Limited Scope Certifications

.43 When a plan administrator elects to have a limited scope audit performed, the auditor is instructed by the plan administrator to limit the scope of testing on investment information prepared and certified by a qualified trustee or custodian as complete and accurate. Typically, the trustee or custodian certifies to the completeness and accuracy of the plan's investment assets and investment activity as contained in his or her ordinary books and records, which may or may not be fair value (for example, it may not be based on market quotations or year-end valuations). Although the DOL regulations allow the qualified trustee or custodian to report in this manner, it is the plan sponsor's responsibility to prepare the financial statements and footnote disclosures in accordance with GAAP (that is, at fair value as of the plan year-end).

.44 The auditor's responsibilities for investments covered by the limited scope exemption are to (1) obtain and read a copy of the certification from the plan administrator, (2) determine whether the entity issuing the certification is a qualifying institution under DOL regulations, (3) compare the certified investment information to the financial information in the financial statements and related disclosures, (4) perform the necessary procedures to become satisfied that any received or disbursed amounts reported by the trustee or custodian were determined in accordance with the plan provisions, and (5) determine whether the form and content of the financial statement disclosures related to the investment information prepared and certified by the plan's trustee or custodian are in conformity with GAAP and are in compliance with DOL rules and regulations.

.45 The scope limitation and the corresponding limitation of the auditor's work extend only to investments and related investment information certified by the qualified trustee or custodian. Plan investments not held by a qualified trustee or custodian, such as real estate, leases, mortgages, self-directed brokerage accounts, participant loans, and any other investments or assets not covered by such an entity's certification, should be subjected to appropriate audit procedures. Moreover, the appropriate audit procedures for all noninvestment related information (for example, benefit payments, employer and employee contributions, and receivables) are the same for a limited scope audit as they are for a full scope audit.

.46 When engaged to perform a limited scope audit, the auditor has no responsibility to perform audit procedures on investments and related activity covered by the certification. Although the auditor is not required to audit certain investment information when the limited scope audit exception is applicable, if the auditor becomes aware that the certified information is incomplete, inaccurate, or otherwise unsatisfactory, further inquiry may be necessary that might result in additional testing or modification to the auditor's report. In certain instances, a limited scope audit may no longer be appropriate (or may only be appropriate with respect to certain investments held by the plan).

Source – ***Employee Benefit Plans Industry Developments - 2008***

.47 Because plans increasingly invest in alternative investments (including hedge funds, real estate, limited partnerships, private equity funds, and other difficult-to-value investments), care ordinarily should be taken by plan administrators when determining if certified information can be relied upon in preparing the plan's Form 5500 and related financial statements. If, for example, the auditor becomes aware that adequate year-end valuation procedures have not been performed and therefore the financial statements may not be prepared in conformity with GAAP, the auditor would communicate those findings to the plan administrator. It is the plan administrator's responsibility to prepare the financial statements and footnote disclosures in conformity with GAAP and in compliance with DOL rules and regulations. Accordingly, the plan administrator may request the trustee or custodian to recertify or amend the certification for such investments at their appropriate year-end values or to exclude such investments from the certification. If the trustee or custodian amends the certification to exclude such investments from the certification, or if the trustee or custodian does not recertify those investments, the plan administrator is responsible for valuing such investments as of the plan year-end and engaging the auditor to perform full audit procedures on the investments excluded from the certification. Paragraph 7.69 of Audit and Accounting Guide Employee Benefits Plans, with conforming changes as of March 1, 2008 contains an illustrative auditor's report when plan investments have been certified and the plan administrator was unable to determine whether the investment information is valued in conformity with GAAP.

.48 Prior to being engaged to perform a limited scope audit, it is recommended that plan administrators and their auditors briefly discuss the nature of the investments held by the plan (including how those investments are valued) to help ensure that the plan administrator engages the auditor to perform the appropriate type of audit. The plan administrator's decision regarding whether it can rely on a certification for purposes of limiting the scope of the audit has become increasingly more challenging (especially in light of the investment-related issues previously discussed in this alert).

Source – ***Employee Benefit Plans Industry Developments - 2008***