemployer plans do not pay variable-rate premiums.

.82 In addition, when determining the variable-rate premium, the updated 2018 funding mortality table will be used to determine the unfunded vested benefits. This will likely increase the amount of unfunded vested benefits from what it would have otherwise been.

.83 Partly in response to the increasing PBGC premiums, many employees are taking steps to reduce premiums. Examples include offering lump sum windows; buying annuities for retirees, particularly those retirees with smaller monthly payments; and funding plans at a level to avoid or lessen the variable-rate premium. Auditors may want to understand what actions plan sponsors are taking to manage the PBGC premiums and determine the possible effects on the auditor's risk assessment, as well as the accounting, auditing, and reporting for the plan.

Health and Welfare Benefit Plans

.84 The Affordable Care Act (ACA) put in place a number of comprehensive reforms with various effective dates. Some of the reforms affect the plan sponsor or service providers, while other reforms directly or indirectly affect H&W plans. It is important for the auditor of an H&W plan to understand the various provisions of the ACA and their possible effects on risk assessment, as well as accounting, auditing, and reporting for the plan. Although there is some uncertainty regarding the future of the ACA, the enactment of new tax reform legislation in December 2017 did include changes that affect organizations' benefits offered to participants. For additional information related to certain current provisions of the ACA, see appendix B of this audit risk alert. The following are major assumptions that affect the calculation of a plan's postretirement benefit obligations.

Economic and Demographic Assumptions

.85 Several economic and demographic assumptions are used in the actuarial valuations for defined benefit H&W plans to determine the actuarial present value of benefit obligations in accordance with FASB ASC 965. FASB ASC 965-30-35-21 describes the explicit assumptions used to measure postretirement benefit obligations.

.86 The reasonableness of each assumption needs to be evaluated separately by the plan sponsor and actuary when setting the assumptions and by the auditor when evaluating those assumptions.

Economic Assumptions

Discount Rate

.87 The selection of a discount rate is based on the interest rate at which the benefit obligations can be effectively settled as of the measurement date and should reflect current rates of return on high-quality fixed-income investments. The SEC staff has indicated that corporate bonds with ratings of AAA or AA should be considered high quality for purposes of valuing the plan sponsor's pension provisions in accordance with FASB ASC 715, *Compensation—Retirement Benefits*. Often, the same discount rate is used for valuing the DB plan's benefit obligations in accordance with FASB ASC 965.

©2018, Association of International Certified Professional Accountants

.88 The widespread availability and ease of use of more complex tools has created an environment in which there are several alternative methods of determining the discount rate.

.89 The following are more common alternatives:

- *Matched*. This approach is based on constructing a hypothetical bond portfolio that has cash flows closely matching the plan's projected benefit cash flows. The market value of the bond portfolio becomes the plan's benefit obligation. The discount rate is the single rate that, when applied to the cash flows, produces the same obligation.
- *Yield curve*. This approach references a yield curve, which is constructed with a large number of appropriately rated bonds and discounts the plan's projected benefit cash flows along that curve. This produces a present value that is the benefit obligation. As is the case with a bond-matching approach, once the benefit obligation is determined, the discount rate is the single rate that, when applied to the cash flows, will produce the same benefit obligation.
- *Index*. This approach references high-quality bond indexes as a proxy for the discount rate that would be determined by an analysis of anticipated benefit payments. The index selected should have a duration similar to the duration of the benefit cash flows. If the durations are not similar, an adjustment to the index rate should be made to reflect the durational differences.

.90 The selection of the discount rate should be made in accordance with the plan's stated policy. The policy should be applied consistently from period to period so that the rate reflects the general change in interest rates since the prior measurement date.

.91 The auditor may consider obtaining the following audit evidence from management or the actuary to support the discount rate assumption:

- The specific source data used to support the discount rate
- If the discount rate is based on a projected benefit cash flow model with either a matched bond portfolio or a yield curve analysis, the actual bond model or yield curve analysis along with a full description of the process used to select the bonds
- If the discount rate is based on a published index, documentation showing how the timing and amount of cash outflows in the index matches the estimated cash flows for benefit payments, and, if adjustments are made to the index, documentation to support the adjustments

Salary Progression

.92 Compensation increases are used to project an individual's future compensation in an H&W plan that provides benefits based on compensation (for example, life insurance benefits) or if the plan requires retirees to pay a monthly premium based on the retiree's compensation prior to retirement. The compensation scale assumption reflects expected inflation, productivity, seniority, promotion, and other factors that affect wages. This assumption may be a single rate; alternatively, it may vary by age or service, consistent with the merit

 ©2018, Association of International Certified Professional Accountants

scale component, or it may vary over future years, consistent with the inflation component.

.93 When evaluating the reasonableness of a plan's salary progression assumption, the auditor will want to consider factors specific to the plan and the plan sponsor, such as current compensation practices, anticipated changes to compensation practices, current compensation distributions by age or service, historical compensation increases, practices of the participating employer and other employers or geographic areas, collective bargaining, and historical national wage and productivity increases.

Medical Trend Rates

.94 The medical trend rate is the assumed annual growth in health care costs. Historical rates often start around 6 to 8 percent, decrease by 0.5 percent per year until the ultimate rate (such as 4.5 percent to 5 percent) is attained, and then stay constant thereafter. This assumption, particularly the short-term rate, may be outside normal ranges based on plan-specific factors such as plan design, administrative controls, and recent experience. More recently, there has been a trend to conform to the SOA Getzen Model, which is a more detailed approach with specific inputs. The Getzen Model projects health care costs for 50 to 60 years before it levels out. Typically, there are different trend rates for pre-65 and post-65 coverage for both medical and prescription drug coverage. The medical and prescriptions drug rates may be blended into one set of trend rates for pre-65 coverage and one for post-65 coverage, or they may be blended into a single weighted average rate.

Long-term Rate of Return on Assets

.95 The long-term rate of return on assets is used to determine the expected return on assets during the year. This assumption reflects the average rate of earnings expected on current and future investments to pay benefits. It is often developed using a building-block approach based on portfolio modelling with forward-looking assumptions. Plan management should evaluate the appropriateness of the rate each year based on current and projected information. When evaluating the reasonableness of management's assumption regarding the long-term expected rate of return, it is important for the auditor to avoid evaluating the reasonableness of this assumption solely based on retrospective analysis of historical investment returns or comparison to the rate used by other plans.

.96 Often H&W plans establish a trust to hold assets to pay all or part of the covered benefits, and the trust may or may not be tax-exempt. A common form of tax-exempt trust is an IRC Section 501(c)(9) trust (commonly referred to as a voluntary employee beneficiary association [VEBA]). Although a VEBA that meets the tax requirements of the IRC is tax-exempt, it could still be liable for unrelated business income tax. Investment returns on taxable trusts and unrelated business taxable income are subject to taxation, and the long-term expected rate of return on assets should reflect the after-tax rate of return.

Demographic Assumptions

.97 Demographic assumptions are those assumptions that are determined based on the participant group makeup, expected behavior, and life expectancy. Actuaries may use probability rates to model the uncertainty of participant behaviors. It is important to note that unlike economic assumptions that may

be the same for many plans, demographic assumptions tend to be very specific to a given employer's workforce and covered population.

.98 Some typical demographic assumptions used to determine the present value of the postretirement benefit obligation include the following:

- *Participation assumption*. The percentage of employees that are expected to elect coverage upon retirement. This is an important assumption because most plans require retiree contributions, so typically less than 100 percent participation is assumed.
- *Duration of benefits*. How long employees will receive coverage under the plan. This assumption may be influenced by the terms of the plan document (for example, up to age 65, lifetime coverage). For a lifetime coverage plan, it is frequently assumed that the retirees currently receiving benefits will remain in the plan for life.
- *Spousal assumptions*. For those plans that offer spousal or dependent coverage, the percentage of employees who are married, the assumed age difference between the spouses, and the percentage of spouses that will elect coverage.
- *Mortality*. Unlike DB plans that commonly use a version of the RP-2014 table that is based on benefit-weighted rates, health care plans do not typically lend themselves to weighting the mortality rates by benefit amounts. Instead, weighting by headcount is more appropriate. Therefore, many health care plans use a headcount-weighted version of the RP-2014 table called the RPH-2014 table. Recently, plans have been trending to a fixed contribution amount that can be a flat amount across the board or based on service. As such, benefit-weighted rates are seen as often as the headcount-weighted tables.
- *Retirement, termination, disability, and death rates*. How long participants will continue to work and whether participants will die or become disabled prior to retirement. These rates are affected by the plan's provisions, the plan sponsor's industry, and the plan participants' occupation.

Other Assumptions

.99 Other assumptions used to determine the present value of the postretirement benefit obligation may include the following:

- Medicare coordination
- Per capita claims cost development—If not premium-based, how costs are developed, for example, claims analysis
- Aging assumptions as they apply to premiums if the plan is a community-rated plan
- The ACA, for example, the applicability of the "Cadillac tax"

Retiree Reimbursement Account or Arrangement

.100 A retiree reimbursement account or arrangement (RRA) is a reimbursement account that is set up and funded by the employer. RRAs may be used to reimburse eligible out-of-pocket medical expenses incurred during retirement and, if allowed by the plan, eligible expenses for the retiree's qualified dependents.

 ©2018, Association of International Certified Professional Accountants

.101 RRAs may be funded, but generally they are not funded. Thus, the separation of funds is an accounting notion only because there is no legal distinction between the RRA and the employer's general assets; it is a notional account. The amount credited to each RRA is determined by the plan document. The amount is often a flat dollar amount per month of eligibility. The amounts in the RRA will roll over from month to month and year to year if not used. During the plan year, if eligible claims submissions exceed the available account balance, the claim will not be paid and will be held in suspense until sufficient funds exist to fund the reimbursement. At the end of the plan year, any remaining suspended claims will not be reimbursed. The plan will generally specify a period of time subsequent to year-end, the "run out" period, when claims incurred during the plan year must be submitted by in order to receive reimbursement.

.102 RRAs that are deemed to be a defined-benefit-like feature of an H&W plan should be recorded by the plan as a postretirement benefit obligation in accordance with FASB ASC 965-30-35. The audit procedures to be performed on the postretirement benefit obligation would be the same as those for a traditional H&W plan. In addition, because a hypothetical account for each participant is maintained, the auditor may consider testing a sample of participants' accounts to determine that the dollar amount credited to the participants' hypothetical accounts and reimbursements made from the participants' accounts comply with the provisions of the plan document.

Audit Quality

AICPA Peer Review Enhanced Oversight Program—Findings That Led to Nonconforming Engagements

.103 In connection with the AICPA's Enhancing Audit Quality (EAQ) initiative, the Peer Review Program created the Enhanced Oversight Program, with employee benefit plan audits as one of the focus areas. Under this program, subject matter experts (SMEs) review a sample of audit engagements after the peer reviewer's work is submitted, but before the peer review report acceptance process. The enhanced oversights have been designed to identify "nonconforming" audit engagements and to evaluate peer reviewer performance. As defined in the Peer Review Program standards, a nonconforming engagement occurs when a firm fails to perform or report on the engagement in conformity with applicable professional standards in all material respects. For an employee benefit plan audit, those standards include the AICPA Code of Professional Conduct; GAAS as issued by the ASB; and the Audit and Accounting Guide *Employee Benefit Plans*, an interpretive publication as defined under AU-C section 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance With Generally Accepted Auditing Standards*. The AICPA accumulates information regarding the enhanced oversight results and has identified common misconceptions. The following is a summary of the findings most commonly noted by SMEs that contributed to nonconforming employee benefit plan audit engagements.

Audit Documentation

.104 Audit documentation continues to be a challenge for engagement teams. Many auditors sign off on audit programs rather than documenting the nature, timing, and extent of audit procedures performed or inquiries made,

the results of those procedures, and any conclusions reached, as required by professional standards. In many of those instances, auditors verbally represented to peer reviewers the nature of the work that was performed in connection with the steps of an audit program and the results of that work. However, peer reviewers are not permitted to accept verbal explanations in lieu of written documentation. Additionally, for those engagements that include nonattest services, such as financial statement preparation, nonconforming engagements failed to satisfy the documentation requirements of the interpretations under the "Nonattest Services" subtopic (ET sec. 1.295)[14] of the "Independence Rule" (ET sec 1.200.001) specific to self-review and management participation threats. For example, failures to satisfy the requirements included failure to document in writing the auditor's understanding with management regarding all nonattest services to be performed; the auditor's agreement to assume all management responsibilities and to designate an individual who possesses suitable skill, knowledge, and experience to understand and oversee the nonattest services; and the auditor's acceptance of responsibility for making significant judgments related to those services.

Help Desk: AU-C section 230, *Audit Documentation*, addresses the auditor's responsibility to prepare audit documentation for an audit of financial statements.

Risk Assessment

.105 Failure to properly perform and document risk assessment continues to be prevalent among employee benefit plan audit engagements. More specifically, in nonconforming engagements, there was little or no risk assessment work being performed. The evaluation of the design and implementation of internal control was insufficient or not performed. Additionally, the SMEs observed instances in which control risk was assessed at less than high, with no corresponding evidence of tests of controls performed to support this assessment. In certain situations, there was a misconception that risk assessment procedures were not necessary for any audit areas because a limited-scope audit engagement was being performed. Reviewers also continued to see an overreliance on SOC 1 reports, whereby audit teams were assessing the risk of material misstatement as below high for all assertions on a limited-scope engagement based on receipt of a valid certification from the investment custodian and a SOC 1 report that had not been evaluated in accordance with professional standards.

Help Desk: AU-C section 315 addresses the auditor's responsibility to identify and assess the risks of material misstatement in the financial statements through understanding the entity and its environment, including the entity's internal control.

AU-C section 330, *Performing Audit Procedures in Response to Assessed Risks and Evaluating the Audit Evidence Obtained*, addresses the auditor's responsibility to design and implement responses to the risks of material

[14] All ET sections can be found in AICPA *Professional Standards*.

 ©2018, Association of International Certified Professional Accountants

misstatement identified and assessed by the auditor in accordance with AU-C section 315 and to evaluate the audit evidence obtained in an audit of financial statements.

Use of SOC 1 Reports

.106 Another issue related to an auditor's use of SOC 1 reports that contributed to nonconforming engagements was the failure to understand and document the linkage between the SOC 1 report and the remainder of the risk assessment process and the extent of planned substantive testing to be performed. This was particularly evident for those engagements in which significant components of the plans' operations were outsourced to a third-party service provider, as is the case with most DC plans and with certain aspects of other plan types. In such cases, the type 2 SOC 1 reports are necessary to understand processes for material audit areas, as well as to evaluate the design and confirm implementation of relevant controls for purposes of risk assessment. Specific SME findings included instances in which the engagement team did the following:

- Did not obtain a SOC 1 report and did not otherwise document risk assessment procedures performed for significant controls at the service provider.
- Obtained a SOC 1 report but there was no documentation of an evaluation of the SOC 1 report that supported the nature of the engagement team's reliance on the SOC 1 report during the risk assessment process.
- Obtained a type 2 SOC 1 report that was relied on for purposes of reducing control risk below maximum or otherwise reducing the amount of substantive testing, and the engagement team failed to test, beyond inquiry, the relevant user controls noted in the SOC 1 report.
- Chose not to obtain a SOC 1 report or did not evaluate the SOC 1 report because the team did not plan to rely on the SOC 1 report to reduce the amount of substantive testing that was to be performed.
- Used the type 2 SOC 1 report as a basis for eliminating participant-level testing in one or more areas in which substantive procedures should have been performed for relevant assertions. In some instances, auditors may reduce, or potentially eliminate, certain participant-level testing, but the basis for these reductions or eliminations should be thoroughly documented as part of risk assessment. Tests most commonly not performed, without an appropriate basis for elimination, included testing whether individual contributions were being allocated to the proper investment options based on participant elections and testing of investment earnings allocations at the participant level.

Help Desk: AU-C section 402 addresses the user auditor's responsibility for obtaining sufficient appropriate audit evidence in an audit of the financial statements of a user entity that uses one or more service organizations. Specifically, it expands on how the user auditor applies AU-C section 315 and AU-C section 330 in obtaining an understanding of the user entity,

including internal control relevant to the audit, sufficient to identify and assess the risks of material misstatement and in designing and performing further audit procedures responsive to those risks.

Participant-Level Testing

.107 In many audits, participant-level testing related to contributions and distributions was eliminated even though the risk assessment documentation indicated that these areas were significant and assertions were relevant. Findings which were factors in concluding on engagements deemed nonconforming included the following:

- Limited or no testing to determine participant eligibility, election to participate, and vesting of individual participant accounts
- Limited or no testing to determine participant eligibility, election to participate, and vesting of individual participant accounts
- Limited or no testing of the payroll data used to calculate contributions or distributions for individual participants
- Limited or no testing to determine that individual contributions were credited to the appropriate participant accounts
- Limited or no testing of benefit payments or other distributions

Help Desk: AU-C section 330 addresses the auditor's responsibility to design and implement responses to the risks of material misstatement identified and assessed by the auditor in accordance with AU-C section 315 and to evaluate the audit evidence obtained in an audit of financial statements. Specifically, it states that irrespective of the assessed risks of material misstatement, the auditor should design and perform substantive procedures for all relevant assertions related to each material class of transactions, account balance, and disclosure. Further, relevant assertions have been defined for the aforementioned participant-level audit areas in chapters 5–7 of the guide.

Documentation of Sample Size Determination

.108 SMEs also observed that documentation related to sample size determination was often incomplete, not included, or it conflicted with the auditor's risk assessment, including instances in which the engagement team did the following:

- Failed to document the factors considered in the determination of the sampling methodology or the basis for the calculating the sample sizes
- Determined sample sizes based exclusively on professional judgment with no documented basis for such judgment
- Used a sample size that failed to support the team's conclusion in a material audit area, for example, a test of one participant or transaction based on inappropriate reliance on a SOC 1 report

Help Desk: AU-C section 330 addresses the auditor's responsibility to determine the means of selecting items for testing that are effective in meeting the

 ©2018, Association of International Certified Professional Accountants

purpose of the audit procedure, including selection of specific items and audit sampling.

AU-C section 530, *Audit Sampling*, addresses planning, performing, and evaluating audit samples.

Preparing for Peer Review

.109 In order to fulfill its responsibility to have an appropriate peer review, a firm should ensure that the listing of employee benefit plan audit engagements submitted to the reviewer is complete and accurate. The following considerations may assist firms during the compilation of employee benefit plan audit data for the engagement listing:

- Reliability of firm infrastructure for tracking audit engagements to compile a listing of all employee benefit plan audits segregated by type of plan, scope of audit, and plan year-end. Additionally, the list may include the engagement partner and office location, if applicable.
- Use of DOL EFAST datasets for annual Form 5500 filings to perform an annual completeness test by comparing a sample of filings for which your firm is identified as the independent qualified public accountant to the internal listing.

.110 A firm's peer review is generally conducted based on a three-year cycle and is due six months after the peer review year-end, as defined by Peer Review Program standards, interpretations, and guidance. Firms enrolled in the AICPA Peer Review Program and performing employee benefit plan audit engagements require a system review. The peer reviewer will review individual engagements as a part of the compliance procedures required under Peer Review Program standards. However, the reviewer will issue a report on the firm's overall system of quality control. The scope of engagements reviewed must include an employee benefit plan audit, and the need for additional plan selections will depend on the peer reviewer's risk assessment. Where a firm has designated a partner who is responsible for overseeing its employee benefit plan audit practice, that partner may have significant peer review responsibilities for that practice area delegated by the managing partner.

Help Desk: PRP section 1000,[15] *AICPA Standards for Performing and Reporting on Peer Reviews*, addresses the nature, objectives, scope, limitations of, and procedures performed in system and engagement reviews (as referred to in a peer review report). Those standards, related interpretations, and other guidance provide details regarding peer review due dates and year-end, system review requirements, must-select engagements and industries (including employee benefit plan audits), and the reviewer's assessment of peer review risk.

.111 As discussed in the previous section of this alert, peer reviews and the Enhanced Oversight Program continue to identify employee benefit plan audit engagements in which the working papers fail to support the auditor's report, risk assessment, planned audit procedures, and conclusions in significant

[15] All PRP sections can be found in AICPA Peer Review Program Manual.

audit areas. To assist with the firm's monitoring process specific to its employee benefit plan audit practice, the firm may consider using PRP section 20,700, *Employee Benefit Plan Audit Engagement Review Checklist*, (the checklist) to identify any potential instances of noncompliance with professional standards, including documentation issues. The checklist is included in the *Peer Review Program Manual*, which is available through an online subscription on the AICPA Store. Members can also access the checklist at no cost through the Peer Review webpage under "Team Captain Checklists."[16] In connection with the firm's monitoring of quality controls, certain audit engagements may be subject to a pre- or post-issuance review using the checklist. When possible, this review would be performed by an experienced employee benefit plan auditor who was not involved with the engagement. Firms with limited personnel possessing the specialized knowledge and experience to effectively monitor employee benefit plan audits may also consider engaging an external reviewer to serve in this capacity.

.112 The checklist is updated each year and references applicable paragraphs in the guide and the professional standards. Bolded questions in the checklist represent audit areas where the failure to perform and document procedures in accordance with applicable professional standards carries a presumption that the employee benefit audit engagement is nonconforming. In circumstances in which the reviewer answered "no" to one or more bold questions and ultimately concludes that the engagement has been performed and reported on in accordance with professional standards in all material respects, the basis for that conclusion is required to be documented in the peer review working papers. The current bolded questions relate to specific audit procedures regarding the following:

- Risk assessment
- Service auditor reports
- Participant census data
- Investments and investment income
- Contributions testing
- Timeliness of employee salary deferrals
- Benefit and claims testing
- Plan obligations, including postretirement obligations
- ESOP allocations and ESOP appraisals
- Initial audits
- Appropriateness of the auditor's report based on audit procedures

.113 If the peer review or internal monitoring process identifies inadequate audit documentation or auditing procedures, the auditor should follow the guidance in AU-C section 585, *Consideration of Omitted Procedures After the Report Release Date*. In accordance withparagraph .07 of AU-C section 585, if the auditor concludes that an omitted procedure of which the auditor has become aware impairs the auditor's present ability to support a previously expressed opinion on the financial statements and the auditor believes that there are users currently relying, or likely to rely, on the previously released report, the auditor should promptly perform the omitted procedure, or

[16] See https://www.aicpa.org/interestareas/peerreview/resources/teamandreviewcaptainchecklists/teamcaptainchecklists.html.

 ©2018, Association of International Certified Professional Accountants

alternative procedures, to determine whether there is a satisfactory basis for the auditor's previously expressed opinion. The auditor should include in the audit documentation the procedures performed, in accordance with the provisions of AU-C section 230. As stated in paragraph .A5 of AU-C section 585, if, in the circumstances addressed in paragraph .07 of AU-C section 585, the auditor is unable to perform a previously omitted procedure, or alternative procedures, to determine that there is a satisfactory basis for the auditor's previously expressed opinion, the auditor may decide to seek legal advice to determine an appropriate course of action concerning the auditor's responsibilities to the entity; regulatory authorities, if any, having jurisdiction over the entity; and users relying, or likely to rely, on the auditor's report.

Tools to Further Audit Quality

AICPA EBPAQC

.114 The EBPAQC is a firm-based, volunteer membership center of more than 2,600 firms with the goal of promoting quality employee benefit plan audits. The EBPAQC has developed tools and resources to help members recognize and avoid common employee benefit plan audit deficiencies identified by peer reviewers and the DOL. The document "Common EBP Audit Deficiencies" and Planning Tool: Summary of Common EBP Audit Deficiencies, Audit Guidance, and Resources[17] summarize the most common deficiencies and provide links to audit guidance and EBPAQC and AICPA tools.

.115 The following table provides examples of EBPAQC tools and other resources that directly address some of the most common audit deficiencies (note: many of the tools are accessible only to EBPAQC members).

Common Deficiency	*EBPAQC Resource or Tool*
Improper use of limited-scope exemption because financial institution did not qualify for such an exemption	• *Documentation of the Auditor's Evaluation of a Limited Scope Audit Certification* • *Common Deficiencies in Employee Benefit Plan Limited Scope Audit Certifications*
Incomplete description of the plan and its provisions	• *Summary of Key Plan Document Provisions Relevant to a Defined Contribution Retirement Plan Audit*
Failure to evaluate investment contracts for benefit responsiveness	• *Stable Value Investments Resource Center* • Topix Primer, *Stable Value Funds and Investment Contracts—An Overview* • Topix Primer, *Insurance Company Products Offered to Employee Benefit Plans*

(*continued*)

[17] These resources are available to EBPAQC members only.

©2018, Association of International Certified Professional Accountants

Common Deficiency	*EBPAQC Resource or Tool*
Failure to sufficiently perform and document reliance on SOC 1 reports	• *Documentation of Use of a Type 2 Service Auditor's Report in an Audit of an Employee Benefit Plan's Financial Statements* • Employee Benefit Plans: SOC 1 Reports and Service Organizations Resource Center • Internal Control Resource Center
Failure to sufficiently perform procedures related to benefit and claims payment testing, including evaluating participants' eligibility, examining approvals, and recalculation of benefit or claims amounts	• Health and Welfare Plans Resource Center • Topix Primer, *Health and Welfare Employee Benefit Plans* • *Summary of Key Plan Document Provisions Relevant to a Defined Contribution Retirement Plan Audit*
Failure to report significant plan information, such as related party (party in interest) transactions and prohibited transactions between a plan and a party in interest	• *Identification of Parties in Interest and Related Parties* • *Documentation of Procedures Performed to Identify Related Parties and Related Party Transactions and Parties in Interest and Party in Interest Transactions* • *Documentation of the Consideration of Potential Prohibited Transactions in an EBP Financial Statement Audit* • Topix Primer, *Employee BenefitPlans—Parties in Interest and Prohibited Transactions* • Parties In Interest and Prohibited Transactions Resource Center
Failure to obtain an understanding of the actuary's objectives, scope of work, methods and assumptions, and consistency of application on DB plans	• *Documentation of Use of An Actuarial Report in an Audit of a Defined Benefit Pension Plan's Financial Statement* • Defined Benefit Pension Plans Resource Center
No or insufficient testing performed on appraisal or valuation report of employer stock (employee stock ownership plans [ESOPs])	• *Documentation of the Evaluation of an Appraisal Used as Audit Evidence in an Employee Stock Ownership Plan Financial Statement Audit* • Employee Stock Ownership Plans (ESOP) Resource Center

 ©2018, Association of International Certified Professional Accountants

Common Deficiency	*EBPAQC Resource or Tool*
Failure to sufficiently perform participant testing related to demographic data and payroll	• *Summary of Key Plan Document Provisions Relevant to a Defined Contribution Retirement Plan Audit*

.116 In addition, the EBPAQC has developed the following new tools and resources in the past year:

- EBP Audit Internal Planning Meeting Tool
- EBP Audit Client Planning Meeting Tool
- Plan Governing Documents, Agreements, and Correspondence Index
- Topix Primer, *Master Trusts in Employee Benefit Plans*
- Plan Advisory, *Limited Scope Audits of Employee Benefit Plans*

.117 The EBPAQC also broadcasts exclusive member-only live forum webinars on relevant technical topics. These webinars are free to members or, for a nominal fee, members can receive CPE for watching the live webinars or rebroadcasts. The EBPAQC has scheduled the following webinars for 2018:

Title	*Date/Time*
Multiple Employer Plans	January 12, 2018, 1:00–2:00 p.m. (ET)
Designated Partner Planning Live Forum—2018	January 26, 2018, 1:00–3:00 p.m. (ET)
11-K Audits Live Forum—2018	March 9, 2018, 1:00–3:00 p.m. (ET)
Designated Partner Planning Live Forum—2018 Rebroadcast	April 23, 2018, 1:00–3:00 p.m. (ET)
Managers & Supervisors Planning Live Forum—2018	April 27, 2018, 1:00–3:00 p.m. (ET)
Advanced Issues in Health & Welfare Plans	April 30, 2018, 1:00–3:00 p.m. (ET)
401(k) Basics, Part 1—Introduction and Planning—Rebroadcast	May 3, 2018, 1:00–3:00 p.m. (ET)
401(k) Basics, Part 2— Participant Data and Contribution Testing—Rebroadcast	May 10, 2018, 1:00–3:00 p.m. (ET)
Using the EBPAQC SOC 1 Tool—Rebroadcast	May 23, 2018, 1:00–3:00 p.m. (ET)
401(k) Basics, Part 3—Distribution Testing, Audit Wrap-Up, and Notes to Financial Statements—Rebroadcast	May 24, 2018, 1:00–3:00 p.m. (ET)

(*continued*)

Title	*Date/Time*
EBP Auditing in Electronic Environment	May 30, 2018, 1:00–3:00 p.m. (ET)
401(k) Basics, Part 4—Investments and Current Topics	May 31, 2018, 1:00–3:00 p.m. (ET)
Managers & Supervisors Planning Live Forum—2018 Rebroadcast	June 5, 2018, 1:00–3:00 p.m. (ET)
Designated Partner Planning Live Forum—2018 Rebroadcast	June 7, 2018, 1:00–3:00 p.m. (ET)
Initial EBP Audits	June 22, 2018, 1:00–2:00 p.m. (ET)
Actuarial Reports in DB Plan Audits/Using the Center's Actuarial Documentation Tool	July 18, 2018, 1:00–3:00 p.m. (ET)
Designated Partner Planning Live Forum—2018 Rebroadcast	August 1, 2018, 1:00–3:00 p.m. (ET)

Help Desk: The archived versions of most prior EBPAQC webinars are available on-demand on the EBPAQC website. It should be noted that no CPE will be given for viewing these archived webinars.

.118 The EBPAQC also provides timely e-alerts that include information about recent developments affecting employee benefit plan audits, practice management tools and aids intended to help members establish a quality employee benefit plan audit practice, and other audit engagement tools to help members perform quality ERISA audits.

Help Desk: Visit the EBPAQC website at www.aicpa.org/ebpaqc to see a list of EBPAQC member firms and to preview EBPAQC benefits. For more information, contact the EBPAQC at ebpaqc@aicpa.org.

Recent Pronouncements

.119 AICPA auditing and attestation standards are applicable only to audits and attestation engagements of nonissuers. The PCAOB establishes auditing and attestation standards for audits of issuers. FASB establishes financial accounting and reporting standards for public and private companies and not-for-profit organizations that follow generally accepted accounting principles (GAAP). For information on pronouncements issued subsequent to the writing of this alert, please refer to the AICPA website at aicpa.org, the FASB website at www.fasb.org, and the PCAOB website at www.pcaob.org. You also may look for announcements of newly issued accounting and auditing standards in *CPA Letter Daily* and the *Journal of Accountancy*.

 ©2018, Association of International Certified Professional Accountants

Recent Auditing and Attestation Pronouncements and Related Guidance

.120 The following table presents a list of recently issued audit and attestation standards and related guidance.

Recent Auditing and Attestation Standards and Related Guidance	
SAS No. 133, *Auditor Involvement With Exempt Offering Documents* (AU-C section 945) (July 2017)	This SAS addresses the auditor's responsibilities when the auditor is deemed to be involved with exempt offering documents. This standard is effective for exempt offering documents the auditor is involved with that are initially distributed, circulated, or submitted on or after June 15, 2018.
Interpretation No. 4, "Performing and Reporting on an Attestation Engagement Under Two Sets of Attestation Standards" (AT-C section 9105 par. .31–.35), of AT-C section 105,[18] *Concepts Common to All Attestation Engagements* (May 2017) (Interpretive publication)	This interpretation addresses whether a practitioner may perform and report on an attestation engagement in accordance with AICPA attestation standards in addition to another set of attestation standards and provides illustrative reports with examples of additional language that a practitioner may include in such attestation reports.
Interpretation No. 4, "Reporting on Audits Conducted in Accordance With Auditing Standards Generally Accepted in the United States of America and the Standards of the PCAOB" (AU-C section 9700 par. .14–.21), of AU-C section 700, *Forming an Opinion and Reporting on Financial Statements* (March 2018) (Interpretive publication)	See paragraph .63 of this alert for details.

Recent Accounting Standards Updates

.121 The following table presents, by codification area, a list of recently issued FASB ASUs through the issuance of ASU No. 2018-03, *Technical Corrections and Improvements to Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*. FASB ASC includes SEC content to improve its usefulness for public companies, but the content labeled as "SEC staff guidance" does not constitute rules or interpretations of the SEC, nor does such guidance bear official SEC approval.

[18] All AT-C sections can be found in AICPA *Professional Standards*.

©2018, Association of International Certified Professional Accountants

Help Desk: For a complete listing of ASUs, visit the FASB website at www.fasb.org/jsp/fasb/page/sectionpage&cid=1176156316498.

Recent Accounting Standards Updates	
Technical Corrections and Improvements to FASB Accounting Standards Codification® (ASC)	
ASU No. 2017-15 (December 2017)	*Codification Improvements to Topic 995, U.S. Steamship Entities: Elimination of Topic 995*
Presentation Area of FASB ASC	
ASU No. 2017-11 (July 2017)	*Earnings Per Share (Topic 260); Distinguishing Liabilities from Equity (Topic 480); Derivatives and Hedging (Topic 815): (Part I) Accounting for Certain Financial Instruments with Down Round Features, (Part II) Replacement of the Indefinite Deferral for Mandatorily Redeemable Financial Instruments of Certain Nonpublic Entities and Certain Mandatorily Redeemable Noncontrolling Interests with a Scope Exception*
ASU No. 2017-14 (November 2017)	*Income Statement—Reporting Comprehensive Income (Topic 220), Revenue Recognition (Topic 605), and Revenue from Contracts with Customers (Topic 606) (SEC Update)*
ASU No. 2018-02 (February 2018)	*Income Statement—Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income*
Assets Area of FASB ASC	
ASU No. 2017-08 (March 2017)	*Receivables—Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities*
Revenue Area of FASB ASC	
ASU No. 2017-05 (February 2017)	*Other Income—Gains and Losses from the Derecognition of Nonfinancial Assets (Subtopic 610-20): Clarifying the Scope of Assets Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets*
ASU No. 2017-13 (September 2017)	*Revenue Recognition (Topic 605), Revenue from Contracts with Customers (Topic 606), Leases (Topic 840), and Leases (Topic 842): Amendments to SEC Paragraphs Pursuant to the Staff Announcement at the July 20, 2017 EITF Meeting and Rescission of Prior SEC Staff Announcements and Observer Comments (SEC Update)*

 ©2018, Association of International Certified Professional Accountants

Recent Accounting Standards Updates—continued	
Expenses Area of FASB ASC	
ASU No. 2017-07 (March 2017)	*Compensation—Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*
ASU No. 2017-09 (May 2017)	*Compensation—Stock Compensation (Topic 718): Scope of Modification Accounting*
Broad Transactions Area of FASB ASC	
ASU No. 2017-10 (May 2017)	*Service Concession Arrangements (Topic 853): Determining the Customer of the Operation Services (a consensus of the FASB Emerging Issues Task Force)*
ASU No. 2017-12 (August 2017)	*Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities*
ASU No. 2018-01 (January 2018)	*Leases (Topic 842): Land Easement Practical Expedient for Transition to Topic 842*
ASU No. 2018-03 (February 2018)	*Technical Corrections and Improvements to Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*
Industry Area of FASB ASC	
ASU No. 2017-06 (February 2017)	*Plan Accounting: Defined Benefit Pension Plans (Topic 960), Defined Contribution Pension Plans (Topic 962), Health and Welfare Benefit Plans (Topic 965): Employee Benefit Plan Master Trust Reporting (a consensus of the Emerging Issues Task Force)*

Recently Issued Technical Questions and Answers

.122 The information in *Technical Questions and Answers* is based on selected practice matters identified by the staff of the AICPA's Technical Hotline and various other bodies within the AICPA. These Q&A sections are nonauthoritative and have not been approved, disapproved, or otherwise acted on by any senior technical committee of the AICPA. Recently issued Q&A sections can be accessed at www.aicpa.org/interestareas/frc/pages/recentlyissuedtechnicalquestionsandanswers.aspx.

Technical Questions and Answers on Multiemployer Plans

.123 In March 2018, Q&A sections 6935.03–.06 were issued to provide nonauthoritative guidance relating to multiemployer plan payroll compliance services (often referred to as payroll audits) when a practitioner is engaged to perform payroll compliance procedures as an agreed-upon procedure engagement in accordance with AT-C section 215, *Agreed-Upon Procedures Engagements*. The Q&A sections discuss requesting and obtaining the engagement letter, requesting and obtaining the representation letter from the engaging party, the situation when requested representations are not obtained from one or more responsible parties, and the use of agreed-upon procedures reports or other reports as audit evidence. Q&A section 6935 has been retitled

Multiemployer Plans, and former Q&A sections 6935.01–.02 have been transferred to paragraphs .11–.12 of Q&A section 6933, *Auditing Employee Benefit Plans*.

Regulatory Developments—DOL

2017 Form 5500 Annual Report

.124 The DOL, IRS, and the PBGC have released the 2017 Form 5500, "Annual Return/Report of Employee Benefit Plan," and related instructions. The "Changes to Note" section of the 2017 instructions highlight important modifications to the Form 5500 and Form 5500-SF and their schedules and instructions. Modifications are as follows:

- *IRS-only questions.* IRS-only questions that filers were not required to complete on the 2016 Form 5500 have been removed from the Form 5500, Form 5500-SF, and schedules, including preparer information, trust information, Schedules H and I, lines 4o, and Schedule R, Part VII, regarding the IRS Compliance questions (Part IX of the 2016 Form 5500-SF).
- *Authorized service provider signatures.* The instructions for authorized service provider signatures have been updated to reflect the ability for service providers to sign electronic filings on the plan sponsor and Direct Filing Entity (DFE) lines, where applicable, in addition to signing on behalf of plan administrators.
- *Administrative penalties.* The instructions have been updated to reflect an increase in the maximum civil penalty amount assessable under the Employee Retirement Income Security Act section 502(c)(2) required by the Federal Civil Penalties Inflation Adjustment Act Improvements Act of 2015. Department regulations published on January 18, 2017, increased the maximum penalty to $2,097 a day for a plan administrator who fails or refuses to file a complete or accurate Form 5500 report. The increased penalty under section 502(c)(2) is applicable for civil penalties assessed after January 13, 2017, whose associated violations occurred after November 2, 2015—the date of enactment of the 2015 Inflation Adjustment Act.
- *Form 5500 and 5500-SF plan name change.* Line 4 of the Form 5500 and Form 5500-SF have been changed to provide a field for filers to indicate the name of the plan has changed. The instructions for line 4 have been updated to reflect the change. The instructions for line 1a have also been updated to advise filers that if the plan changed its name from the prior year filing or filings, complete line 4 to indicate that the plan was previously identified by a different name.
- *Schedule MB.* The instructions for line 6c have been updated to add mortality codes for several variants of the RP-2014 mortality table and to add a description of the mortality projection technique and scale to the Schedule MB, line 6—Statement of Actuarial Assumptions/Methods.
- *Form 5500-SF Line 6c.* Line 6c has been modified to add a new question for defined benefit plans that answer "Yes" to the existing question about whether the plan is covered under the PBGC

 ©2018, Association of International Certified Professional Accountants

insurance program. The new question asks PBGC-covered plans to enter the confirmation number (generated in the My Plan Administration Account system) for the PBGC premium filing for the plan year to which the 5500-SF applies. For example, the confirmation number for the 2017 premium filing is reported on the 2017 Form 5500-SF.

Help Desk: Informational copies of the forms, schedules, and instructions are available online at https://www.dol.gov/agencies/ebsa/employers-and-advisers/plan-administration-and-compliance/reporting-and-filing/form-5500. Filers should monitor the EFAST website for the availability of the official electronic versions for filing using EFAST-approved software or directly through the EFAST website. Assistance with the EFAST2 system is available at https://www.dol.gov/agencies/ebsa/employers-and-advisers/plan-administration-and-compliance/reporting-and-filing/forms/efast2-form-5500-filing-tips or by calling 1.866.463.3278.

The DOL Extends Transition Period for Fiduciary Rule Exemptions

.125 On November 29, 2017, the DOL announced an 18-month extension from January 1, 2018, to July 1, 2019, of the special transition period for the Fiduciary Rule's Best Interest Contract Exemption and the Principal Transactions Exemption, and of the applicability of certain amendments to Prohibited Transaction Exemption (PTE) 84-24. This followed public comment on a proposed extension that was published in August 2017.

.126 The extension gives the DOL the time necessary to consider public comments submitted pursuant to the Department's July Request for Information and to consider the criteria set forth in the "Presidential Memorandum on Fiduciary Duty Rule" issued February 3, 2017, including whether possible changes and alternatives to exemptions would be appropriate in light of the current comment record and potential input from, and action by, the SEC, state insurance commissioners, and other regulators. The president directed the DOL to prepare an updated analysis of the likely impact of the Fiduciary Rule on access to retirement information and financial advice.

.127 During the extended transition period, fiduciary advisers have an obligation to give advice that adheres to "impartial conduct standards."[19] These fiduciary standards require advisers to adhere to a best interest standard when making investment recommendations, charge no more than reasonable compensation for their services, and refrain from making misleading statements.

.128 Further, between now and July 1, 2019, when the exemptions' remaining conditions are scheduled to become applicable, the DOL intends to complete its review under the presidential memorandum and decide whether to propose further changes.

.129 The DOL has also announced an extension of the temporary enforcement policy contained in Field Assistance Bulletin 2017-02 to cover the 18-month extension period. Thus, from June 9, 2017, to July 1, 2019, the Department will not pursue claims against fiduciaries working diligently and in good

[19] https://www.dol.gov/sites/default/files/ebsa/about-ebsa/our-activities/resource-center/faqs/coi-transition-period-1.pdf.

©2018, Association of International Certified Professional Accountants

faith to comply with the Fiduciary Rule and PTEs, or treat those fiduciaries as being in violation of the Fiduciary Rule and PTEs.

Regulatory Developments—IRS

IRS Announces 2018 Pension Plan Limitations; 401(k) Contribution Limit Increases to $18,500 for 2018

.130 The IRS recently announced cost-of-living adjustments affecting dollar limitations for pension plans and other retirement-related items for tax year 2018, including that the 401(k) contribution limit increases to $18,500 for 2018. The IRS issued technical guidance detailing these items in Notice 2017-64.

Highlights of Changes for 2018

.131 The following are highlights of the changes for 2018:

- The contribution limit for employees who participate in 401(k), 403(b), most 457 plans, and the federal government's Thrift Savings Plan is increased from $18,000 to $18,500.
- The total contribution limit for DC plans under IRC Section 415(c)(1)(A) is increased in 2018 from $54,000 to $55,000.
- The annual compensation limit under Sections 401(a)(17), 404(l), 408(k)(3)(C), and 408(k)(6)(D)(ii) is increased from $270,000 to $275,000.
- The income ranges for determining eligibility to make deductible contributions to traditional individual retirement arrangements (IRAs), to contribute to Roth IRAs, and to claim the saver's credit all increased for 2018.

Highlights of Limitations That Remain Unchanged From 2017

.132 The limit on annual contributions to an IRA remains unchanged at $5,500. The additional catch-up contribution limit for individuals aged 50 and over is not subject to an annual cost-of-living adjustment and remains $1,000.

.133 The catch-up contribution limit for employees aged 50 and over who participate in 401(k), 403(b), most 457 plans, and the federal government's Thrift Savings Plan remains unchanged at $6,000.

Mortality Tables for Pension Plans Updated for 2018

.134 For funding purposes, pension plans are required to use mortality tables prescribed by the IRS. These tables were recently updated by the IRS and the updated tables will be in effect for 2018. Plan sponsors should work with their actuaries to determine the impact to future funding requirements of these updated mortality tables.

.135 IRS Notice 2017-60 sets forth the mortality table to be used for purposes of determining minimum present value under IRC Section 417(e)(3) and Section 205(g)(3) of ERISA, as amended, for distributions with annuity starting dates that occur during stability periods beginning in the 2018 calendar year. This mortality table is a modified unisex version of the mortality tables mentioned in the preceding paragraph.

 ©2018, Association of International Certified Professional Accountants

.136 This notice also provides updated static mortality tables determined using the methodology in Section 1.430(h)(3)-1. These updated static mortality tables apply for plan years beginning during 2017 with respect to valuation dates occurring during 2018. These updated static mortality tables also apply for the plan year beginning during 2018 if the option under Section 1.430(h)(3)-1(f)(2) is used for the plan.

Disaster Tax Relief For Retirement Plans

.137 H.R. 3823, the Disaster Tax Relief and Airport and Airway Extension Act of 2017, delivers temporary tax relief for retirement plans as well as other tax relief to the victims of Hurricanes Harvey, Irma, and Maria and reauthorizes the Federal Aviation Administration for six months.

.138 The bill contains provisions permitting individuals to write off hurricane losses for tax purposes, eliminating a requirement that personal losses must exceed 10 percent of adjusted gross income to qualify for a deduction, and it temporarily suspends limitations on the deduction for charitable contributions made before year-end for hurricane relief. It also provides relief for retirement plans by allowing hurricane victims penalty-free access to retirement funds. Provisions related to relief for retirement plans include the following:

- Permitting tax-favored withdrawals from retirement plans, by providing an exception to the 10 percent early retirement plan withdrawal penalty for qualified hurricane relief distributions, providing favorable repayment terms, and allowing taxpayers the option of spreading out income inclusion resulting from such withdrawals over a three-year period
- Permitting the re-contribution of certain retirement plan withdrawals for home purchases or construction that were received after February 28, 2017, and before September 21, 2017, where the home purchase or construction was canceled because of Hurricane Harvey, Irma, or Maria
- Providing flexibility for loans from retirement plans for qualified hurricane relief, by increasing the maximum amount that a participant or beneficiary can borrow from a qualified employer plan from $50,000 to $100,000, removing the "one half of present value" limitation, and delaying certain repayment dates

Retirement Plans Can Make Loans and Hardship Distributions to Victims of Hurricanes Maria, Irma, and Harvey

.139 The IRS announced that 401(k) plans and similar employer-sponsored retirement plans can make loans and hardship distributions to victims of Hurricanes Maria, Irma, and Harvey and members of their families. This is similar to relief provided last year to Louisiana flood victims and victims of Hurricane Matthew.

.140 Participants in 401(k) plans, employees of public schools and tax-exempt organizations with 403(b) tax-sheltered annuities, and state and local government employees with 457(b) deferred-compensation plans may be eligible to take advantage of these streamlined loan procedures and liberalized hardship distribution rules.

.141 Retirement plans can provide this relief to employees and certain members of their families who live or work in disaster area localities affected by

Hurricane Maria, Irma, or Harvey and that are designated for individual assistance by the Federal Emergency Management Agency (FEMA). For a complete list of eligible counties, visit https://www.fema.gov/disasters. To qualify for this relief, hardship withdrawals must be made by January 31, 2018.

.142 The IRS is also relaxing procedural and administrative rules that normally apply to retirement plan loans and hardship distributions. As a result, eligible retirement plan participants will be able to access their money more quickly with a minimum of red tape. In addition, the six-month ban on 401(k) and 403(b) contributions that normally affects employees who take hardship distributions will not apply.

.143 This broad-based relief means that a retirement plan can allow a victim of Hurricane Maria, Irma, or Harvey to take a hardship distribution or borrow up to the specified statutory limits from the victim's retirement plan. It also means that a person who lives outside the disaster area can take out a retirement plan loan or hardship distribution and use it to assist a son, daughter, parent, grandparent, or other dependent who lived or worked in the disaster area. Depending on the changes made by the plan in response to the relief provisions, plan sponsors may need to amend their plan to implement certain provisions.

IRS Updates Procedures for Issuing Opinions on Preapproved Plans

.144 In Revenue Procedure 2017-41, the IRS updated its procedures for the issuance of opinions and advisory letters regarding the qualification in the form of preapproved plans. This revenue procedure modifies the IRS's historic approach to preapproved plans in order to expand the provider market and encourage employers that currently maintain individually designed plans to convert to the preapproved format. Modifications to the IRS preapproved letter program include the following:

- The program is simplified by eliminating the distinction between master and prototype and volume submitter plans.
- The program is liberalized by increasing the types of plans eligible for preapproved status.
- The program is revised to afford greater flexibility in the design of preapproved plans.

IRS Issues New Guidance on Hardships

.145 In February 2017, the IRS's Tax Exempt and Government Entities Division issued a memorandum[20] that sets forth substantiation guidelines for IRS auditors for examining whether a Section 401(k) plan hardship distribution is "deemed to be on account of an immediate and heavy financial need." The guidance should be read in its entirety, but it gives clearer requirements for those plans using providers that utilize a summary of information (that is, self-certification).

.146 If a summary of information on source documents is used, an employer or third-party administrator must provide the employee the following notifications prior to making a hardship distribution:

---

[20] See https://www.irs.gov/pub/foia/ig/spder/tege-04-0217-0008.pdf.

 ©2018, Association of International Certified Professional Accountants

- The hardship distribution is taxable and additional taxes could apply.
- The amount of the distribution cannot exceed the immediate and heavy financial need.
- Hardship distributions cannot be made from earnings on elective contributions or from qualified nonelective contribution or qualified matching contribution accounts, if applicable.
- The recipient agrees to preserve source documents and to make them available at any time, upon request, to the employer or administrator.

.147 If the employer or third-party administrator obtains a summary of information on source documents, the summary should contain the participant's name; total cost of the event causing hardship (for example, total cost of medical care, total cost of funeral or burial expenses, payment needed to avoid foreclosure or eviction); amount of distribution requested; and certification by the participant that the information provided is true and accurate. Additionally, the summary should contain information that supports the specific type of deemed hardship. The IRS gives specific guidance about what support by type of hardship that they are expecting.

.148 If the notification provided to employees or the information that supports the specific type of deemed hardship is incomplete or inconsistent, the IRS examiner may ask for source documents from the employer or third-party administrator to substantiate that a hardship distribution is deemed to be on account of an immediate and heavy financial need.

.149 If the summary of information is complete and consistent but the IRS examiner finds employees who have received more than two hardship distributions in a plan year, then, in the absence of an adequate explanation for the multiple distributions and with managerial approval, the IRS examiner may ask for source documents from the employer or third-party administrator to substantiate the distributions.

.150 If the IRS examiner determines that all applicable requirements are satisfied, the plan should be treated as satisfying the substantiation requirement for making hardship distributions deemed to be on account of an immediate and heavy financial need. The memo is effective as of February 23, 2017, and is being applied to examinations open on that date.

Required Amendments From the IRS

.151 In Notice 2017-44, the IRS provides model amendments that can be used by plan sponsors to amend qualified DB plans in order to offer bifurcated benefit distribution options in accordance with the final regulations issued under IRC Section 417(e). A bifurcated benefit distribution option is when a plan permits the payment of benefits to a participant partly in the form of an annuity and partly as a single sum (or other accelerated form). The IRS made this change in the regulations to encourage plan sponsors that include single sum distribution options to also provide bifurcated benefit distribution options. An employer must have adopted the model amendments by December 31, 2017, in order to take advantage of anti-cutback relief.

.152 Certain collectively bargained plans may need to have been amended by 2017 to comply with the cash balance final regulations. The final regulations were issued in 2015 and provided that, in order to take advantage of

anti-cutback relief, a plan with an applicable collective bargaining agreement that was ratified on or before November 31, 2015, and that expired prior to December 31, 2017, must have been amended before the later of January 1, 2017, or the first day of the plan year beginning after expiration of such agreement (December 31, 2017, for calendar year plans).

Tax Reform's Effect on ESOPs

.153 Although the ESOP legislation was left unaffected by the new tax reform bill, there are some indirect effects that could potentially be significant to ESOPs, particularly related to areas such as interest expense deductibility, state and local tax deduction caps, S corporation deductions, and corporate taxes and their effect on company valuations.

.154 For more information on the tax reform bill, please visit https://www.congress.gov/bill/115th-congress/house-bill/1/text.

PBGC Expanded Missing Participants Program

.155 Until recently, the PBGC's Missing Participants Program (the program) covered only PBGC-insured single employer plans as part of the standard termination process. On December 22, 2017, the PBGC published a final rule that expands the program to cover most terminated DC plans that terminate after December 31, 2017.[21] The final regulations do not apply to ongoing DC plans.

.156 When a plan terminates, it must make arrangements with another entity to provide benefits for missing participants. Generally, DB plans may choose between either the program or an insurance company that provides annuities. DC plans may now choose between either the program or a private financial institution.

.157 There are two ways to use the program. Plans may do either of the following:

- Transfer funds to cover the cost of providing a missing participant's benefit to the PBGC, in which case the PBGC will provide the benefit once the participant is found.
- Send PBGC information about the entity that is responsible for providing the benefit when the participant is found, in which case the PBGC will share that information with the participant once found.

.158 Although participation in the program by a DC plan is voluntary, a plan that elects to be a transferring plan will need to transfer the benefits and all of its missing participants into the program. Before participating in the program, the plan administrator of the terminating plan must first conduct a diligent search for the missing participants (see U.S. DOL Field Assistance Bulletin 2014-01 on fiduciary duties and missing participants in terminated DC plans for further information).

.159 The expanded program also covers PBGC-insured multiemployer pension plans that terminate and pay out all remaining benefits.

---

[21] See https://www.federalregister.gov/documents/2017/12/22/2017-27515/missing-participants.

 ©2018, Association of International Certified Professional Accountants

IRS Extends Relief to Frozen Defined Benefit Pension Plans

.160 When a DB plan is frozen to newly hired employees, existing "grandfathered" participants continue to accrue a pension benefit that is not available to the non-grandfathered group. The non-grandfathered group typically is covered by a new or existing DC plan that may or may not cover the grandfathered group on the same basis. Over time, the grandfathered participants remaining in the plan who continue to accrue a pension benefit are likely to include more highly compensated employees, thereby making it difficult for the DB plan covering the grandfathered participants to pass coverage tests under IRC Section 410(b).

.161 In August 2017, the IRS issued IRS Notice 2017-45, *Extension of Temporary Nondiscrimination Relief for Closed Defined Benefit Plans through 2018*, which extends through 2018 relief from certain nondiscrimination rules for qualifying DB plans that froze eligibility with respect to new hires prior to December 13, 2013. This notice extends relief that the IRS first provided in Notice 2014-5, *Temporary Nondiscrimination Relief for Closed Defined Benefit Plans and Request for Comments*, and subsequently extended in IRS Notice 2015-28, *Extension of Temporary Nondiscrimination Relief for Closed Defined Benefit Plans*, and Notice 2016-57, *Extension of Temporary Nondiscrimination Relief for Closed Defined Benefit Plans through 2017*. The relief allows aggregate testing under IRC Section 410(b) with the plan sponsor's DC plans.

.162 As with the earlier IRS relief, the benefits, rights, and features of the plan must still pass nondiscrimination. In addition, the relief does not extend to the minimum participation.

Regulatory Developments—Multiemployer Plans

Multiemployer Pension Reform Act of 2014 Benefit Suspension

.163 On January 27, 2017, the Department of the Treasury issued final authorization of the first instance of benefit suspension regarding the temporary or permanent reduction of benefits under the Multiemployer Pension Reform Act of 2014 (MPRA). The MPRA gives trustees of multiemployer pension plans in critical and declining status the ability to avoid insolvency by reducing benefits, including benefits of current retirees, subject to various criteria and conditions. This benefit reduction is referred to as a *benefit suspension*. Any MPRA-approved benefit cuts may not reduce the benefit to less than 110 percent of the PBGC's guaranteed benefit amount, which is approximately $13,000 per retiree per year.

.164 The approval process for an MPRA benefit suspension is rigorous and cannot take place until all required actions are completed. After a plan determines that it is eligible to apply and that its benefits can be reduced in a way that will satisfy all of the applicable criteria and restraints, it may apply to the Treasury for approval. The plan must notify participants and beneficiaries of the application and provide an individualized estimate of the reduced benefits, along with an opportunity for comment on the application. If the Treasury approves the application, the benefit suspension must be ratified by participant vote. Under MPRA, the approval is ratified unless a majority of all eligible plan participants and beneficiaries vote against it. If ratified, the final step is the Treasury's authorization to proceed with the benefit suspensions.

.165 During 2017, the Treasury approved a total of four applications to reduce benefits and denied five others. Given the ability to see what criteria the Treasury has approved and rejected, other plans in critical and declining status may make applications similar to those that have been approved in the near term. Within 30 days of receiving an application for benefit suspension, the Treasury posts the application on this page: https://wwwTBvsp.treasury.gov/services/Pages/Plan-Applications.aspx.

On the Horizon

.166 Auditors should keep abreast of auditing and accounting developments and upcoming guidance that may affect their engagements. The following sections present brief information about some ongoing projects that have particular significance to employee benefit plans or that may result in significant changes. Remember that exposure drafts are nonauthoritative and cannot be used as a basis for changing existing standards.

.167 Information on, and copies of, outstanding exposure drafts may be obtained from the various standard setters' websites. These websites contain in-depth information about proposed standards and other projects in the pipeline. Many more accounting and auditing projects exist in addition to those discussed here. Readers should refer to Audit Risk Alert *General Accounting and Auditing Developments—2017/18* for further information.

Auditing and Attest Pipeline

.168 In November 2017, the ASB issued a set of exposure drafts aimed at enhancing the relevance and usefulness of the auditor's report. The following are the exposure drafts released in November 2017. The comment period for all three exposure draft ends on May 15, 2018.

- Proposed Statement on Auditing Standards*Auditor Reporting and Proposed Amendments?Addressing Disclosures in the Audit of Financial Statements*
- Proposed Statement on Auditing Standards*The Auditor's Responsibilities Relating to Other Information Included in Annual Reports*
- Proposed Statement on Auditing Standards*Omnibus Statement on Auditing Standards—2018*

Independence and Ethics Pipeline

Proposed "Long Association of Senior Personnel With an Attest Client" Interpretation

.169 In July 2017, the Professional Ethics Executive Committee (PEEC) issued a proposed interpretation "Long Association of Senior Personnel With an Attest Client" under the "Independence Rule" after considering the new ethics standard *Long Association of Personnel with an Audit Client* of the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants*.

.170 The proposed interpretation does not include partner rotation, but partner rotation is a suggested safeguard in the proposed interpretation. Thus, the proposed interpretation is similar to the existing guidance in the AICPA

 ©2018, Association of International Certified Professional Accountants

Code of Professional Conduct; however, the proposal is more robust and will better guide members when addressing familiarity threats due to long association with an attest client.

Employee Benefit Plan Resources

.171 The following are various resources that practitioners engaged in the employee benefit plan industry may find beneficial.

Employee Benefit Plan Audit Certificate Programs

.172 Four new employee benefit plan audit certificates are currently available. These new certificate programs were developed to help auditors demonstrate their level of expertise and commitment to excellence, as well as to assist plan sponsors in selecting a qualified and competent auditor.

.173 The certificates are available at both the intermediate and advanced competency levels. Both levels offer flexible learning options, allowing auditors to take CPE learning or a stand-alone exam, or both. Upon successful completion of the exam, a digital badge will be awarded that can be shared electronically via social media, in your email signature, on your firm site, or in proposals, to demonstrate competency at either an intermediate or advanced level.

Publications

.174 Practitioners may find the following publications useful. Visit www.aicpastore.com and choose the format best for you—online, e-book, or print.

- Audit and Accounting Guide *Employee Benefit Plans* (2018) (product nos. AAGEBP18P, AAGEBP18E, or WEB-XX)
- *Defined Contribution Retirement Plans: Checklists and Illustrative Financial Statements* (2017) (product nos. ACKDCP17P or WDC-CL)
- *Employee Benefit Plans—Best Practices in Presentation and Disclosure*, sixth edition (product nos. AATEBP16P, AATEBP16E, or WET-XX)
- Audit and Accounting Practice Aid *Using a SOC 1® Report in Audits of Employee Benefit Plans* (product nos. APASOC116P, APASOC116E, or APASOC1O)
- AICPA Audit Guide *Special Considerations in Auditing Financial Instruments* (2014) (product nos. AAGAFI16P, AAGAFI16E, or AAGAFIO)
- Audit Guide *Audit Sampling* (2014) (product nos. AAGSAM14P, AAGSAM14E, or WAS-XX)
- Audit Risk Alert *General Accounting and Auditing Developments—2017/18* (product nos. ARAGEN17P, ARAGEN17E, or WGE-XX)
- *U.S. GAAP Financial Statements—Best Practices in Presentation and Disclosure* (formerly*Accounting Trends and Techniques), 69th Edition* (product nos. ATTATT17P or ABPPDO)
- *Audit and Accounting Manual* (2017) (product nos. AAMAAM17P or WAM-XX)

Continuing Professional Education

.175 A number of CPE courses are available that are valuable to CPAs working in public practice and industry, including the following specifically related to employee benefit plans:

- *Documenting Your EBP Audit: What You Need To Know*
- *Auditing Employee Benefit Plans*
- *Audits of 401(k) Plans*
- *Auditing Defined Contribution Retirement Plans*
- *Audits of Multiemployer Plans*
- *Audits of Employee Stock Ownership Plans*
- *Advanced Defined Contribution Plans Audit Certificate Exam Review*

Visit www.aicpastore.com for a complete list of CPE courses.

Online CPE

.176 CPExpress, offered exclusively through www.aicpastore.com, is our flagship online learning product. Divided into 1-credit and 2-credit courses available 24 hours a day, 7 days a week, CPExpress offers hundreds of hours of learning in a wide variety of topics. Subscriptions are available at https://www.aicpastore.com/AST/Main/CPA2BIZ_Primary/Tax/Research/PRDOVR~PC-BYF-XX/PC-BYF-XX.jsp (product no. BYT-XX).

To register for individual courses or to learn more, visit www.aicpastore.com.

Webcasts

.177 Stay plugged in to what is happening and earn CPE credit right from your desktop. Our webcasts are high-quality CPE programs that bring you the latest topics from the profession's leading experts. Broadcast live, they allow you to interact with the presenters and join in the discussion. If you cannot make the live event, each webcast is archived and available for viewing. For additional details on available webcasts, please visit https://www.aicpastore.com/AST/AICPA_CPA2BiZ_Nav/Responsive_Top_Nav/Webcasts.jsp.

Member Service Center

.178 To order products, receive information about AICPA activities, and get help with your membership questions, call the AICPA Member Service Center at 1.888.777.7077.

Hotlines

Accounting and Auditing Technical Hotline

.179 Do you have a complex technical question about GAAP, other comprehensive bases of accounting, or other technical matters? If so, use the AICPA's Accounting and Auditing Technical Hotline. AICPA staff will research your question and call you back with the answer. The hotline is available from 9 a.m. to 8 p.m. ET on weekdays. You can reach the Technical Hotline at 1.877.242.7212 or online at https://www.aicpa.org/research/technicalhotline.html. Members can also email questions to aahotline@aicpa.org. Additionally, members can submit questions by completing a Technical Inquiry form found on the website.

 ©2018, Association of International Certified Professional Accountants

Ethics Hotline

.180 In addition to the Technical Hotline, the AICPA also offers an Ethics Hotline. Members of the AICPA's Professional Ethics Team answer inquiries concerning independence and other behavioral issues related to the application of the AICPA Code of Professional Conduct. You can reach the Ethics Hotline at 1.888.777.7077 or by email at ethics@aicpa.org.

Online Professional Library: Accounting and Auditing Literature

.181 We have created your core accounting and auditing library online. The Online Professional Library is now customizable to suit your preferences or your firm's needs. You can also sign up for access to the entire library. Get access—anytime, anywhere—to FASB *Accounting Standards Codification*®; the latest *Professional Standards*, *Technical Questions and Answers*, Audit and Accounting Guides, Audit Risk Alerts, Best Practices in Presentation and Disclosure; and more. To subscribe to this essential online service for accounting professionals, visit www.aicpastore.com.

Codified Clarity Standards

.182 The best way to obtain the codified clarity standards is with a subscription to AICPA *Professional Standards* in the Online Professional Library. Although the individual SASs are available in paperback, this online codified resource is what you need to update your firm audit methodology and begin understanding how clarity standards change certain ways you perform your audits. For online access to AICPA *Professional Standards*, visit https://www.aicpastore.com/AST/Main/CPA2BIZ_Primary/Accounting/Standards/PRDOVR~PC-005102/PC-005102.jsp.

.183 You can also get the clarified standards in paperback format. *Codification of Statements on Auditing Standards* is published each spring and includes the clarified auditing standards and the attestation standards. *Professional Standards*, which has the full complement of AICPA standards, is published each summer.

.184 The codification of clarified standards includes various resources:

- A preface, "Principles Underlying the Conduct of an Audit in Accordance With Generally Accepted Auditing Standards"
- A glossary of terms defined in the standards
- Appendixes describing the differences between GAAS and the International Standards on Auditing
- A table mapping the pre-clarity AU sections to the AU-C sections

Financial Reporting Center of AICPA.org

.185 CPAs face unprecedented changes in financial reporting. As such, the AICPA has created the Financial Reporting Center (FRC) to support you in the execution of high-quality financial reporting. This center provides exclusive, member-only resources for the entire financial reporting process and can be accessed at www.aicpa.org/frc.

.186 The FRC provides timely and relevant news, guidance, and examples supporting the financial reporting process. You will find resources for accounting, preparing financial statements, and performing various types of

©2018, Association of International Certified Professional Accountants

engagements—including compilation and review, audit and attest, and assurance and advisory.

.187 For example, the FRC has a section dedicated to the SAS Clarity Project. For the latest resources available to help you implement the clarified standards, visit the "Improving the Clarity of Auditing Standards" page at https://www.aicpa.org/interestareas/frc/auditattest/improvingclarityasbstandards.html.

Industry Conferences

.188 We offer the annual Employee Benefit Plans Accounting, Auditing, and Regulatory Update conference in late fall. The conference is a two-day, high-level forum that lets you interact with experts in the audit and regulatory field. The 2018 conference will be held December 10–11 in Washington, D.C.

.189 We offer an annual national conference on employee benefit plans each spring. The three-day conference is designed to update attendees on recent developments related to employee benefit plans. The 2018 conference will be held on May 15–17 in Las Vegas, NV. For further information about the conference, call 1.888.777.7077 or visit www.aicpastore.com.

 ©2018, Association of International Certified Professional Accountants

.190

Appendix A—Additional Internet Resources

Here are some useful websites that may provide valuable information to accountants.

Website Name	*Content*	*Website*
AICPA	Summaries of recent auditing and other professional standards, as well as other AICPA activities	www.aicpa.org www.aicpastore.com www.ifrs.com
AICPA Financial Reporting Executive Committee	Summaries of recently issued guides, technical questions and answers, and practice bulletins containing financial, accounting, and reporting recommendations, among other things	www.aicpa.org/interestareas/frc/accountingfinancialreporting/pages/finrec.aspx
AICPA Auditing Standards Board	Summaries of recently issued auditing standards and interpretations	www.aicpa.org/research/standards/auditattest/asb/pages/auditingstandardsboard.aspx
AICPA Accounting and Review Services Committee	Summaries of review and compilation standards and interpretations	www.aicpa.org/research/standards/compilationreview/arsc/pages/arsc.aspx
Economy.com	Source for analyses, data, forecasts, and information on the U.S. and world economies	www.economy.com
The Federal Reserve Board	Source of key interest rates	www.federalreserve.gov
Financial Accounting Standards Board (FASB)	Summaries of recent accounting pronouncements and other FASB activities	www.fasb.org
International Accounting Standards Board	Summaries of International Financial Reporting Standards and International Accounting Standards	www.ifrs.org

(*continued*)

©2018, Association of International Certified Professional Accountants

Website Name	*Content*	*Website*
International Auditing and Assurance Standards Board	Summaries of International Standards on Auditing	www.iaasb.org
International Federation of Accountants	Information on standard-setting activities in the international arena	www.ifac.org
Private Company Financial Reporting Committee	Information on the initiative to further improve FASB's standard-setting process to consider needs of private companies and the users of their financial reporting	www.pcfr.org
PCAOB	Information on accounting and auditing activities of the PCAOB and other matters	www.pcaob.org
SEC	Information on current SEC rulemaking and the Electronic Data Gathering, Analysis, and Retrieval database	www.sec.gov
USA.gov	Portal through which all government agencies can be accessed	www.usa.gov

 ©2018, Association of International Certified Professional Accountants

.191

Appendix B—Health and Welfare Plans

The Affordable Care Act (ACA) put in place a number of comprehensive reforms with various effective dates. Some of the reforms affect plan sponsors or service providers, whereas other reforms directly or indirectly affect health and welfare (H&W) plans. It is important for the auditor of an H&W plan to understand the various provisions of the ACA and the possible effects on risk assessment and accounting, auditing, and reporting for the plan.

The three primary goals of the ACA were to expand coverage to those without health insurance, reform the delivery system of benefits to improve cost and quality, and decrease the costs of providing health care. The expansion of coverage was to be accomplished through (*a*) the establishment of marketplaces for the purchase of insurance, (*b*) an individual mandate for all Americans to have health insurance coverage or pay a tax penalty, and (*c*) a mandate for certain employers to offer coverage to all full-time employees. Federal- and state-based exchanges opened and the individual mandate became effective in 2014. The employer mandate became effective in 2015, along with associated reporting requirements. However, in 2017, the Tax Cuts and Jobs Act zeroed out the penalty for the individual mandate effective on and after December 31, 2018. This means that although the individual mandate is not repealed, the penalty for not maintaining minimum essential coverage (MEC) is $0.

In addition to many new tax rules to help offset the overall cost of the reform, the ACA made many changes for plan sponsors to consider that may affect plan operations, internal control, and financial reporting. Some examples of these changes are included in the following sections.

Insurance Exchanges or Marketplaces

Health insurance marketplaces, also called health or insurance exchanges, are entities set up to facilitate the purchase of health insurance in each state (either by the state or the federal government, or a combination of both) in accordance with the ACA. Marketplaces provide a set of government-regulated and standardized health care plans from which individuals may purchase health insurance policies eligible for federal subsidies.

Private Exchanges

The high costs of health care and the requirements of the ACA have accelerated the proliferation of defined contribution health plans and private health exchanges established by private entities, such as large human resource consulting firms and insurance companies. These private exchanges should not be confused with the insurance exchanges established by the states and the federal government. The private exchanges allow an employee to choose among a number of different health care options provided by an employer, and often specify a fixed dollar amount that the employer will contribute toward the cost of coverage. Therefore, the selection is often subsidized by the employer.

Individual Mandate

Beginning in 2014, individuals had to have MEC or they would be subject to an individual mandate penalty unless they met one of the permitted exemptions (see https://www.irs.gov/affordable-care-act/individuals-and-families/

aca-individual-shared-responsibility-provision-exemptions for exemptions from the penalty). MEC includes Medicare, Medicaid, the Children's Health Insurance Program (CHIP), TRICARE (a health care program covering military personnel), and most employer-sponsored medical coverage. As noted earlier, beginning December 31, 2018, the penalty for not maintaining MEC is $0.

Tax credits and reductions in out-of-pocket costs are offered to individuals who purchase coverage through an exchange if the taxpayer's family income is between 100 percent and 400 percent of the federal poverty line and (1) their employer does not offer health care benefits coverage or (2) the taxpayer's employer offers coverage but the coverage is not affordable or does not provide minimum value. If an employee purchases insurance through an exchange and qualifies for the tax credit or the reduction in out-of-pocket costs, the employer may be subjected to a penalty. Taxpayers must indicate on their tax returns whether or not they and their family members were covered by MEC throughout the year.

Employer Mandate to Offer Coverage

The employer mandate first began to apply to applicable large employers on January 1, 2015, and there were numerous transition provisions that applied that year. In general, under the ACA, "applicable large employers," which include employers with 50 or more full-time plus full-time-equivalent employees, may be subject to a nondeductible excise tax if one or more full-time employees (that is, those employees who work on average at least 30 hours per week) purchase health insurance through an exchange and receive a tax subsidy or credit, and the employer fails to offer MEC to at least 95 percent of all full-time employees and their dependents, or the employer offers MEC to at least 95 percent of full-time employees and their dependents, but the coverage is unaffordable or does not meet the minimum value requirement.

All members of a controlled group of employers or an affiliated group are treated as a single employer in determining whether the employer is an applicable large employer. Once the employee threshold is reached (for 2017, the threshold was 100 employees), each employer that is a member of the group is subject to the mandate and penalties. Each employer within a controlled group is liable for the excise tax. Plan assets are not permitted to be used to pay the excise tax.

This excise tax is assessed on a monthly basis. If the employer fails to offer MEC to at least 95 percent of all full-time employees and their dependents, then the tax is an annual amount equal to $2,000 (indexed for future years; the 2018 amount is $2,320) multiplied by the total number of full-time employees, minus the first 30 full-time employees. It is important to note that it takes only one full-time employee qualifying for the premium tax credit or cost-reduction subsidies to trigger the excise tax with respect to all full-time employees. If the employer offers MEC to at least 95 percent of full-time employees and their dependents, but the coverage is unaffordable or does not meet the minimum value requirement, then the tax is an annual amount of $3,000 (indexed for future years; the 2018 amount is $3,480) for each full-time employee who receives a premium tax credit or subsidy (but no more than the amount for not offering coverage). Therefore, the potential tax is generally much higher under the first scenario than under the second scenario.

 ©2018, Association of International Certified Professional Accountants

IRS Forms 1095-C and 1095-B for Employees

Beginning in 2016, employers were required to report coverage information to participants for the previous calendar year through the Form 1095-C. Even though these coverage statements are presented annually to employees and the IRS, the forms must provide month-by-month information concerning whether the employee was covered under a group health plan, the level of coverage that was offered, and certain premium information for each month of the year. Employers must give each full-time employee (and other covered individuals, such as retirees and COBRA beneficiaries if the health plan is self-funded) a Form 1095-C by January 31 of the year following the coverage year, regardless of whether the plan is insured or self-funded. The employer is required to transmit all the employees' forms to the IRS no later than March 31 if electronically submitted and no later than February 28 if filed by paper. If the health insurance plan is fully insured, the employee will also get a Form 1095-B with coverage information from the insurance company.

Help Desk: An employer will send the IRS a Form 1094-C transmittal along with a copy of each employee's Form 1095-C; the insurance company will send a Form 1094-B transmittal to the IRS with a copy of each employee's Form 1095-B. The deadline for filing these transmittal forms depends on whether an employer or an insurer files on paper (February 28) or electronically (March 31).

Employers need to take the information reporting very seriously because the Form 1094-C transmittal requires that an official of the employer attest that the information being reported is "true, correct and complete" under penalty of perjury. The fine is $260 (indexed annually) for each Form 1095-C, or each employee, for failing to file with the IRS, failing to include all required information, or for submitting incorrect information (up to a $3,178,500 [indexed annually] penalty for the year). Penalties cannot be paid from plan assets. For 2015, 2016, and 2017, allowances are made for employers who make a good-faith effort to comply.

To learn more about the annual reporting requirements for large employers, visit https://www.irs.gov/Affordable-Care-Act/Employers/Information-Reporting-by-Applicable-Large-Employers.

Patient-Centered Outcomes Research Fees

Health care reform created a new not-for-profit corporation, the Patient-Centered Outcomes Research Institute (PCORI). It is funded in part by fees (sometimes referred to as PCORI fees) paid by health insurers for insured plans and by plan sponsors for self-insured health plans. The fees apply to specified health insurance policies with policy years ending before October 1, 2019, and applicable self-insured health plans with plan years ending before October 1, 2019. (For calendar-year policies or plans, the fee is applicable for policy or plan years through 2018.) The fee is equal to the average number of lives covered during the policy year or plan year multiplied by the applicable dollar amount for the year. The applicable dollar amount was $1 for the first year of the fee, $2 for the second year, and was indexed thereafter. It is paid each July based on the previous plan year.

©2018, Association of International Certified Professional Accountants

Effect on Employee Benefit Plans

The PCORI fee is a tax assessed against the plan sponsor and the fee cannot be paid from plan assets. A special exemption has been created for multiemployer plans and (in certain limited cases) other plans for which the plan sponsor is a trustee or board of trustees that exists solely for the purpose of sponsoring and administrating the plan and that has no source of funding independent of plan assets, so that plan assets may be used to pay the PCORI fee. For further information, see the Department of Labor's (DOL's) FAQ No. 8 at www.dol.gov/ebsa/faqs/faq-aca11.html.

For all plans subject to the PCORI fee, the fee may be passed along to participants. For self-insured plans subject to the Employee Retirement Income Security Act of 1974 (ERISA), care should be taken by the plan sponsor to avoid paying the fee from plan assets; instead, the fee likely would need to be passed on to participants through an after-tax payment. Payment of improper expenses from plan assets is a breach of fiduciary duties and may be considered a prohibited transaction.

The ACA regulations require plan sponsors of applicable self-insured health plans to use one of three alternative methods to determine the average number of lives covered under the applicable self-insured health plan for a plan year—the actual count method, the snapshot method, or the Form 5500 method.

Help Desk: For more information on the PCORI fee and the methods used to determine the fee, visit www.irs.gov/uac/Newsroom/Patient-Centered-Outcomes-Research-Institute-Fee.

Transitional Reinsurance Fees

A transitional reinsurance program was established to assist insurers by partially offsetting high-cost enrollees, in and outside of the new exchanges, through 2016. The program is financed through fees assessed against insurers and employer-sponsored group health plans. The transitional reinsurance program will collect contributions from contributing entities to fund reinsurance payments to issuers of non-grandfathered reinsurance-eligible individual market plans, the administrative costs of operating the reinsurance program, and the General Fund of the U.S. Treasury for the 2014, 2015, and 2016 benefit years. The Department of Health and Human Services has determined the fee to be $44 per enrollee for 2015 and $27 per enrollee for 2016. (Enrollees include employees and their covered spouses and dependents.) States have the right to charge additional fees to insured individual, small group, and large group plans. If the plan is an insured plan, the fee will be paid by the insurer; if the plan is a self-insured plan, the plan itself is responsible for the fee but may elect to use a third-party administrator to transfer the fee. In both cases, the plan sponsor will likely bear the ultimate cost of the fee, either directly or by having it incorporated through the premium or premium-equivalent process. Because the fee is assessed against the plan, plan assets may be used to pay the fee and the fee may be passed along to the participants. Certain self-insured group health plans that do not use a third-party administrator for claims processing or adjudication or for processing and communicating plan enrollment were exempt from the fee for 2015 and 2016. Although very few plans are self-insured and self-administered, the exemption may have provided relief to a few collectively

 ©2018, Association of International Certified Professional Accountants

bargained multiemployer plans and plans sponsored by insurers for their own employees that met the requirements for exemption.

The fee is paid on a calendar-year basis on www.pay.gov, regardless of whether the plan year is a calendar year or a fiscal year. Visit www.cms.gov/cciio/programs-and-initiatives/premium-stabilization-programs/the-transitional-reinsurance-program/reinsurance-contributions.html for more information on the time line for the payment of fees.

The regulations set forth a number of methods that plan sponsors of applicable self-insured health plans may use to determine the average number of lives covered under the applicable self-insured health plan. These methods are similar to the methods permitted to calculate the previously discussed PCORI fee. For more information on the methods to determine the fee, visit www.cms.gov/cciio/programs-and-initiatives/premium-stabilization-programs/the-transitional-reinsurance-program/downloads/examples-of-counting-methods-for-contributing-entities.pdf.

The Health Insurance Industry Fee

The health insurance industry fee is due by September 30 following the data year (see https://www.irs.gov/businesses/corporations/affordable-care-act-provision-9010 for further information). Health insurance providers pay an annual fee based on their premium revenues. The fee is used to fund federal- and state-run exchanges. It is likely that these fees will be passed on to customers, thus increasing the cost of insured plans, including medical, dental, and vision plans, as well as insured retiree-only plans. The fee does not apply to self-insured plans and associated stop-loss premiums. The Consolidated Appropriations Act of 2016, Title II, Section 201, Moratorium on Annual Fee on Health Insurance Providers, suspended collection of the health insurance provider fee for the 2017 calendar year. Therefore, health insurance issuers are not required to pay these fees for 2017. This moratorium did not affect the filing requirement and payment of these fees for 2016. H.R. 195, Division D—Suspension of Certain Health-Related Taxes, Section 4003, passed on January 22, 2018, suspended collection of the fee for the 2019 calendar year only. Again, this does not affect the filing requirement and payment of the fee for 2018.

Cadillac Tax

The ACA imposes an excise tax on high-value health plans (often referred to as the "Cadillac" tax). A plan is a high-value plan when the cost of the plan exceeds certain amounts. Although originally scheduled to take effect in 2018, Congress has postponed the beginning date several times. Beginning in 2022, this excise tax is to be imposed on the provider of employer-sponsored health care coverage if the aggregate cost for an employee exceeds a threshold amount. The tax is 40 percent of the amount by which the aggregate cost exceeds the threshold. The annual threshold amount is $10,200 for self-only coverage and $27,500 for other coverage. Higher thresholds apply to retirees under age 65 and individuals in certain high-risk professions. The tax is determined on an employer-by-employer basis. The tax is to be paid by the insurer for insured programs, by the entity that administers the plan benefits in the case of self-insured plans, and by the employer in the case of health savings accounts (HSAs) or Archer

©2018, Association of International Certified Professional Accountants

medical savings accounts (MSAs).[1] Generally, the Cadillac tax applies to coverage under a group health plan, excluding stand-alone vision and dental programs and those programs paid exclusively with after-tax dollars by the employee. Although it originally was not deductible, legislation enacted in 2015 made the Cadillac tax paid by employers deductible.

Retiree Prescription Drug Benefits

There are two employer Medicare Part D reimbursement options for retiree prescription drug benefits: retiree drug subsidy (RDS) and employer group waiver plan (EGWP). The RDS encourages a plan sponsor not to drop its prescription drug coverage and offers incentives for companies to keep their coverage. EGWP, on the other hand, encourages plan sponsors to participate in the Medicare Part D program.

Retiree Drug Subsidy

Before the ACA, plan sponsors offering retiree prescription drug coverage that was at least as valuable as Medicare Part D coverage were entitled to a tax-free 28 percent federal RDS. The ACA repealed the tax advantages (a deduction for the retiree drug subsidy) previously associated with the RDS program.

The ACA also made enhancements to Medicare Part D prescription drug coverage and addressed the coverage gap (known as the "donut hole"), which will be filled by 2020. As a result, a potential significant cost savings opportunity has been created for plan sponsors that provide prescription drug benefits to their Medicare-eligible retirees.

Employer Group Waiver Plans

As an alternative to the RDS program, some plan sponsors have restructured their prescription drug benefit programs to an EGWP. An EGWP is a program approved by the Centers for Medicare and Medicaid Services (CMS) for both employers and unions. The employer may contract directly with CMS or go through a third party to establish the plan. For a fully insured EGWP, the third party charges a premium. More commonly, EGWPs are self-funded, integrated with Medicare Part D, and sometimes include a fully insured "wrapper" around the plan to cover drugs not included in the third party's formulary or Medicare. In a self-funded EGWP, the employer contracts with a third party (such as a pharmacy benefit manager [PBM]) to provide drug benefits to its Medicare-eligible retirees and covered Medicare-eligible dependents. The third party (on behalf of the employer) then processes claims, passes through subsidies, and charges an administrative fee. The benefits of an EGWP program include annual expected savings (less than levels under the RDS program), removal of certain administrative burdens, improved cash flow, and the transfer of the risk of administering an RDS program.

---

[1] The excise tax for not offering coverage that is either not affordable or does not meet minimum value is capped by the amount of tax that would have been due under the first scenario. This should go under the employer mandate.

In Notice 2015-52, the IRS asked for comments on two alternative approaches it is considering for determining the identity of the entity that administers the plan benefits. Under one approach, the entity responsible for performing day-to-day functions that constitute the administration of the plans benefits (for example, a third-party administrator) would be the entity that administers the plan. Under the second approach, the entity that has the ultimate authority or responsibility under the plan with respect to the administration of the plan benefits would be the entity that administers the plan benefits.

 ©2018, Association of International Certified Professional Accountants

There are various components of an EGWP, and the applicability of each is dependent on how the program is designed. Each component of the program needs to be evaluated separately to determine the correct accounting treatment. Some examples of the various types of subsidies, rebates, and discounts that are commonly received under an EGWP design include the following:

- Direct subsidies
- Medicare Rebate Program
- Manufacturer coverage gap discount
- (Catastrophic) reinsurance subsidy
- Participant-related subsidies or penalties (or both)
    - — Low income subsidies
        - Low income cost-sharing subsidy (LICS)
        - Low income premium subsidy (LIPS)
    - — Late enrollment penalty (LEP)

Plan sponsors may continue to apply for federal RDS program benefits, the payment of which is received directly by the employer. It is generally expected that retiree plan participants will receive essentially the same prescription drug benefits under an EGWP as they would under an RDS approach; however, the cost of providing the benefit will generally be less under the EGWP program. Depending on the specific plan design for cost-sharing between the employer and the retiree, the cost savings may be realized by either one or both parties.

Help Desk: For additional information on EGWPs, visit www.cms.gov/medicare/prescription-drug-coverage/prescriptiondrugcovcontra/partd-egwp.html.

Medical Loss Ratio Rebates

As noted in DOL Technical Release No. 2011-04, "Guidance on Rebates for Group Health Plans Paid Pursuant to the Medical Loss Ratio Requirements of the Public Health Service Act," Section 2718 of the Public Health Service Act (PHSA), as added by the ACA, requires that health insurers publicly report on major categories of spending of policyholder premium dollars, such as clinical services provided to enrollees and activities that will improve health care quality. The law also established medical loss ratio (MLR) standards. Insurers are required to provide rebates to enrollees when insurers' spending for the benefit of policyholders on reimbursements for clinical services and health care quality improving activities (in relation to the premiums charged as adjusted for taxes) is less than the MLR standards established by the statute. Rebates are based on aggregated market data in each state, not on a particular group health plan's experience.

Insurers are required to report data concerning MLR to each state in which they do business. Insurers that did not meet the MLR standards for policies are required to provide a rebate to their enrollees. Instructions and fact sheets regarding how the rebate is calculated can be found on the CMS website at http://cciio.cms.gov/.

©2018, Association of International Certified Professional Accountants

Distributions paid by health insurance issuers to their policyholders (including employee benefit plans) can take a variety of different forms (for example, refunds, dividends, demutualization payments, rebates, and excess surplus distributions). Rebate payments made in connection with group health plans covered by ERISA and pursuant to Section 2718 of the PHSA may constitute plan assets. If so, the policyholder would be required to comply with ERISA's fiduciary provisions in the handling of rebates it receives. Readers should refer to DOL Technical Release No. 2011-04 (www.dol.gov/ebsa/newsroom/tr11-04.html) for further information.

Help Desk: Frequently asked questions relating to potential tax consequences of the rebate can be found on the IRS website by searching the term "medical loss ratio" at this page: https://www.irs.gov/newsroom/medical-loss-ratio-mlr-faqs.

Penalty for Noncompliance With ACA Requirements

In addition to other fees, taxes, and penalties, a noncompliance penalty ($100 per affected individual) is imposed by the IRS on sponsors of group health plans for every day that an employer is not in compliance with one or more of the ACA market reform requirements—the requirement to continue coverage for dependent children to age 26, the prohibition on annual and lifetime limits, the requirements for preventive care benefits, and the rest of the ACA market reforms. This is the same self-reported penalty that applies for violations of the Consolidated Omnibus Budget Reconciliation Act (COBRA), the Heath Insurance Portability and Accountability Act (HIPAA), mental health parity, and other group health plan requirements. The market reforms only apply to plans that have more than one active employee. For example, the market reforms do not apply to plans whose only participants are retirees. This penalty cannot be paid by the plan.

ACA market reforms apply to certain types of group health plans, including health reimbursement arrangements (HRAs), health flexible spending arrangements (health FSAs), and certain other employer health care arrangements, including arrangements under which an employer reimburses an employee for some or all of the premium expenses incurred for an individual health insurance policy. See appendix B-3 of chapter 7, "Health and Welfare Benefit Plans," in Audit and Accounting Guide *Employee Benefit Plans* (the guide) for a discussion of common tax-advantaged financial arrangements, and see IRS Notice 2015-17 (https://www.irs.gov/irb/2015-14_irb/ar07.html), IRS Notice 2013-54 (www.irs.gov/pub/irs-drop/n-13-54.pdf), DOL Technical Release No. 2013-03 (www.dol.gov/ebsa/newsroom/tr13-03.html), and the DOL's FAQs (www.dol.gov/ebsa/faqs/faq-aca22.html), which address the application of the ACA to these arrangements.

An employee cannot purchase an insurance policy sold in the individual health insurance market (for example, an "individual market plan") with non-taxable contributions, including the purchase of an individual market plan with employee pre-tax contributions made through a Section 125 cafeteria plan. This also includes payments from an employer to reimburse the premiums paid by an employee for an individual market plan under a Section 105 medical reimbursement plan, a Revenue Ruling 61-146 arrangement, or any other arrangement in which employer dollars are being used for such reimbursements. If

 ©2018, Association of International Certified Professional Accountants

an employer were to provide pre- or post-tax reimbursement of an employee's costs, doing so would cause the health plan to not meet the ACA's requirements (such as the prohibition on annual dollar limits). This does not apply to retiree plans or qualified small employer health reimbursement arrangements, but it does apply to arrangements for active employees as well as to partners and Subchapter S shareholders or employees.

Health and Welfare Plans Summary

Chapter 7 of the guide provides useful information for determining how the preceding ACA provisions may affect a plan's accounting, auditing, and reporting. Certain provisions previously described may affect the plan sponsor's financial statements and may not affect the H&W plan itself (for example, penalties, excise taxes, and PCORI fees). Other provisions may directly affect the plan, resulting in accruals on the statement of net assets available for benefits or additions or deductions to the statement of changes in net assets available for benefits (for example, rebates). In addition, certain provisions could affect the statement of benefit obligations and statement of changes in benefit obligations of the plan (for example, the Cadillac tax). Refer to the "Other Receivables" section of chapter 7 in the guide for information on other receivables, refunds or rebates, and subsidies. For plan expenses paid from the general assets of the plan sponsor that directly relate to the plan, see the "Plan Expenses" section in chapter 7 of the guide, which includes a recommendation that such expenses be presented in the plan's financial statements so that financial statement users can fully understand the cost associated with the plan and the financial statements can reflect the true expenses of the plan. Also, refer to the "Benefit Obligations" section in chapter 7 of the guide for information on how administrative expenses expected to be paid by the plan that are associated with providing the plan's benefits should be reflected in measuring the benefit obligation.

©2018, Association of International Certified Professional Accountants