A Limited Scope Audit Could Save Time and Money — Does Your Plan Qualify?

By Joseph Farrenkopf, CPA, Senior Manager

Commonly, employee benefit plans with more than 100 participants — in accordance with the Employee Retirement Income Security Act of 1974 (ERISA) — are required to be audited. The audited financial statements are to be filed annually with the plan's Form 5500. In certain instances, the plan administrator may direct the auditors to perform a limited scope audit as an alternative to a full scope audit.

A limited scope audit reduces the procedures that are required to be performed on investments and investment income. As a result of less procedures being performed, sponsors could save time addressing auditors' questions. In addition, there generally should be some reduction in the audit fee when compared to a full scope audit.

Following is a brief overview of the regulations and necessary qualifications for a limited scope audit. The summary will help determine if a limited scope audit is right for your plan.

Conditions for Limited Scope Audit Exemption

Enacted in 1974, ERISA was conceived to help protect the retirement benefits of employees that participate in private employee benefit plans. Part of ERISA section 103(a)(3) requires an independent qualified public accountant to audit qualifying plans.

To provide some relief, ERISA section 103(a)(3)(C) allows the plan administrator to direct the auditors not to perform any auditing procedures on investment information prepared and certified by a bank or similar institution or by an insurance carrier that is regulated, supervised, and subject to periodic examination by a state and federal agency that acts as trustee or custodian.

ERISA's independent audit requirement is enforced by the Department of Labor (DOL). The regulatory requirements to meet the limited scope audit exemption are covered by the DOL in 29 CFR 2520.103-8.

Plan Administrator's Responsibility

If the institution that holds the plan's assets is a bank, trust company or insurance company, chances are that the plan may qualify to have a limited scope audit performed. If the plan's assets are held by a brokerage firm or investment company, the plan would generally <u>not</u> meet the requirements needed to provide a signed certification to perform a limited scope audit.

If you believe that your plan qualifies for a limited scope audit, you should verify with your vendor to ascertain that their institution has established a separate trust company that may be able to provide a signed certification.

The plan administrator is the only one that can direct the plan auditors to perform a limited scope audit and is responsible for determining that requirements have been met to allow for a limited scope audit exemption. In order to meet the requirements, the certification letter must be from a qualified institution, certify to the completeness and accuracy of the required information, and the certification must be singed (electronic signature is acceptable) by a person authorized by the institution.

Conclusion

Opting for a limited scope audit — if the plan meets the conditions — should save time and money.

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