

A red paper airplane is shown flying upwards and to the right, leaving a white, billowing trail that resembles a cloud. The background is a light blue gradient.

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How Can You or Your Clients Evaluate Prospective Auditors and Accountants?



Maria T. Hurd, CPA, RPA

Belfint Lyons & Shuman, P.A.

“Credentialed Auditors Are Not All Equal.”

Do you work with a CPA that is a “Jack of all Trades, but a Master of None?” This question has become harder to evaluate as the results of the Department of Labor (DOL) study on audit quality has shifted the industry focus to the qualifications of auditors. CPA firms with specialized audit practices demonstrate their commitment to quality audits by displaying their AICPA audit badges and other industry credentials on marketing materials, social media, and email signature lines.

How can you differentiate between prospective audit and accounting teams that seem to be equally credentialed?

I chair the Employee Benefit Plan Audit practice at BLS so I will focus on EBP credentials, but the information provided below can pertain to other specialized audit, tax, and accounting services that accounting firms provide.

What Do the AICPA Badges Mean?

The AICPA issues badges to accountants who pass tests showing proficiency in their specialty area. In our EBP practice group, the Advanced Defined Contribution Plans, Defined Benefit Plans, and Health and Welfare Plans Audit Certificate Exams test an auditor’s ability to plan, conduct, and report on each type of plan audit in accordance with the latest AICPA standards, DOL requirements, and IRS requirements. Intermediate level badges are designed for auditors with approximately three to seven years of experience in performing EBP plan audits. Advanced level badges are designed for auditors with seven or more years of experience performing and reviewing EBP audits.

The Race to Demonstrate Expertise.

When the AICPA created the badge program, firms with large enough practice areas quickly moved to ensure that their teams were credentialed. The costs associated with

these open-book tests were not prohibitive at approximately \$239 – 299 per person. Since 2016, over 400 EBP digital badges have been awarded to EBP auditors, pretty much making this designation a minimum requirement that employers should expect when selecting a plan auditor. Similar races are occurring within other audit practice groups, such as Nonprofit and Governmental.

Credentialed Auditors Are Not All Equal

As in the case with other professions with advanced degrees and certifications, credentialed auditors are not interchangeable. More than a degree or credential is often required to show true expertise. In addition to digital badges, here are additional considerations when evaluating accountants and auditors:

- The size of the specialized practice. For EBP audit practices, the DOL audit quality study shows a correlation between the number of EBP audits performed and the rate of deficiency in the audits. 93% of the nation’s CPA firms perform less than 25 EBP audits and the study showed deficiency rates ranging from 67.4% to 75.80% in those groups. The following link has more information on the results of the DOL Audit Quality Study - <https://employeebenefitplanaudit.belfint.com/the-dols-assessment-on-the-quality-of-financial-statement-audits-the-aftermath/>
- The experience of the team. How many EBP audits have the members of the audit team assigned to the audit perform? Some of our takeover clients’ predecessor audit teams were not specialists and missed important audit steps, even though their firm audited numerous plans. Prospective clients should inquire what percentage of their total chargeable time supervisors, managers, and engagement partners spend auditing EBPs. The answer to this question will quickly identify true specialists.

- Has the DOL reviewed the firm’s workpapers? Although the DOL does not issue approvals in writing when audit quality is satisfactory, the prospective auditors should be able to provide several examples of successful DOL reviews of its workpapers.

- IRS Audits. References listed on the proposal should include clients whose plans have been audited by the IRS. Dig deeper by inquiring of the reference if the IRS had findings that the auditor had failed to identify.

- Other references. Ask for a list of not only client references, but references from industry service providers. For the EBP practice group, these could include third-party administrators and ERISA attorneys, in addition to plan sponsors of similar plans.

- Continuing Professional Education. What percentage of the CPE credits obtained by the supervisors, managers, and partners of the audit team is industry or service specific? The answer to this question is another way to reveal whether they are true specialists. Our EBP managers, principals and partners earn substantially all of their CPE credit in EBP topics that also support their industry-specific designations separate from the AICPA badges.

- Other industry involvement. What is the extent of the prospective firm’s involvement in the industry in the form of published articles, industry organization memberships, teaching engagements, etc.

As with any other profession, the piece of paper or digital badge indicating the person can do a type of work should be a minimum requirement. True expertise and commitment to a specialty requires continued education and extensive experience in that specific area. CPAs who truly specialize in an industry or practice should be able to show that a significant percentage of their client time, training, and industry involvement are spent in the retirement plan space. Absent this proof, you should say “Hit the Road Jack!”



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