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What Will an Auditor Want to Know?

Meeting 403(b) Plan Audit Requirements

Many not-for-profits are now anticipating the first audits of their 403(b) retirement plans since new IRS and Department of Labor (DOL) regulations kicked in at the start of 2009. The new rules require an annual audit of plans with 100 or more participants. So what kind of questions can you expect from the plan's auditor?

Discussing changes

Typically, an auditor will want to know if any plan amendments have been adopted or become effective for the year under audit, or after the plan's year end. The auditor also is likely to ask if there's been any change in the plan's status — for example, changes sparked by mergers, spin-offs or partial terminations.

Also relevant is whether your not-for-profit expects to change or terminate its plan, and if its financial condition has worsened in the last year. Some other questions you might be asked include:

- Have there been any significant changes in your workforce during the year under audit?
- Have there been any changes to investment policies or practices?

An auditor also might ask if there have been any participant complaints or inquiries from the IRS or the DOL during the current or prior plan years.



Communicating about reporting, governance

The auditor also is likely to request information about plan reporting and governance. Who prepares your Form 5500s and plan financial statements? What are their qualifications and experience, and which department is involved with drafting the financial statements? Also, who's responsible for reconciling third-party records and reports?

Other possible questions might concern the preparation of a trial balance of the plan's financial activity, the review of financial statements and disclosures, and communication

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protocol for those charged with plan governance concerns, auditor independence discussions, internal control communication, and fraud risk concern.

Monitoring your service provider

The auditor also will be interested in your service provider's activities and related controls. During the year under audit, he or she may inquire whether there have been any changes in the service provider's management or internal systems (payroll, human resources, in-house recordkeeping and so on). Other questions might include: Who reviews service-provider activity to determine whether services are compliant with agreements and contracts? And who performs due diligence when a change in service providers is contemplated?

Preventing fraud

A portion of the audit is likely to revolve around fraud risks. The auditor will want to know whether plan management has identified any fraud risk factors related to the plan as part of its overall internal control system. And, if so, how is plan management addressing the risk? Other questions could include:

- Is there is a written fraud prevention policy for the plan?
- Does plan management routinely investigate accounting, analytical or operational anomalies?
- Does management use the organization's internal audit function to address fraud risk?

Another relevant issue you may be asked about is whether management has communicated to the audit committee (or

Filing Deadlines: Form 5500

Not-for-profits with 403(b) plans are approaching their first required filing of a more comprehensive IRS Form 5500, "Annual Return/Report of Employee Benefit Plan." Previous Form 5500s didn't include information on funding and investments, for example.

Plans with a year end of December 31, 2009 must file IRS Form 5500 by July 31, 2010 (with an extension: October 15, 2010). For plans with a year end of June 30, 2010, the form must be filed by January 31, 2011 (with an extension: April 15, 2011). And for plans with a year end of September 30, 2010, Form 5500 is due April 30, 2011 (with an extension: July 15, 2011).

Your HRR contact can help you prepare the form.

an equivalent) the specific fraud risks facing your organization and the 403(b) plan, and how they're being addressed.

Being prepared

In addition to answering the questions above, your auditor will request various supporting documents. Your auditor will be able to provide a list of the documents you need to prepare or provide.

The audit is likely to go smoothly if you collect in advance the kind of information your auditor needs to see. **h**

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