



**Larson**  
CERTIFIED PUBLIC ACCOUNTANTS

## Frequently Asked Questions – 401(k) Plan Audit Requirements

### Why does the plan need an audit?

The Department of Labor (DOL) to be exact. For 401(k) plans (and 403(b) plans) that have 100 or more participants with account balances at the beginning of the plan year (usually January 1), the Department of Labor (DOL) requires that an audit report and the plan's audited financial statements be attached when filing the annual form 5500. There are exceptions for plans in the first year that they meet the 100 participant account balance threshold, so it's best to have a qualified CPA firm help make the call on whether an audit is required.

### When is a 401(k) plan required to be audited?

An audit is required to be performed by a qualified third party CPA firm when certain conditions are met, primarily when **total participants with account balances reach 100** and the plan is deemed a "large" plan, plans that are required to file Schedule H with the Form 5500.

### How do I find the number of participants with an account balance?

Check your 401 (k) Form 5500 as filed Part II line 6g.

### Who is a participant for purposes of these counts?

The number of participants with an account balance is counted on the first day of the plan year. You must count all active employees who have an account balance in the plan as of the first day of the plan year. (The rules are different for welfare benefit plans). You must also count all separated participants with account balances or a deferred, vested balance. Because the number of participants with account balances is counted on the first day of the plan year, not on the last day of the previous plan year, these numbers may be different if the first day of the plan year is an entry date for the plan.

### Are there any exceptions to the audit requirements?

Yes, there is an exception to these audit requirements. **Short Plan Year** - If the Plan would qualify as a large Plan, and its Plan year is seven months or less, the Plan sponsor may elect to defer the audit requirement to the following Plan year. In the following year, the Plan sponsor will be required to have the plan audited for the short Plan year if the Plan qualifies as a small Plan.

### I need an audit, what comes next?

First, you will need to determine what type of audit you need - an ERISA Section 103(a)(3)(C) audit and or Non-ERISA Section 103(a)(3)(C) audit.

### What is the difference between an ERISA Section 103(a)(3)(C) audit and a Non-ERISA Section 103(a)(3)(C) audit?

An ERISA Section 103(a)(3)(C) audit allows a plan to have an audit where the auditor may rely on the certification of an institutional trustee or custodian to limit the testing on any investment information. This exception only applies to investments, therefore, you should expect that your auditors will still conduct procedures in all other audit areas. For a Non-ERISA Section 103(a)(3)(C) audit procedures over investments will not be limited and there is not a certification to rely on.

The Plan may qualify to have an ERISA Section 103(a)(3)(C) audit if all or a part of the Plan's assets are held by a bank, insurance company or regulated trust company. The asset custodian or trustee must be subject to regulation by a state or federal agency and able to provide to the Plan sponsor the certification required under Department of Labor regulations 2520.103-8

### What if my plan has only some of the assets held with a custodian that can provide a certification?

The auditor may perform ERISA Section 103(a)(3)(C) audit procedures for the assets held at the certifying institution, but must perform Non-ERISA Section 103(a)(3)(C) audit procedures for the other assets that are not covered by the certification.

### How will the auditor's report read if we have an ERISA Section 103(a)(3)(C) audit?

The auditor will issue an auditor's report that contains a two-pronged opinion that is based on the audit and on the procedures performed relating to the certified investment information and now includes an "Other Matters" section reporting on the ERISA required supplemental schedules.

### What is the Employee Benefit Plan Audit Quality Center (EBPAQC) and why does it matter?

The EBPAQC is a voluntary membership organization for firms performing ERISA employee benefit plan audits. Its purpose is to promote the quality of employee benefit plan audits. The EBPAQC provides members with timely communication of regulatory updates, best practices guidance, technical updates and member to member discussion forums.

### Why should I look for an audit firm that is a member of the EBPAQC?

Studies by the Department of Labor of employee benefit plan audits show a much smaller deficiency rate in firms that belong to the EBPAQC than those that do not. This is a very significant factor to consider, given the fiduciary responsibility of the plan sponsor to have a quality audit performed.

### What is the audit filing deadline?

The audit report must be attached to the Form 5500, so it is subject to 5500 filing deadlines. The 5500 is due seven months after the last day of the plan year, but may be extended for an additional two and a half months.

### How much time should I allow to complete the audit?

It is best to begin the audit at least two to three months prior to the due date, to allow time to plan the audit, gather information, receive responses to all confirmation requests, perform fieldwork, follow up on open items, draft financial statements and wrap up the audit. Adequate time should be left to address and resolve unforeseen problems prior to the filing deadline. However, if you have just realized you have an audit requirement and the timing is tighter than this, we are specialists in performing audits under deadline and will make every effort to meet your deadline. If you are having an audit performed for the first time it often takes longer to get required documents from various sources, sometimes more than a month.

### Who pays for the plan audit?

The fees of the 401(k) plan audit are plan expenses, meaning that the plan is responsible to bear the cost of the audit, not the company (sponsor). While it is a noble cause for the sponsor to pay for the audit of the plan, it is not required. There is a fiduciary duty to minimize plan expenses, but a sponsor should always consider using plan assets to pay for plan expenses. The plan document should state who is responsible to pay for the audit of the plan.

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