How This Alert Helps You

.01 This alert helps you plan and perform your employee benefit plan (EBP) 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.

.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 sufficient appropriate 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.

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Help Desk: See the 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*.

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 any 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 engagement.

.05 When planning an audit, auditors need to understand the economic conditions facing the industry and marketplace 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 following key economic indicators illustrate the state of the U.S. economy during 2018 and entering into 2019. The GDP measures output of goods and services by labor and property within the United States. GDP increases as the economy grows and decreases as it slows. According to the Bureau of Economic Analysis, real GDP increased at an annual rate of 3.4% in the third quarter of 2018. The increase in real GDP in the third quarter has been attributed to positive contributions from personal consumption expenditures, private inventory investments, state and local government spending, federal government spending, and nonresidential fixed investments that were partly offset by negative contributions from exports and residential fixed investments.

.07 According to the Bureau of Labor Statistics (BLS), from September 2017 to December 2018, the unemployment rate fluctuated between 4.2% and 3.7%. During that same time period, the number of long-term unemployed (those jobless for 27 weeks or more) was steady. According to the BLS, the number of people employed part-time for economic reasons decreased to 4.7 million during 2018. Together, these statistics illustrate the continued improvement in the economy.

.08 The Board of Governors of the Federal Reserve System (Federal Reserve) increased the target for the federal funds rate in June 2017 to 1.0%. This was the second raise of the rate in 2017 after keeping the rate at 0.5% for over a year. At its December 2018 meeting, in view of the realized and expected labor market conditions and inflation, the Federal Reserve decided to raise the target range for the federal funds rate of 2.25% to 2.50%. The reasons cited for the decision to take action include the following:

- Labor market has continued to strengthen.
- Economic activity has been rising at a strong rate.
- Job gains have been strong, on average, in recent months.
- Unemployment rate has stayed low.

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- Household spending and business fixed investment have grown strongly.
- Overall inflation and inflation for items other than food and energy remain near 2%.

.09 Despite historically low unemployment rates, tax reform that lowered taxes for both individuals and corporations, and other strong economic indicators, the year 2018 was marked by a volatile stock market and escalating trade disputes between the United States and China. The United States also saw contraction in exports for the first time in nearly two years.

EBP Considerations

.10 Part of obtaining an understanding of the entity and its environment is considering how external forces affect an EBP. Gaining a new perspective with each audit is helpful because economic conditions and trends in the EBP 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 EBP in prior years. This consideration allows the auditor to plan and perform the audit to address risks identified.

.11 In light of the current economic environment, 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:

- Continued company mergers, spin-offs, and acquisitions causing significant plan transfer activity
- Increases in defined contribution plans offering auto-enrollment and escalation features resulting in greater risks of operational errors
- Increases in hardship withdrawals and participant loans in geographic areas affected by natural disasters
- Increases in lump-sum buy-out windows offered to terminated vested participants or other de-risking strategies to reduce obligations of defined benefit pension plans
- Participant data breaches for benefit plans related to cybersecurity risk
- Increases in employer wellness or preventative care programs to complement traditional health and welfare benefits
- Increased SOC 1® report[2] carveouts for subservice organizations
- Changes in fee arrangements, including flat dollar amounts being charged to participant accounts
- Increased regulatory focus on missing participant data and uncashed checks

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[2] 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.

.12 It is also important to consider new pronouncements and standards, as well as any changes in regulations, such as those discussed in this alert, when gaining an understanding of the entity and its environment.

Accounting Issues and Developments

.13 This section discusses the following new FASB Accounting Standards Updates (ASUs):

- 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)*
- ASU No. 2018-09, *Codification Improvements*
- ASU No. 2018-13, *Fair Value Measurement (Topic 820), Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement*

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)*

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.14 In February 2017, FASB issued ASU No. 2017-06 to improve the usefulness of the information reported to users of EBP 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 interest in the master trust. The amendments also eliminate a redundancy relating to 401(h) account disclosures. The assets of the 401(h) do not have to be in a master trust to apply the ASU.

.15 The master trust disclosure requirements have been aligned in FASB *Accounting Standards Codification* (ASC) 960, *Plan Accounting—Defined Benefit Pension Plans*, FASB ASC 962, *Plan Accounting—Defined Contribution Pension Plans*, and FASB ASC 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 investments 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).

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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.

.16 Paragraph BC20 of the "Background Information and Basis for Conclusions" section of ASU No. 2017-06 states the following:

> 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 (the Task Force) 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,[3] *Fair Value Measurement Disclosures for Master Trusts*, and (*b*) the AICPA Audit and Accounting Guide *Employee Benefit Plans*. While some Task Force members said that explicit GAAP requirements should be provided, other Task Force members thought there was no need for standard setting in this area. Ultimately, the Task Force 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.

.17 FASB ASC 965-205-50-5 was added to state that a health and welfare plan is not required to provide investment disclosures (for example, the disclosures required by FASB ASC 815, *Derivatives and Hedging*, and FASB ASC 820, *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 health and welfare benefit plan and provided the related investment disclosures.

[3] TIS section 6933.11, "Fair Value Measurement Disclosures for Master Trusts," has been renamed Q&A section 6933.11 and can be found in *Technical Questions and Answers*.

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Effective Date and Transition Guidance

.18 The amendments in 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 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.

.19 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))."

***Help Desk:* When a New FASB Codification Update Is Issued**

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 disclose a change in accounting principle if this change is required by a newly issued codification update. Paragraphs 1–3 of FASB ASC 250-10-50 describe the information that an entity is required to disclose. These disclosures are required in the fiscal year in which the change is made.

A FASB Accounting Standards Update (ASU) may provide transition guidance when implementing codification updates, including conclusions about whether disclosures about changes in the accounting principles in paragraphs 1–3 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.

Plans that file financial statements with the SEC (for example, plans that file Form 11-K) should consider guidance in 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*.

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ASU No. 2018-09, *Codification Improvements*

.20 FASB issued ASU No. 2018-09 in July 2018. The following four FASB ASC improvements directly related to plan accounting and amended the following:

- FASB ASC 820-10, *Fair Value Measurement Overall,* specifically FASB ASC 820-10-50-2(bbb)(2)
- FASB ASC 962-325, *Plan Accounting—Defined Contribution Pension Plans—Investment—Other*
- FASB ASC 962-205, *Plan Accounting—Defined Contribution Pension Plans—Presentation of Financial Statements*
- Added FASB ASC 962-360, *Plan Accounting—Defined Contribution Pension Plans—Property, Plant, and Equipment*

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Amendments to FASB ASC 820-10, Fair Value Measurement Overall, Specifically Paragraph 820-10-50-2(bbb)(2)

.21 EBPs other than those plans that are subject to the SEC's filing requirements were provided an indefinite deferral related to the requirement that the plan present quantitative information about the significant unobservable inputs used in the fair value measurement of investment in securities of the plan sponsor or the plan sponsor's nonpublic affiliated entities categorized within level 3 of the fair value hierarchy. The indefinite deferral originated from ASU No. 2013-09, *Fair Value Measurement (Topic 820): Deferral of the Effective Date of Certain Disclosures for Nonpublic Employee Benefit Plans in Update No. 2011-04*. In its deliberations on the amendments in ASU No. 2013-09, FASB decided that the disclosure of significant unobservable inputs would provide competitive information that could be detrimental for EBPs that hold investments in securities of their plan sponsor or plan sponsor's nonpublic affiliated entities. The amendment to FASB ASC 820-10-50-2(bbb)(2) replaces indefinite deferral guidance that is currently in FASB ASC 820-10-65-9 with a disclosure exemption in FASB ASC 820-10-50-2(bbb)(2) and paragraphs that explicitly cite that paragraph. FASB ASC 820-10-50-2(bbb)(2) is indefinitely deferred for nonpublic EBPs. The indefinite deferral functioned as a de facto scope exception. The amendment moves the exception into the paragraphs that refer to FASB ASC 820-10-50-2(bbb)(2) to provide a more useful location for the exception. It is important to note that both a description of the valuation techniques and the inputs used in the fair value measurement are requirements that are not deferred for recurring and nonrecurring fair value measurements categorized within level 2 and level 3 of the fair value hierarchy.

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Amendments to FASB ASC 962-325, Plan Accounting—Defined Contribution Pension Plans—Investment—Other

.22 The amendment removes the stable value common collective trust fund from the illustrative example in FASB ASC 962-325-55-17 to avoid the interpretation that such an investment would never have a readily determinable fair value. The previous illustration presented the stable value common collective trust fund using the net asset value (NAV) per share practical expedient. A plan should evaluate whether a readily determinable fair value exists to determine whether those investments may qualify for the practical expedient to measure at NAV in accordance with FASB ASC 820.

> ***Help Desk:*** For more information on using net asset value as a practical expedient or readily determinable fair value, see Q&A section 2220.18, "Applicability of Practical Expedient," and Q&A section 2220.28, "Definition of Readily Determinable Fair Value and Its Interaction With the NAV Practical Expedient Sections."[4]

[4] *Technical Questions and Answers* is an *other auditing publication*. In applying the auditing guidance included in an other auditing publication, the auditor should, exercising professional judgment, assess the relevance and appropriateness of such guidance to the circumstances of the audit. Other auditing publications have no authoritative status; however, they may help the auditor understand and apply generally accepted auditing standards. The auditor is not expected to be aware of the full body of other auditing publications. The auditor may presume that other auditing publications published by the AICPA that have been reviewed by the Audit and Attest Standards staff are appropriate.

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Amendments to FASB ASC 962-205, Plan Accounting—Defined Contribution Pension Plans—Presentation of Financial Statements, and Addition of FASB ASC 962-360, Plan Accounting—Defined Contribution Pension Plans—Property, Plant, and Equipment

.23 The amendment to FASB ASC 962-205 and 962-360 were made to make the subtopics consistent with similar guidance for property, plant, and equipment in FASB ASC 960 and 965. Previously, the guidance for property, plant, and equipment was found in FASB ASC 962-205, which was the intersecting subtopic for the presentation of financial statements. The new FASB ASC 962-360 is the intersecting subtopic for property, plant, and equipment.

Effective Date and Transition Guidance

.24 The transition and effective date guidance of the amendments in ASU No. 2018-09 is based on the facts and circumstances of each amendment. Some of the amendments do not require transition guidance and were effective upon issuance. However, many of the amendments do have transition guidance with effective dates for annual periods beginning after December 15, 2018, for public business entities and for annual periods beginning after December 15, 2019 for all others.

.25 The amendments to FASB ASC 820-10, *Fair Value Measurement Overall*, specifically paragraph 820-10-50-2(bbb)(2) and FASB ASC 962-205, *Plan Accounting—Defined Contribution Pension Plans—Presentation of Financial Statements*, and the addition of FASB ASC 962-360, *Plan Accounting—Defined Contribution Pension Plans—Property, Plant, and Equipment*, did not require transition guidance and were effective upon issuance. The amendments to FASB ASC 962-325, *Plan Accounting—Defined Contribution Pension Plans—Investment—Other*, follow the transition guidance in the ASU.

ASU No. 2018-13, *Fair Value Measurement (Topic 820), Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement*

.26 FASB issued ASU No. 2018-13 in August 2018. The amendments of ASU No. 2018-13 apply to all entities that are required, under existing generally accepted accounting principles (GAAP), to make disclosures about recurring and nonrecurring fair value measurements. Certain of the disclosures that are required by the amendments are not required for nonpublic entities. The amendments modify the disclosure requirements on fair value measurements in FASB ASC 820.

Removals

.27 The following disclosure requirements were removed from FASB ASC 820:

- The amount of and reasons for transfers between level 1 and level 2 of the fair value hierarchy
- The policy for timing of transfers between levels
- The valuation processes for level 3 fair value measurements
- For nonpublic entities, the changes in unrealized gains and losses for the period included in earnings for recurring level 3 fair value measurements held at the end of the reporting period

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Modifications

.28 The following disclosure requirements were modified in FASB ASC 820:

- In lieu of a rollforward for level 3 fair value measurements, a nonpublic entity is required to disclose transfers into and out of level 3 of the fair value hierarchy and purchases and issues of level 3 assets and liabilities.
- For investments in certain entities that calculate NAV, an entity is required to disclose the timing of liquidation of an investee's assets and the date when restrictions from redemption might lapse only if the investee has communicated the timing to the entity or announced the timing publicly.
- The amendments clarify that the measurement uncertainty disclosure is to communicate information about the uncertainty in measurement as of the reporting date.

Additions

.29 The following disclosure requirements were added to FASB ASC 820; however, the disclosures are not required for nonpublic entities:

- The changes in unrealized gains and losses for the period included in other comprehensive income for recurring level 3 fair value measurements held at the end of the reporting period.
- The range and weighted average of significant unobservable inputs used to develop level 3 fair value measurements. For certain unobservable inputs, an entity may disclose other quantitative information (such as the median or arithmetic average) in lieu of the weighted average if the entity determines that other quantitative information would be a more reasonable and rational method to reflect the distribution of unobservable inputs used to develop level 3 fair value measurements.

Other

.30 In addition, the amendments eliminate "at a minimum" from the phrase "an entity should disclose at a minimum" to promote the appropriate exercise of discretion by entities when considering fair value measurement disclosures and to clarify that materiality is an appropriate consideration of entities and their auditors when evaluating disclosure requirements.

Effective Date and Transition Guidance

.31 The amendments in ASU No. 2018-13 are effective for fiscal years beginning after December 15, 2019. The amendments on changes in unrealized gains and losses, the range and weighted average of significant unobservable inputs used to develop level 3 fair value measurements, and the narrative description of measurement uncertainty should be applied prospectively for only the most recent annual period presented in the year of adoption. All other amendments should be applied retrospectively to each period for which the financial statements are presented. Early adoption is permitted. An entity is permitted to adopt any removed or modified disclosures early and delay adoption of the additional disclosures until their effective date.

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Auditing Issues and Developments

.32 This section discusses the following auditing issues and developments:

- EBP Reporting Standard
- Risk assessment and control reliance
- Use of outside service provider system-generated information and reports
- Fee arrangements in defined contribution retirement plans
- Missing participants and uncashed checks
- Data analytics
- Emerging technologies: What practitioners need to know

EBP Reporting Standard

.33 In July 2018, the ASB voted to issue a new auditing standard, Statement on Auditing Standards (SAS) *Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA* (EBP SAS). Although the ASB voted to issue this SAS as a final standard, it was not issued immediately because the ASB was also deliberating proposed SAS *Auditor Reporting and Amendments — Addressing Disclosures in the Audit of Financial Statements* (auditor reporting SAS). The auditor reporting SAS was voted as a final standard at the January 2019 ASB meeting, and conforming amendments will need to be made to the EBP SAS to align the reporting elements.

.34 The EBP SAS addresses the auditor's responsibility to form an opinion and report on the audit of financial statements of EBPs subject to the Employee Retirement Income Security Act of 1974 (ERISA), and the form and content of the auditor's report issued as a result of an audit of ERISA plan financial statements, including changes to the form and content of the auditor's report when management elects to have an audit performed pursuant to ERISA Section 103(a)(3)(C). This SAS also includes new requirements for engagement acceptance, audit risk assessment and response, communications with those charged with governance, procedures for an ERISA Section 103(a)(3)(C) audit, and considerations relating to the Form 5500. For audits of ERISA plan financial statements only, this SAS would apply in place of AU-C section 700, *Forming an Opinion and Reporting on Financial Statements*, and paragraph .09 of AU-C section 725, *Supplementary Information in Relation to the Financial Statements as a Whole*. The SAS also would amend various other AU-C sections in AICPA *Professional Standards*. This SAS should not be adapted for plans that are not subject to ERISA.

.35 The EBP SAS is effective for audits of financial statements for periods ending on or after December 15, 2020.

Risk Assessment and Controls Reliance

.36 Data collected by the Peer Review Program shows that a common deficiency in audits is a lack of risk assessment by the auditor relating to the entities. Sometimes, there is a misconception that it is appropriate for the auditor to default to high controls risk (or no controls reliance) in an audit without performing proper risk assessment procedures. For EBP audits, defaulting to no controls reliance may be inappropriate given the volume of daily transactions and the use of automated systems at the plan sponsor and outside

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service providers. In such circumstances, when there is an inherent dependency on effective IT general controls, substantive procedures may be ineffective or impossible, particularly when no paper source exists.

.37 Auditors often use plan sponsor system-generated information (for example, screenshots and other data) and reports (for example, payroll registers and human resource headcount listings) for the selection of sample items for control or substantive testing or as a source of audit evidence for 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 to be able to draw reasonable conclusions on which to base the auditor's opinion. During planning, the auditor should evaluate the relevance and reliability of the system-generated 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.

.38 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.

.39 In accordance with paragraph .09 of AU-C section 500, when using information produced by the entity, the auditor should evaluate whether the information is sufficiently reliable for the auditor's purposes, including, as necessary, obtaining audit evidence about the accuracy and completeness of the information and evaluating whether the information is sufficiently precise and detailed for the auditor's purposes. This 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.

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

- Determining the source of the information 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 information (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 information
- Understanding the internal control relevant to the IT application producing the information (see the section, "General Computer

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Controls [In-House System or Service Organization]," in exhibit B-1 of the AICPA Audit and Accounting Guide *Employee Benefit Plans* [EBP guide] for examples of controls)

.41 Controls may need to be tested to the extent substantive procedures could not be performed or appropriate audit evidence could not be obtained, such as when source data is not retained or information is entered directly into the system. If tests of controls provide evidence that the information is reliable, the auditor may rely on the controls and use the electronic information as audit evidence. 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 information (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 the payroll register and selecting individual employees from payroll records to agree information to source documents for pertinent participant data information)

.42 If the source of information exists for a limited time only, the auditor may need to perform testing at various times throughout the period under audit (that is, while the paper evidence is available).

.43 In accordance with paragraph .10 of AU-C section 500, if the audit evidence obtained from one source is inconsistent with that obtained from another or 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 consider the effect of the matter, if any, on other aspects of the audit. If there is not sufficient appropriate evidence to support the reliability of electronic information and paper evidence is not available, the auditor may need to evaluate the effect of the matter on the auditor's report.

Use of Outside Service Provider System-Generated Information and Reports

.44 Many employers outsource certain areas of their EBP operations, such as recordkeeping, benefit and claim payments, payroll, investments, and participant data maintenance. Most plans allow participants to initiate transactions by telephone or electronic means, and 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 record-keeping 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 about which service provider system-generated

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information and reports are covered by a type 2 SOC 1 report 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 EBP guide provides further information about requirements for evaluating and using SOC 1 reports. Also, refer to the 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 determine it is not efficient or effective 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 audit procedures, to rely on the service provider reports. The following are examples of additional procedures that the auditor may want to consider when not relying on the SOC 1 report on controls for an outside service provider:

- 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 certain situations, for example, when participants interface electronically with a third-party service organization, it may be difficult to take a purely substantive approach, and it may be necessary to test controls for certain assertions.

Fee Arrangements in Defined Contribution Retirement Plans

.47 Defined contribution retirement plans are increasingly charging a flat dollar amount to each participant's account and transferring the amounts to an unallocated suspense account that is used to pay plan expenses. The charge to the participant account is typically a "reallocation" of monies, and the plan expense doesn't occur until amounts are paid to service providers from the suspense account. Understanding how the flat dollar charge and actual expenses are reflected in the service provider statements is important in assessing the appropriateness of the expenses reported in the plan financial statements.

.48 Although administrative expenses are often not material in a defined contribution plan, it is important that the auditor obtain an understanding of the expenses that are allowed by the plan (including the associated service arrangements) as part of planning and risk assessment procedures. Reviewing the service organization agreements may contribute to an auditor's understanding of these types of arrangements. Auditors may determine that additional inquiries with management, the plan's ERISA counsel or other specialists, and the service organizations may assist in understanding these arrangements. This understanding can be used in assessing the appropriateness of the plan's accounting and reporting of these arrangements, including whether unused balances at year-end constitute plan assets. For further information on the accounting and reporting requirements for plan expenses, see the "Plan Expenses" section in chapter 5 of the EBP guide.

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Missing Participants and Uncashed Checks

Uncashed Checks

.49 As part of planning and risk assessment procedures, it is important that the auditor obtain an understanding of the types of benefits paid by the plan and evaluate the design of controls, including relevant control activities, and determine whether they have been implemented. Often, the payment of benefits is outsourced to one or more service providers. Gaining an understanding of the benefit payment process may include the controls surrounding uncashed checks of participants. Procedures surrounding uncashed checks can vary by plan and service provider. For example, for certain plans, funds relating to uncashed checks are automatically put back into the plan after a certain period. For others, the service provider may await instructions from the plan administrator before moving the funds back to the plan. Often, there is confusion about whether the uncashed checks represent plan assets at year-end. In certain situations, the processing of benefit payments is outsourced to a third party, separate from the trustee or custodian of the plan, whereby payments are made from the trust to the third party to fund the benefit payment account. It is important for the auditor to understand the benefit payment process and the controls surrounding the process in order to develop proper audit procedures as well as assess the accounting and reporting. The understanding of the uncashed check process can be gained through discussions with the plan sponsor or service provider or review of plan or service provider agreements. Based on the risk assessment, the auditor may design further procedures, as applicable, to test outstanding checks in accordance with paragraph 5.262*d* of the EBP guide. Fiduciary responsibilities under ERISA that apply to plan administration also apply to considerations relating to uncashed checks regardless of whether the processing of payments is performed by the plan or an outside service provider.

Field Assistance Bulletin 2014-01

.50 The Department of Labor (DOL) Field Assistance Bulletin (FAB) No. 2014-01 provides guidance for missing participants when a plan terminates. Plan sponsors have a fiduciary responsibility to locate missing participants or beneficiaries to make distributions from plans in accordance with the participant's direction. FAB No. 2014-01 considers an unresponsive participant as missing and provides the following search steps to locate participants: use certified mail, check related plan and employer records, check with designated plan beneficiary, and use free electronic search tools.[5]

Pension Benefit Guaranty Corporation Missing Participant Program

.51 The Pension Benefit Guaranty Corporation (PBGC) expanded its Missing Participant Program[6] to allow terminating defined contribution plans after December 31, 2017, to participate in its program. The participation of defined contribution plans is voluntary and requires the plan to transfer all of its assets and missing participants into the program. Prior to participation in this program, the plan sponsor must conduct the search processes outlined in FAB No. 2014-01.

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[5] See www.dol.gov/agencies/ebsa/employers-and-advisers/guidance/field-assistance-bulletins/2014-01.

[6] See www.federalregister.gov/documents/2017/12/23/2017-27515/missing participants.

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Data Analytics

.52 Data science and related technologies have advanced enormously in recent years, incorporating theories, techniques, and software applications from many fields, including data analysis, business intelligence, mathematics and probability, statistical learning, including pattern recognition, data visualization, gamification, big data analytics, and text and process mining. *Audit data analytics* is the science and art of discovering and analyzing patterns, identifying anomalies, and extracting other useful information in data underlying or related to the subject matter of an audit through analysis, modeling, and visualization for the purpose of planning or performing the audit. Audit data analytics has the potential to transform the way financial statement audits are conducted, making them significantly more effective and possibly more efficient. The emphasis in introducing technology to the audit process has been on improving both effectiveness and efficiency.

.53 The last 10 years have seen extraordinary advances in fundamental data science, vast increases in computer power, and access to astronomical amounts of data and information that has resulted in an environment ripe for data analytics that can, and is, transforming industries. The challenge for auditors is to gain the ability to increase the effectiveness and efficiencies in their audit processes by leveraging these techniques.

Help Desk: For additional information on data analytics, see the AICPA *Guide to Audit Data Analytics*, which is intended to encourage auditors to voluntarily make more use of technology-based audit data analytics. The use of audit data analytics has the potential to enhance traditional audit procedures, contribute to every phase of the audit, and offer a new way of visualizing and analyzing results.

The guide includes various illustrative examples detailing how audit data analytics can be used throughout the financial statement audit.

See www.aicpa.org/interestareas/frc/assuranceadvisoryservices/auditdataanalyticsguide.html.

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.54 *Audit data analytics* (ADAs) are techniques that can be used to perform various audit procedures, including elements of risk assessment, tests of controls, substantive procedures (that is, tests of details or substantive analytical procedures), or concluding audit procedures. ADAs and analytical procedures are interrelated, but not all ADAs are analytical procedures. Analytical procedures required by GAAS are addressed in AU-C section 520, *Analytical Procedures*, and in the AICPA Audit Guide *Analytical Procedures*. However, GAAS does not require or reference the application of ADAs.

.55 A key objective of the AICPA *Guide to Audit Data Analytics* (ADA guide) is to introduce auditors who are not familiar with ADAs to basic concepts underlying their use and provide examples of how they might be used in practice. Audits of the financial statements of entities of all types and sizes are now being performed in an environment where there is pervasive use of IT. In this context, increased use of ADAs is likely to be important to maintaining and enhancing the relevance and value of the financial statement audit. Potential benefits of making more use of ADAs include the following:

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- Improved understanding of an entity's operations and associated risks, including the risk of fraud
- Increased potential for detecting material misstatements
- Improved communications with those charged with governance of audited entities

.56 EBP auditors may find ADAs helpful given the significant use of IT for plans. For example, for defined benefit plans, an ADA could be used to compare year-over-year participant data or recurring annuities. For defined contribution plans, an ADA could be used to test auto-enrollment by comparing payroll to contribution reports. However, before using ADA for EBPs, auditors are encouraged to read the ADA guide to understand the challenges and best practices. For example, given the nature of EBP data, there may be difficulties obtaining or accessing the data in a usable form or concerns surrounding the maintenance of data security and integrity. Paragraphs 1.31–.35 of the ADA guide provide additional information on the topic of data. In addition, it is important for the auditor to consider whether the data is relevant and sufficiently reliable to meet the objectives of the procedures. Appendix D of the ADA guide includes matters to consider regarding the reliability of data.

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Emerging Technologies: What Practitioners Need to Know

.57 New technologies are evolving at an exponential rate. This evolution is directly affecting the accounting profession and creating disruption on both operational and strategic levels. Recent technological advances offer both challenges and opportunities that will change the way practitioners operate into the foreseeable future.

> ***Help Desk:*** See the Audit Risk Alert *General Accounting and Auditing Developments — 2018/19* for a detailed discussion of emerging technology trends. This publication can be obtained at www.aicpastore.com.

Defined Benefit Pension Plans

.58 Defined benefit plans continue to have unique challenges related to the testing of benefit payments and the accumulated plan benefits. This section discusses how these and other topics are affecting defined benefit plans.

Benefit Payments and Missing Participant Data

.59 Key components of testing benefit payments for a defined benefit plan include designing audit procedures that evaluate not only eligibility to receive the distribution, but also the accuracy of the calculation itself, and would generally would include the following:

- Evaluating a participant's eligibility for a benefit payment
- Testing the inputs used for the benefit payments to source documents, which includes certain participant demographic information and can include past salary or service information, or both
- Recomputing the benefit owed (including vesting, tax withholdings, benefit option elected, and pertinent service or salary

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history) for compliance with plan document provisions and benefit formulas as well as for compliance with participant elections

.60 Additionally, it is important for the auditor to consider procedures performed in prior years when testing completeness and accuracy of the census data. This is particularly important when establishing a baseline for frozen or merged plans or when there has been a change in actuary. If the auditor is able to obtain sufficient appropriate audit evidence to test the completeness and accuracy of census data at the time of a freeze, merger, or other change, the auditor may be able to limit future testing on the census data to exceptions or changes in data. If the auditor intends to rely on information from past audits to limit the nature, timing, or extent of work in the current period audit, it is important for the auditor to evaluate whether the prior years' testing results remain relevant and reliable and the sufficiency of the working paper documentation supports their baseline testing strategy.

.61 In certain situations, auditors may have difficulty obtaining the necessary support for participant data for pensioners due to the age of the records. This has become particularly challenging as the industry continues to see increases in company mergers, spin-offs, acquisitions, or changes in service providers responsible for maintaining this type of participant data. Plan sponsors are required by ERISA Section 209 to maintain records with respect to each of the sponsor's employees sufficient to determine the benefits due or which may become due to such employees.

.62 If the auditor is unable to obtain the necessary evidence regarding participant data, there may be a limitation on the scope of the audit. Restrictions on the scope of the audit, whether imposed by the client or circumstances, such as the inability to obtain sufficient appropriate audit evidence, may require the auditor to conclude that a modification to the auditor's opinion on the financial statements is necessary, in accordance with AU-C section 705, *Modifications to the Opinion in the Independent Auditor's Report*.

Administrative Expense Assumption Used in Calculation of Accumulated Plan Benefits

.63 The primary objective of a plan's financial statements is to provide information that is useful in assessing the plan's present and future ability to pay benefits when they are due. This objective requires the presentation of information about the plan's economic resources and a measure of participants' accumulated benefits. Accumulated plan benefits are to be presented as the present value of future benefits attributable, under the plan's provisions, to service rendered to the date of the actuarial valuation.

.64 The actuarial model is described in FASB ASC 960. Under FASB ASC 960, the assumption of an ongoing plan should underlie the other assumptions used in determining the actuarial present value of accumulated plan benefits. Other significant assumptions used in determining the actuarial present value of accumulated plan benefits should reflect the best estimate of the plan's future experience solely with respect to that individual assumption. FASB ASC 960 requires the application of an assumption regarding administrative expenses expected to be paid by the plan (not those paid by the sponsor) that are associated with providing accumulated plan benefits. Such expenses should be reflected either by appropriately adjusting the assumed rates of return or by assigning those expenses to future periods and discounting them to the benefit

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information date. Furthermore, if the method of considering administrative expenses as an adjustment of the assumed rates of return is used, the adjustment should be separately disclosed.

.65 Plan actuarial valuations are prepared for different purposes and may use different actuarial methods and assumptions. At least three different valuations may be performed annually for a single plan: a valuation for (*a*) determining the ERISA and IRS funding requirement, (*b*) determining the pension obligation and expense recorded in the plan sponsor's financial statements following the guidance of FASB ASC 715, *Compensation—Retirement Benefits*, and (*c*) determining the pension obligation recorded or disclosed in the plan's financial statements following the guidance of FASB ASC 960.

.66 Plan sponsors reviewing the plan's actuarial valuation may note that although an assumption for administrative expenses is presented with other assumptions used, the actuary did not apply the assumption to the FASB ASC 960 obligation calculation.

.67 For those plans that bear significant costs of administration (for example, multiemployer plans or, in some cases, single employer plans), plan sponsors need to inquire of the actuary whether the present value of such expenses expected to be paid by the plan in future periods has been included in the FASB ASC 960 accumulated benefit obligation information prepared by the plan actuary.

Mortality Tables for Pension Plans Updated

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

.69 IRS Notice 2018-02 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 2019 calendar year. This mortality table is a modified unisex version of the mortality tables mentioned in the preceding paragraph.

.70 IRS Notice 2018-02 also provides updated static mortality tables determined using the methodology in Section 1.430(h)(3)-1. These updated static mortality tables apply for purposes of calculating the funding target and other items for valuation dates occurring during calendar year 2019.

.71 On October 23, 2018, the Society of Actuaries updated the Mortality Improvement Scale that accompanies its most recent Mortality Table (RP-2014). Scale MP-2018 is based on the same underlying methodology and committee-selected assumption set used to develop Scale MP-2017 and reflects historical U.S. population mortality experience through 2016. The Scale MP-2018 mortality improvement rates are slightly lower than the corresponding Scale MP-2017 rates. Most 2018 pension obligations calculated using Scale MP-2018 (with a discount rate of 4.0%) are anticipated to be 0.2% to 0.4% lower for females, and 0.3% to 0.6% lower for males, relative to their Scale MP-2017 counterparts. Included in the report this year is an alternative model based on smoother graduation (O2-2018), which may have a different impact on the benefit obligation of the plan.

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.72 See Q&A section 3700.01, "Effect of New Mortality Tables on Nongovernmental Employee Benefit Plans (EBPs) and Nongovernmental Entities That Sponsor EBPs,"[7] for additional guidance.

Liquidation Basis of Accounting

.73 Information from March 2018 from the BLS indicates that 39% of private defined benefit plans are either closed to new participants through a "soft-freeze" (25%) or have ceased future benefit accruals through a "hard-freeze" (14%). Although any defined benefit pension plan may be subject to a standard plan termination, hard-frozen plans are more likely to consider undergoing a standard plan termination if increased contributions sufficiently improve a plan's funded status. In advance of the 2018 corporate tax rate reductions created by the Tax Cuts and Jobs Act of 2017 (TCJA), some employers increased their 2017 pension contributions to take advantage of higher tax deductions.

.74 In accordance with paragraphs 1–2 of FASB ASC 962-40-25, *Plan Accounting—Defined Contribution Pension Plans—Terminating Plans*, if the liquidation of a plan is deemed to be imminent (as defined in FASB ASC 205-30-25-2) before the end of the plan year, the plan's year-end financial statements should be prepared using the liquidation basis of accounting in accordance with FASB ASC 205-30. Plan financial statements for periods ending after the determination that liquidation is deemed to be imminent continue to be prepared using the liquidation basis of accounting.

.75 Q&A sections 6931.18–.30[8] provide nonauthoritative guidance on applying FASB ASC 205-30. Q&A section 6931.20, "Use of Beginning-of-Year Benefit Information Date Versus End-of-Year Benefit Information Date When Using the Liquidation Basis of Accounting for Single-Employer DB Plans," addresses the use of a beginning-of-year benefit information date versus an end-of-year benefit information date when using the liquidation basis of accounting in accordance with FASB ASC 205-30. Using a beginning-of-year benefit information date is not the most meaningful or useful to a reader of the financial statements for a terminating plan. The use of an end-of-year benefit information date is considered preferable, and plans are encouraged to develop procedures to enable them to use that date.

.76 Paragraph 4 of FASB ASC 960-205-45 was not amended by ASU No. 2013-07, *Presentation of Financial Statements (Topic 205): Liquidation Basis of Accounting*, because an entity should measure liabilities in accordance with the measurement provisions of other FASB ASC topics that otherwise would apply to those liabilities (in this case, FASB ASC 960-205-45). Accordingly, defined benefit plans continue to be permitted to present the actuarial present value of accumulated plan benefits as of the beginning of the year or end of year. In accordance with paragraph 1(h) of FASB ASC 960-205-50, plans are required to disclose unusual or infrequent events or transactions occurring after the latest benefit information date but before the financial statements are issued or available to be issued that might significantly affect the usefulness of the financial statements in an assessment of the plan's present and future ability to pay benefits. If reasonably determinable, the effects of such events or transactions should be disclosed. If such effects are not quantified, the reasons why they are not reasonably determinable should be disclosed. Therefore, defined

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[7] See footnote 4.

[8] See footnote 4.

benefit plans that continue to use a beginning-of-year benefit information date are still required to disclose the effects of the plan termination if it is reasonably determinable. However, if the plan determines it is appropriate to change from the beginning-of-year benefit information date to the end-of-year benefit information date, this change would be a change in accounting principle (see FASB ASC 250, *Accounting Changes and Error Corrections*). Please refer to the entire text of Q&A sections 6931.18–.30 for a full discussion of liquidation basis of accounting related to EBPs.

Health and Welfare Benefit Plans

.77 Health and welfare plans present unique challenges. The types of benefits offered and the method of delivering such benefits is constantly evolving. This section discusses some trends affecting health and welfare plans that could affect the design and execution of the audit of such plans.

Retiree Health Plans

.78 Some employers that previously included active employees and retirees in the same plan have taken steps to create a separate legal plan for retirees only. Retiree-only plans are generally not subject to many of the Affordable Care Act (ACA) requirements for group health plans and market reforms. This is based on the exemption for such plans under ERISA and the IRC. Because of this significant exemption, retiree-only plans are not required to comply with some of the costlier requirements of the ACA.

.79 A group health plan is considered to be a retiree-only plan if it has fewer than two participants who are active employees. Determining if a plan meets the criteria for being a retiree-only plan is made by the plan sponsor in consultation with their legal counsel, including ensuring that the plan is governed by separate plan documents, a summary plan description, administration, and required reporting (for example, Form 5500), with no commingling of assets.

Retiree Reimbursement Account or Arrangement

.80 With the continued rise in medical expenses, retirees are commonly faced with additional medical expenses above what Medicare covers. As a result, an increasingly common feature of an employer's benefit package is a retiree reimbursement account or arrangement (RRA), which 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.

.81 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,

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during which claims incurred during the plan year must be submitted in order to receive reimbursement.

.82 RRAs that are deemed to be a defined-benefit-like feature of a health and welfare plan should be recorded by the plan as a post-retirement benefit obligation in accordance with FASB ASC 965-30-35. The audit procedures to be performed on the post-retirement benefit obligation would be the same as those for a traditional health and welfare 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.

Private Exchanges for Retirees

.83 The number of companies moving Medicare-eligible retirees (ages 65 and older) out of their group health insurance plans and into private individual exchanges has increased. Retirees often get more choices for less money, while relieving the company of what can be a heavy administrative burden associated with medical and pharmaceutical plans. Companies that choose to use an exchange do so by dropping the group plan they had for retirees and signing a contract with a private marketplace. Several exchanges exist, including those run by human services consulting firms and insurance companies. In these arrangements, the employer commonly provides its eligible retirees (and, sometimes, their spouses) a subsidy to buy individual insurance through the exchange. The exchange serves as a customer portal to the marketplace and helps the retiree sort through various insurance options with customer representatives and online tools.

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Telehealth

.84 The number of U.S. health systems with consumer-service telehealth programs is on the rise. The growth in the adoption of telehealth technologies by health care organizations is driven by the desire to improve access to care, improve care coordination, increase efficiency, lower cost, prevent re-admissions, and expand population health programs. *Telehealth* involves the distribution of health-related services and information via electronic information and telecommunication technologies. *Telemedicine* refers to clinical care delivered remotely.

Association Health Plans

.85 In June 2018, the DOL expanded access to affordable health coverage options for America's small businesses and their employees through association health plans (AHPs). AHPs allow small businesses, including self-employed workers, to band together by geography or industry to obtain health care coverage as if they were a single large employer. An AHP could offer coverage to some or all employers in a state, city, county, or a multi-state metro area, or it could offer coverage to businesses in a trade or industry group nationwide. Regardless, AHPs should strengthen negotiating power with providers from larger risk pools and greater economies of scale. For more information on AHPs, see www.dol.gov/general/topic/association-health-plans.

Opioid Crisis

.86 For the first time on record, Americans are more likely to die of an accidental opioid overdose than in a motor vehicle crash, according to a new report from the National Safety Council. Every day, more than 130 people in the United States die after overdosing on opioids, according to the National Institute on Drug Abuse. The misuse of and addiction to opioids is a serious national crisis that affects public health as well as social and economic welfare. This opioid epidemic directly affects employer costs, including the costs associated with treating addiction and overdoses, increased emergency room visits, and so on.

.87 Emerging technologies are expected to play an increasing role in the battle against the opioid epidemic. A growing number of health plans and pharmacy benefit managers are taking a data-driven, evidence-based approach to help change patient and physician behavior. By leveraging data and technology to improve prevention and treatment, they have an opportunity to help in curbing opioid misuse among their members.

Nondisclosure Agreements

.88 When auditing a health and welfare plan, the auditor might be requested by a third-party administrator to sign a nondisclosure agreement (also referred to as a *confidentiality agreement*) before the administrator will provide support for claims data to the auditor. Such agreements differ by administrator. They may include provisions that require the auditor to indemnify the administrator if any data provided to the auditor is compromised. It is important for the auditor to consider any potential independence or risk management implications. The auditor may want to seek advice of legal counsel before signing these agreements. Auditors are subject to professional standards that require them to maintain confidentiality of information obtained in the course of performing the audit; therefore, signing an agreement may not be necessary. Refer to paragraph 7.237 of the EBP guide for further discussion about confidentiality of protected health information.

.89 As an alternative to signing an agreement with the third-party administrator, the auditor may consider requesting that the plan sponsor obtain the claims data and provide it to the auditor. It is management's responsibility to provide the auditor access to information needed to perform the audit. If the auditor is unable to obtain sufficient appropriate audit evidence to conclude that the financial statements as a whole are free from material misstatement, the auditor should modify the opinion in the auditor's report in accordance with AU-C section 705.

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Audit Quality

Peer Review Overview and Developments

.90 Peer review program (PRP) standards, interpretations, and other guidance are included in the Peer Review Program Manual (PRPM), which is available through an online subscription at www.aicpastore.com. PRPM sections available to the public through the Peer Review website can be accessed at www.aicpa.org/interestareas/peerreview/resources/peerreviewprogrammanual.html.

.91 Firms enrolled in the PRP and that perform EBP audit engagements require a system review. The peer reviewer will review individual engagements as a part of the compliance procedures required under PRP standards. However, the reviewer will issue a report on the firm's overall system of quality control.

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The scope of engagements reviewed must include an EBP audit, and the need for additional plan selections will depend on the peer reviewer's risk assessment. These audits fall under the classification of "must-select" engagements, as defined under PRP guidance.

Enhanced Oversight of EBP Audit Engagements

.92 In connection with the AICPA's Enhancing Audit Quality (EAQ) initiative, the PRP continues to use the Enhanced Oversight Program to identify nonconforming audit engagements and evaluate reviewer performance. As defined in the PRP 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. As must-select engagements, EBP audits remain a focus for enhanced oversight random and targeted selections.

.93 The Oversight Task Force of the AICPA Peer Review Board prepares an Annual Report on Oversight that firms may consider in connection with its internal inspections and when preparing for its peer review. The most current report is published on the Peer Review website at www.aicpa.org/interestareas/peerreview/resources/transparency.html. EBP auditors will find the following included within the 2017 Annual Report on Oversight, issued October 14, 2018:

- Detailed description of the enhanced oversight process and related results on pages 5–10
- Exhibit 5 — "Material Departures from Professional Standards Identified by Subject Matter Experts (SMEs)" specific to EBP audit engagements on page 19

Revised EBP Audit Engagement Checklist

.94 In September 2018, the Peer Review Practice Monitoring Task Force Employee Benefit Plan Subgroup (PMTF) released an update to PRP section 20,700, *Employee Benefit Plan Audit Engagement Checklist*. This checklist may be used by firms to assist with their monitoring process specific to its EBP audit practice. Members can access the checklist at no cost through the Peer Review website under "Team Captain Checklists." See www.aicpa.org/interestareas/peerreview/resources/teamandreviewcaptainchecklists/teamcaptainchecklists.html.

.95 When determining audit areas most likely to result in a nonconforming engagement, the PMTF considered data obtained through the following:

- Enhanced Oversight Program specific to ERISA engagements
- Other EAQ initiatives
- DOL inspection results

.96 To better assist peer reviewer consideration and identification of potentially nonconforming EBP audit engagements, firms should be aware of the following significant checklist revisions:

- Instructions emphasizing reviewer evaluation of **bold** questions
  - **Bold** questions now focus on relevant assertions, as defined in the 2018 EBP guide for audit areas generally expected to be significant in an EBP engagement
- Expansion and clarification of certain engagement profile questions to be completed by the firm

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- Plan categories added for areas of further specialization within defined contribution or defined benefit pension and health and welfare plans (for example, employee stock ownership plan [ESOP], multiemployer, multiple employer, or other material components such as Davis Bacon prevailing wage contributions)
- Risk assessment, including the nature and use of system and organization controls reports

- New **bold** questions have been added in the following areas:
  - Risk assessment
  - Initial audit inquiries of predecessor auditor
  - Use of management's specialist
  - ESOPs

Noncompliance With the Risk Assessment Standards — New Guidance Approved by the Peer Review Board

.97 Data gathered from the 2016 matters for further consideration (MFC) forms issued during peer reviews shows that more than 1 in 10 firms failed to comply with AU-C section 315 or AU-C section 330, *Performing Audit Procedures in Response to Assessed Risks and Evaluating the Audit Evidence Obtained*. Through this and other means, the Peer Review Board has become aware of a significant gap in the understanding of AU-C section 315 and AU-C section 330, even with firms that have robust systems of quality control.

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.98 In August 2018, the Peer Review Board approved a new section to PRP section 3100, *Supplemental Guidance*, entitled, "Evaluation of Non-Compliance With the Risk Assessment Standards." See www.aicpa.org/content/dam/aicpa/research/standards/peerreview/downloadabledocuments/guidance.pdf.

.99 The guidance includes the following subsections:

- Evaluation of Non-Conformity
- Why the Risk Assessment Standards are an EAQ Theme
- Impact to the Peer Review
- Additional Required Firm Actions

.100 Of interest to firms is the following excerpt from PRP section 3100, examples that would lead to nonconforming engagements:

- Failure to identify or document the identified risks of material misstatement (RMM), including any significant risks
  - Virtually every audit, including audits of small- and medium-sized entities, has at least one significant risk.
- Failure to assess or document the assessment of risk at both the relevant assertion level and financial statement level
  - A reviewer may encounter audits where the RMMs are assessed at the account level only, rather than at the relevant assertion level.

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  - — Some practitioners confuse account-level risk with financial statement-level risk. Financial statement-level risks are not risks limited to one account balance, but rather, risks that are pervasive to the financial statements.

- Failure to properly document the firm's identification and assessment of the RMMs and response thereto

  - — Reviewers should consider the linkage between the risk assessment and the auditor's procedures, and they should determine whether the procedures are responsive to the client's financial statement- and assertion-level risks.
  - — Significant risks require special audit consideration, which means consideration above and beyond what a standardized audit program would address.

- Failure to evaluate the design and implementation of controls relevant to the audit

  - — Auditors are expected to
    - consider what could go wrong as the client prepares their financial statements.
    - identify the controls meant to mitigate those financial reporting risks.
    - evaluate the likelihood that the controls are capable of effectively preventing or detecting and correcting material misstatements.

.101 As noted previously, the new bold Risk Assessment questions included in the September 2018 PRP section 20,700, *Employee Benefit Plan Audit Engagement Checklist*, are intended to assist in the identification of such instances of nonconformity.

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Other Peer Review Resources Available to Firms

.102 The Peer Review Technical Team Hotline (919.402.4502, press 3) and email (prptechnical@aicpa.org) are available if you have technical questions about performing a peer review or questions about the Peer Review Program Manual, including the AICPA Standards for Performing and Reporting on Peer Reviews.

.103 Visit the Peer Review for CPA Firms website at www.aicpa.org/interestareas/peerreview/community/cpafirms.html for resources for CPA firms preparing for peer review.

.104 Contact the Issue Advisory Hotline at 919.402.4650 if an issue arises during a peer review regarding whether the reviewed firm appropriately applied authoritative guidance on a selected engagement. The peer reviewer and the reviewed firm can call the hotline together and discuss the issue with a member of the Accounting and Auditing Team.

.105 See the Issue Advisory Hotline Q&A at www.aicpa.org/content/dam/aicpa/interestareas/peerreview/community/peerreviewers/downloadable documents/issueadvisoryhotlineqanda.pdf for more information.

Risk Assessment Tools

.106 The Audit Risk Assessment Tool is designed to walk an experienced auditor through risk assessment procedures and document those decisions necessary to prepare an effective and efficient audit program. The risk assessment toolkit can be accessed at www.aicpa.org/riskassessment.

.107 Readers are also encouraged to read the article, "Taking the Risk Out of Risk Assessment," in the August 2018 issue of the *Journal of Accountancy*, which can be accessed at www.journalofaccountancy.com/issues/2018/aug/risk-assessment-compliance.html.

Recent Pronouncements

.108 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 GAAP. For information on pronouncements issued subsequent to the writing of this alert, please refer to 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 the *CPA Letter Daily* and the *Journal of Accountancy*.

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Recent Auditing and Attestation Pronouncements and Related Guidance

.109 The following table presents a list of recently issued auditing and attestation standards and related guidance.

Recent Auditing and Attestation Standards and Related Guidance	
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 sec. 9700 par. .14–.21), of AU-C section 700, *Forming an Opinion and Reporting on Financial Statements* (March 2018) (Interpretive publication)	Auditing Interpretation No. 4 provides guidance on how an auditor complies with AU-C section 700 in the context of the revised reporting standards adopted by the PCAOB and approved by the SEC. Because of the phased approach of the effective dates of AS 3101, *The Auditor's Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion*,[9] Auditing Interpretation No. 4 does not address the changes relating to critical audit matters. The ASB will continue to assess whether it will be necessary to develop additional auditing interpretations.

[9] All AS sections can be found in *PCAOB Standards and Related Rules*.

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Recent Auditing and Attestation Standards and Related Guidance	
SSARS No. 24, *Omnibus Statement on Standards for Accounting and Review Services – 2018* (May 2018)	SSARS No. 24 adds new AR-C section 100, *Special Considerations—International Reporting Issues*,[10] to provide requirements and guidance when an accountant is engaged to perform a compilation or review when the financial statements have been prepared in accordance with a financial reporting framework generally accepted in another country, or the compilation or review is to be performed in accordance with both SSARS and another set of compilation or review standards.

Recent ASUs

.110 The following table presents, by codification area, a list of recently issued ASUs through the issuance of ASU No. 2018-20, *Leases (Topic 842): Narrow-Scope Improvements for Lessors*. 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.

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. 2018-09 (July 2018)	*Codification Improvements*
ASU No. 2018-10 (July 2018)	*Codification Improvements to Topic 842, Leases*
Assets Area of FASB ASC	
ASU No. 2018-04 (March 2018)	*Investments—Debt Securities (Topic 320) and Regulated Operations (Topic 980): Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 117 and SEC Release No. 33-9273 (SEC Update)*

(continued)

[10] All AR-C sections can be found in AICPA *Professional Standards*.

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Recent Accounting Standards Updates	
ASU No. 2018-15 (August 2018)	*Intangibles—Goodwill and Other—Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract (a consensus of the FASB Emerging Issues Task Force)*
ASU No. 2018-19 (November 2018)	*Codification Improvements to Topic 326, Financial Instruments—Credit Losses*
Expenses Area of FASB ASC	
ASU No. 2018-05 (March 2018)	*Income Taxes (Topic 740): Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 118 (SEC Update)*
ASU No. 2018-07 (June 2018)	*Compensation—Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting*
ASU No. 2018-14 (August 2018)	*Compensation—Retirement Benefits—Defined Benefit Plans—General (Subtopic 715-20): Disclosure Framework—Changes to the Disclosure Requirements for Defined Benefit Plans*
Broad Transactions Area of FASB ASC	
ASU No. 2018-11 (July 2018)	*Leases (Topic 842): Targeted Improvements*
ASU No. 2018-13 (August 2018)	*Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement*
ASU No. 2018-16 (October 2018)	*Derivatives and Hedging (Topic 815): Inclusion of the Secured Overnight Financing Rate (SOFR) Overnight Index Swap (OIS) Rate as a Benchmark Interest Rate for Hedge Accounting Purposes*
ASU No. 2018-17 (October 2018)	*Consolidation (Topic 810): Targeted Improvements to Related Party Guidance for Variable Interest Entities*
ASU No. 2018-18 (November 2018)	*Collaborative Arrangements (Topic 808): Clarifying the Interaction between Topic 808 and Topic 606*
ASU No. 2018-20 (December 2018)	*Leases (Topic 842): Narrow-Scope Improvements for Lessors*
Industry Area of FASB ASC	
ASU No. 2018-06 (May 2018)	*Codification Improvements to Topic 942, Financial Services—Depository and Lending*
ASU No. 2018-08 (June 2018)	*Not-For-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*

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Recent Accounting Standards Updates	
ASU No. 2018-12 (August 2018)	*Financial Services—Insurance (Topic 944): Targeted Improvements to the Accounting for Long-Duration Contracts*

Regulatory Developments — DOL

DOL Releases FAB Clarifying Issues Regarding Proxy Voting, Shareholder Engagement, and Economically Targeted Investments

.111 On April 23, 2018, the DOL released FAB No. 2018-01, which provides guidance to the national and regional offices of the Employee Benefits Security Administration (EBSA) regarding proxy voting, shareholder engagement, and economically targeted investments by fiduciaries of private sector EBPs covered by ERISA.

.112 FAB No. 2018-01 clarifies earlier interpretations set forth in Interpretive Bulletin (IB) Nos. 2015-01 and 2016-01. In IB No. 2015-01, the DOL held that fiduciaries may not sacrifice returns or assume greater risks to promote collateral environmental, social, or corporate governance (ESG) policy goals when making investment decisions. In IB No. 2016-01, the DOL addressed issues surrounding written statements of investment policy, proxy voting, and other exercises of shareholder rights by fiduciaries when managing plan assets that are corporate stock.

.113 ERISA fiduciaries must always put first the economic interests of the plan in providing retirement benefits. FAB No. 2018-01 advises that fiduciaries of ERISA-covered plans must avoid too readily treating ESG issues as being economically relevant to any particular investment choice. It further advises that ERISA does not necessarily require plans to adopt investment policy statements with express guidelines on ESG factors. FAB No. 2018-01 addressed issues that arise in the use of ESG-themed investment alternatives in 401(k)-type plans and as qualified default investment alternatives. It also clarifies that plan fiduciaries (including investment managers) may not routinely incur significant plan expenses to pay for the costs of shareholder resolutions or special shareholder meetings or to initiate or actively sponsor proxy fights on environmental or social issues.

.114 FAB No. 2018-01 is part of the DOL's ongoing compliance assistance program to help employers, plan officials, service providers, and others comply with ERISA. The FAB is publicly available at www.dol.gov/ebsa.

DOL Issues FAB Regarding Temporary Enforcement Policy on Prohibited Transactions Rules Applicable to Investment Advice Fiduciaries

.115 On May 7, 2018, the DOL announced FAB No. 2018-02, "Temporary Enforcement Policy on Prohibited Transaction Rules Applicable to Investment Advice Fiduciaries." The FAB is publicly available at www.dol.gov/ebsa.

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DOL Issues New Rule Aimed at Providing New Health Care Options for Small Employers

.116 On June 19, 2018, the DOL issued a new rule to provide new health care options for small employers. The AHP reform addresses many of the inequities between small and large businesses in access to quality, affordable health coverage.

.117 Under the DOL's new rule, AHPs can serve employers in a city, county, state, multi-state metropolitan area, or a particular industry nationwide. Sole proprietors, as well as their families, will be permitted to join such plans. In addition to providing more choices, the new rule makes insurance more affordable for small businesses. Just like plans for large employers, these plans will be customizable to tailor benefit design to small businesses' needs. These plans will also be able to reduce administrative costs and strengthen negotiating power with providers from larger risk pools and greater economies of scale.

.118 The rule includes several safeguards. Consumer protections and health care anti-discrimination protections that apply to large businesses will also apply to AHPs organized under this rule. The DOL will monitor these new plans to ensure compliance with the law and protect consumers. Additionally, states will continue to share enforcement authority with the federal government.

.119 The new rule does not affect previously existing AHPs, which were allowed under prior guidance. Such plans can continue to operate as before or elect to follow the new requirements if they want to expand within a geographic area, regardless of industry, or to cover the self-employed. New plans can also form and elect to follow either the old guidance or the new rules.

.120 Information about the rule and other resources are available on the DOL's website at www.dol.gov.

Compliance Assistance for AHPs Now Available at Employer.gov

.121 In October 2018, the DOL added compliance assistance materials on AHPs to its new employer.gov website that will help job creators and plan sponsors understand their ERISA obligations when setting up and managing AHPs.

.122 The DOL's final rule makes it easier for employers, especially small businesses, to pool resources to create AHP health insurance plans for their employees and will help increase access to health coverage for workers and business owners, including sole proprietors, who previously faced challenges in securing employer-sponsored health coverage.

.123 Employer.gov is a new compliance assistance website that covers various topics and labor laws enforced by federal agencies. This resource, which continues the goal of the DOL's recently announced Office of Compliance Initiatives, encourages and facilitates compliance evaluations.

DOL Releases Advance Copies of Form 5500 Annual Return/Report for 2018

.124 On November 13, 2018, the DOL, IRS, and PBGC released advance informational copies of the 2018 Form 5500 Annual Return/Report and related instructions. The "Changes to Note" section of the 2018 instructions highlights

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important modifications to the Form 5500, Form 5500-SF, and their schedules and instructions. Modifications are as follows:

- *Principal business activity codes.* Principal business codes have been updated to reflect certain updates to the North American Industry Classification System (NAICS).
- *Administrative penalties.* The instructions have been updated to reflect an increase to $2,140 per day in the maximum civil penalty amount assessable under ERISA Section 502(c)(2), as required by the Federal Civil Penalties Inflation Adjustment Act Improvements Act of 2015. The increased penalty under Section 502(c)(2) is applicable for civil penalties assessed after January 2, 2018, whose associated violations occurred after November 2, 2015.
- *Form 5500 — Participant count.* The instructions for Lines 5 and 6 have been enhanced to make clearer that welfare plans complete only Line 5 and elements 6a(1), 6a(2), 6b, 6c, and 6d in Line 6.
- *List of plan characteristics codes for Lines 8a and 8b (Lines 9a and 9b for SF filers).* Plan characteristic code 3D has been updated to reflect the IRS changes on the pre-approved plans as prescribed in Revenue Procedure 2017-41, 2017-29 IRB 92.
- *Schedule MB — Contributions.* The instructions for Line 3 have been modified to require an attachment in situations in which a reported contribution includes a withdrawal liability payment.
- *Schedule MB — Plan in critical status or critical and declining status.* The instructions for Line 4f (in which plans expected to become insolvent or emerge from troubled status report the year in which such insolvency or emergence is expected to occur) have been modified to require an attachment providing additional information about how that year was determined. In addition, the instructions now include guidance about what to report if a troubled plan is neither projected to emerge from critical status nor become insolvent within 30 years.
- *Schedule SB — Mortality tables.* Line 23, where filers check a box to indicate which set of mortality tables is used, has been updated to provide additional options available under Treasury Regulation Section 1.430(h)(3). The instructions for Line 23 have been modified to reflect this change.
- *Schedule SB.* Schedule SB has been updated to reflect the issuance of Revenue Procedure 2017-56 with respect to change in funding methods. Line 23 has been updated to reflect final regulations prescribing mortality tables to be used by most defined benefit pension plans. Line 27, Codes 5 and 8 are no longer applicable and should not be used. Lines 42 and 43 have been removed; pursuant to the Pension Relief Act of 2010, there are no installment acceleration amounts or installment acceleration amount carryovers after the 2017 plan year.
- *Schedule R.* Schedule R has been updated to reflect the issuance of Revenue Procedure 2017-56, 2017-44 IRB 465, with respect to the change in funding methods. Also, the Schedule R instructions under "Who Must File" have been updated to reflect the removal from Schedule R of certain IRS compliance questions.

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.125 Informational copies of the forms, schedules, and instructions are available online at www.dol.gov/agencies/ebsa/employers-and-advisers/plan-administration-and-compliance/reporting-and-filing/form-5500.

.126 Filers may want to 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 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.

DOL Releases 2018 Form M-1 and Top 10 Filing Tips

.127 On December 3, 2018, the DOL released the 2018 Form M-1 and related instructions. Administrators of multiple employer welfare arrangements (MEWAs) that provide medical benefits, including AHPs, must file the Form M-1 with the DOL annually and following certain events, such as a MEWA's expansion into a new state.

.128 The Form M-1 contains valuable information that EBSA uses in its regulatory, compliance, and enforcement programs. Since April 11, 2000, MEWAs that provide medical coverage, including AHPs, have been required to file a Form M-1 with the DOL.

.129 On June 21, 2018, the DOL published a rule that allows more groups and associations to form AHPs and also allows working owners without other employees (including sole proprietors) to join AHPs and receive health coverage for themselves and their families. AHPs established pursuant to this new rule constitute MEWAs and, as such, are required to file the Form M-1.

.130 Together with the 2018 Form M-1, EBSA also published "10 Tips for Filing Form M-1 for Association Health Plans and Other MEWAs that Provide Medical Benefits" that will assist MEWA administrators in appropriately filing the Form M-1. This publication provides general information on the entities that are required to file the Form M-1, when they are required to file, and some of the information that should be included in an M-1 filing.

.131 All MEWAs that provide medical benefits, including AHPs that intend to begin operating under the new rule, are required to file an initial registration Form M-1 at least 30 days before engaging in any activity. Such activities include marketing, soliciting, providing, or offering to provide medical care benefits to employers or employees who may participate in the AHP.

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Regulatory Developments — IRS

Bipartisan Budget Act of 2018

.132 The Bipartisan Budget Act of 2018 (the act) makes several of the following changes that relax some requirements relating to certain types of distributions. The changes are generally effective beginning after December 31, 2018:

Hardship Distributions

.133 Hardship distribution changes are as follows:

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- Six-month "wait-out" requirement before restarting elective deferrals and employee contributions after taking a hardship distribution is eliminated.
- Distributions from the following sources are permitted:
    - Profit sharing and stock bonus contributions
    - Qualified nonelective contributions
    - Qualified matching contributions
    - Plan earnings on the preceding
- The requirement that participants first take any available plan loans is eliminated.

Withdrawal Penalty Waiver

.134 A 10% early withdrawal penalty for up to $100,000 is waived for qualified wildfire distributions for losses due to wildfires for participants with a principal residence in the California wildfire disaster area. The penalty waiver expires on December 31, 2018.

Plan Loans

.135 Dollar amount limitations and required repayment period are relaxed for residents in the California wildfire disaster area. Relaxed limitations expire December 31, 2018.

IRS Plan Account Levies

.136 New rules allow correction of improper IRS levies on accounts in which the amount is returned to the plan participant. Under the new rules, the participant may deposit the amount back in the plan as a form of roll-over contribution.

TCJA — Impact on Retirement Plans

.137 The TCJA made several changes to the qualified retirement plan rules.

Extended Roll-Over Period of Plan Loan Offsets

.138 Defined contribution retirement plans, such as 401(k) plans, often allow plan loans. Many plans treat unpaid participant loans as a distribution from the plan upon a participant's termination of employment or upon termination of the plan. Prior to changes made by the act, on the date an employee's plan or employment terminated while the employee had a plan loan outstanding, the employee had 60 days from that date to repay the loan or contribute the loan balance to an IRA to avoid a taxable distribution.

.139 The TCJA extends the due date of a defined contribution plan loan repayment or contribution to an IRA to the due date of an employee's tax return (including extensions) for that year. The plan loan due date extension is effective after December 31, 2017.

Relief From Early Withdrawal Tax for "Qualified 2016 Disaster Distributions"

.140 The TCJA provides an exception to the retirement plan 10% early withdrawal tax for up to $100,000 of "qualified 2016 disaster distributions."

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These distributions are defined as distributions from an "eligible retirement plan" made on or after January 1, 2016, and before January 1, 2018, to an individual whose principal place of abode at any time during calendar-year 2016 was located in a 2016 disaster area, and who has sustained an economic loss by reason of the events that gave rise to the Presidential disaster declaration. An "eligible retirement plan" means a qualified retirement plan, an IRC Section 403(b) plan, or an IRA.

.141 Income attributable to a qualified 2016 disaster distribution can, under the TCJA, be included in income ratably over three years, and the amount of a qualified 2016 disaster distribution can be recontributed to an eligible retirement plan within three years.

IRS Determination Letter Program for Pre-Approved Defined Benefit Plan Documents

.142 The IRS has announced that starting May 1, 2018, and ending April 30, 2020, the IRS will accept an application for an individual determination letter from an employer eligible to submit a determination letter request under the second six-year remedial amendment cycle for defined benefit pre-approved plans. The IRS will announce in future guidance a delayed beginning date for the third six-year remedial amendment cycle for pre-approved defined benefit plans.

IRS Updates the Employee Plan Compliance Resolution System

.143 In Revenue Procedure 2018-52, the IRS details new procedures under the Employee Plan Compliance Resolution System (EPCRS) that will require plan sponsors to use the www.pay.gov website to file voluntary correction program (VCP) submissions and pay user fees. Beginning on April 1, 2019, the IRS will no longer accept paper VCP submissions or process user fees paid with a paper check. During the transition period from January 1, 2019 through March 31, 2019, plan sponsors may file VCP submissions with the IRS either by using the website or by filing paper VCP submissions. The Revenue Procedure also makes changes in certain employee plans programs, including changes to the pre-approved plan program for qualified plans and the pre-approved 403(b) plan program.

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VCP Changes Use Fees

.144 Retirement plan sponsors make submissions under the VCP to resolve problems with their tax-favored retirement plans. Effective January 2, 2018, the IRS simplified the user fees charged for most submissions made under VCP. The total amount of net plan assets determines the applicable user fee. Most alternative or reduced fees that were part of previous revenue procedures no longer apply. Effective for VCP submissions mailed to the IRS on or after January 2, 2018, the user fees based on net plan assets are as follows:

$0 to $500,000	$1,500
Over $500,000 to $10,000,000	$3,000
Over $10,000,000	$3,500

.145 Refer to Appendix A.09 of Revenue Procedure 2018-4 for details.

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Executive Order to Expand Access to Workplace Retirement Savings Plans and Review Rules on Required Minimum Distributions

.146 On August 31, 2018, the President signed an executive order to expand access to workplace retirement savings plans for American workers and review rules on required minimum distributions.

.147 The President's order directs the DOL and the Treasury to consider issuing regulations and guidance that would make it easier for businesses to offer retirement plans. The departments will consider changes to make it easier for businesses to join together to offer association retirement plans, also known as multiple employer plans. Association retirement plans reduce the cost of offering retirement plans for businesses that join together by expanding the number of workers who participate.

.148 The Department of the Treasury will also review the rules on required minimum distributions from retirement plans to see if retirees could keep more money in 401(k) plans and IRAs for a longer period. This could allow retirees to spread retirement savings over a longer period of time.

IRS Issues Private Letter Ruling on 401(k) Student Loan Benefits

.149 On August 17, 2018, the IRS issued a private letter ruling, which permitted an employer to provide, if certain conditions were met, a student loan repayment benefit offered through a 401(k) plan. The student loan benefit program under the plan provided that the employer make a nonelective contribution to an employee based on the amount of student loan repayments made by the employee outside of the plan. Prior to such ruling, many plan sponsors were not certain that such an approach was permissible under IRS rules and regulations and had been reluctant to create such programs.

.150 The ruling may cause employers, particularly employers with a young and educated workforce, to consider offering a student loan benefit as part of their retirement program. Some providers will likely consider establishing and marketing student loan repayment programs in 401(k) plans. Interested plan sponsors will want to stay current with the marketplace and work with their advisers and ERISA counsel if they decide to consider implementing such programs.

Regulatory Developments — Multiemployer Plans

Multiemployer Plan Accounting Chapter

.151 The Multiemployer Plan Task Force (task force) is currently developing a new chapter for the EBP guide specific for multiemployer plans. The chapter will include the following types of plans: defined benefit, defined contribution, health and welfare, and apprenticeship plans. The primary focus is on the accounting, reporting, and auditing considerations unique to multiemployer plans, including an appendix, "Regulation, Administration, and Operation of an ME Plan" and illustrative financial statements for defined benefit, health and welfare, and apprenticeship plans.

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.152 In March 2018, the accounting issues were presented to the Financial Reporting Executive Committee (FinREC), which resulted in the issuance of a working draft on September 7, 2018, with comments due back on November 6, 2018. Five comment letters were received. Members of the ME task force met with FinREC in January 2019 to discuss revisions based on comments received. The task force is currently in the process of finalizing revisions based on the January 2019 FinREC meeting. Accounting issues presented to FinREC, which resulted in FinREC recommendations, included the following:

- Presentation of an operating entity held for investment purposes
- Classification of dual-purpose assets used in operations
- Disclosure requirements for funded status of the plan
- Presentation and disclosure of reciprocity (reciprocal) payments
- Presentation and disclosure of assessed withdrawal liability
- Presentation and disclosure of benefit obligations in an apprenticeship plan

.153 The task force is currently drafting the auditing portion of the chapter, which will be reviewed by the ASB. The EBP guide is an interpretive publication that provides recommendations on the application of GAAS in specific circumstances, including engagements for entities in specialized industries. An interpretive publication is issued under the authority of the ASB after all ASB members have been provided an opportunity to consider and comment on whether the proposed interpretive publication is consistent with GAAS.

Solvency of Multiemployer Plans

.154 During 2018, the Department of Treasury has continued to receive applications to reduce or suspend 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. In addition, the PBGC's most recent annual report notes that the solvency challenges faced by PBGC's Multiemployer Program are increasing as the date of the program's insolvency grows closer. The PBGC has projected that without changes to current legislation, the Multiemployer Program is likely to run out of money by the end of its fiscal year 2025.

.155 In response to these issues, and as part of the MPRA, Congress established the Joint Select Committee on Solvency of Multiemployer Pension Plans (the committee), a bipartisan group comprising 16 House and Senate members. The committee was tasked with improving the solvency of multiemployer pension plans and the PBGC. Further, it was hoped that the committee would provide recommendations and legislative language that would significantly improve the solvency of these plans and the PBGC.

.156 At the time the committee was established, the initial goal was to provide a report by November 30, 2018, that contained a detailed statement of findings, conclusions, and recommendations of the committee as well as proposed legislative language to carry out the recommendations noted previously. Throughout the summer of 2018, the committee held meetings and public hearings at which numerous stakeholders addressed the issues confronting the multiemployer pension plan industry.

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.157 The committee announced in late November 2018 that although it believes that a bipartisan solution is attainable, it was unable to finalize an agreement prior to the November 30 deadline. By statute, the committee terminated December 31, 2018.

Employee Benefit Plan Resources

.158 The following are various resources that practitioners engaged in the EBP industry may find beneficial.

EBPAQC

.159 The EBPAQC is a firm-based, volunteer membership center of more than 2,600 firms with the goal of promoting quality EBP audits. The EBPAQC has developed tools and resources to help members recognize and avoid common EBP 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"[11] summarize the most common deficiencies and provide links to audit guidance and EBPAQC tools. For more information, please visit www.aicpa.org/interestareas/employeebenefitplanauditquality.

EBP Audit Certificate Programs

.160 Four new EBP 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.

.161 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

.162 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* (2019) (product nos. AAGEBP19P, AAGEBP19E, or WEB-XX)
- *Employee Benefit Plans—Best Practices in Presentation and Disclosure*, sixth edition (product nos. ATTEBP16P, ATTEBP16E, or WET-XX)
- Audit Guide *Audit Sampling* (2017) (product nos. AAGSAM17P, AAGSAM17E, or WAS-XX)
- Audit Risk Alert *General Accounting and Auditing Developments—2018/19* (product nos. ARAGEN18P, ARAGEN18E, or WGE-XX)

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[11] These resources are available to Employee Benefit Plan Audit Quality Center members only.

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- *U.S. GAAP Financial Statements—Best Practices in Presentation and Disclosure* (2018) (formerly *Accounting Trends and Techniques*) (product nos. ATTATT18P or ABPPDO)
- *Audit and Accounting Manual* (2018) (product nos. AAMAAM18P or WAM-XX)

Continuing Professional Education

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

- *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*

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

Online CPE

.165 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 www.aicpastore.com/ast/main/cpa2biz_primary/tax/research/prdovr~pc-byf-xx/pc-byf-xx.jsp (product no. BYT-XX).

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

Webcasts

.167 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 www.aicpastore.com/ast/aicpa_cpa2biz_nav/responsive_top_nav/webcasts.jsp.

Member Service Center

.168 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

.169 Do you have a complex technical question about GAAP, other comprehensive bases of accounting, or other technical matters? If so, use the

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AICPA's Accounting and Auditing Technical Hotline. 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 by phone at 1.877.242.7212, by email at aahotline@aicpa.org, or online at www.aicpa.org/research/technicalhotline.html.

Ethics Hotline

.170 In addition to the Technical Hotline, an Ethics Hotline is also available. Members of the 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

.171 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 the FASB *Accounting Standards Codification*®; the latest AICPA *Professional Standards*, *Technical Questions and Answers*, AICPA 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

.172 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 Statements on Auditing Standards 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 www.aicpastore.com/ast/main/cpa2biz_primary/accounting/standards/prdovr~pc-005102/pc-005102.jsp.

.173 You can 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.

.174 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

Financial Reporting Center of AICPA.org

.175 CPAs face unprecedented changes in financial reporting. As such, the Financial Reporting Center was created 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.

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.176 The Financial Reporting Center 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 engagements, including compilation and review, audit and attest, and assurance and advisory.

.177 For example, the Financial Reporting Center 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 www.aicpa.org/interestareas/frc/auditattest/improvingclarityasbstandards.html.

Industry Conferences

.178 The AICPA offers the annual Employee Benefit Plans Accounting, Auditing, and Regulatory Update conference later in the year to capture the latest information affecting EBPs. The conference covers a wide range of topics to ensure you and your EBP teams end the year hearing from experts in the audit and regulatory field. The 2019 conference will be offered as an online-only event on December 9–10.

.179 The AICPA also offers an annual national conference on employee benefit plans each spring. The three-day conference is designed to update attendees on recent developments related to EBPs. The 2019 conference will be held May 6–8 in New Orleans, LA. For further information about the conference, call 1.888.777.7077 or visit www.aicpastore.com.

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Appendix A—Additional Internet Resources

The following 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	aicpa.org www.aicpastore.com www.ifrs.com
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
Auditing Standards Board	Summaries of recently issued auditing standards and interpretations	www.aicpa.org/research/standards/auditattest/asb/pages/auditingstandardsboard.aspx
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

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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
Public Company Accounting Oversight Board (PCAOB)	Information on accounting and auditing activities of the PCAOB and other matters	www.pcaob.org
Securities and Exchange Commission (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

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