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- [Home](#)
- [About](#)
 - [Specialists](#)
 - [Our Team](#)
 - [Careers](#)
- [Services](#)
 - [401\(k\) Audits](#)
 - [403\(b\) Audits](#)
 - [Pension Plan Audits](#)
 - [Audit Process](#)
 - [CPA Firm Assistance](#)
- [Clients](#)
- [Videos](#)
- [Blog](#)
- [FAQs](#)
- [Contact Us](#)

Select Page

Pandemic Considerations for EBP Financial Statements

Recently, our own Dave Torrillo, along with Gwen Stoute of Hogan Taylor and Lisa Todd of Moss Adams, was interviewed for an article written by Ken Tysiac editorial director of the Journal of Accountancy, ["Pandemic considerations for EBP](#)

[financial statements.”](#)

In the article, Dave and other experts give their thoughts on things to keep in mind related to employee benefit plan financial statements amid the pandemic.

Please check out the article below or and visit the [Journal of Accountancy](#).

Pandemic considerations for EBP financial statements

By Ken Tysiac

June 17, 2020

The preparing and auditing of employee benefit plan financial statements will be profoundly different in the coming months and years as a result of the coronavirus pandemic.

Many preparers and auditors are working from home and unable to go to the office to handle or review documents. The economic fallout from the pandemic has led to cash flow problems for plan sponsors resulting in layoffs of employees and even bankruptcy proceedings.

Meanwhile, the [Coronavirus Aid, Relief, and Economic Security \(CARES\) Act, P.L. 116-136](#), has led to changes that affect plans, including penalty-free withdrawals and delays of sponsors' deadlines to make contributions for 2019.

Here are some things to keep in mind related to employee benefit plan financial statements amid the pandemic.

Going concern

Although going concern assertions or opinions are rare for employee benefit plan financial statements, the issue of going concern for defined benefit plan sponsors is a topic that auditors need to be aware of because plan funding can be jeopardized when the sponsor is in dire financial straits.

Defined contribution plans may be jeopardized less by a sponsor's financial problems because the funds in these plans are owned and managed by the plan participants. But if a defined contribution plan has a high concentration in company stock – and the value of that stock has plummeted – problems could arise.

Even health and welfare plans could be affected if the plan sponsor has cash flow problems that interfere with its employer contributions.

“The point here is, you’ve really got to look at every plan separately – the financial condition, the type of plan it is – and go through that evaluation,” said Lisa Todd, CPA, the national practice leader for employee benefit plan services for Moss Adams in Albuquerque, N.M. “I think a lot of auditors have minimized the going concern analysis when it comes to employee benefit plans. We should always be doing that analysis, but now is the time for thoughtful consideration for each type of plan.”

The AICPA Employee Benefit Plan Audit Guide states that although employee benefit plans are not automatically affected by the plan sponsor's financial problems, the auditor may determine that those problems create a need for an evaluation of whether there is substantial doubt about the plan's ability to continue as a going concern.

Auditors of employee benefit plans often have to make an extra effort, though, to get information on the plan sponsor because many times the practitioners don't audit the plan sponsor.

This means that the plan auditors may need to make inquiries of high-level executives with the plan sponsor and consider publicly available information on the sponsor's condition.

“You may need to elevate to the proper levels, the CFO, the CEO, whoever it is that can help you get that understanding of what's going on with the company and where they stand,” said

David Torrillo, CPA/ABV, managing member of Torrillo & Associates LLC in Glen Mills, Pa.

CARES Act changes

Preparers may need to disclose and auditors will need to understand the effects that the [CARES Act](#) has had on the plan. Provisions that may affect employee benefit plans include:

- Permission for participants to take up to \$100,000 in coronavirus-related distributions from retirement plans without being subject to the Sec. 72(t) 10% additional tax for early distributions. Eligible distributions can be taken up to Dec. 31, 2020. The act also permits the distributions to be repaid at any time over a three-year period to an eligible retirement plan. The legislation also allows loans of up to \$100,000 or 100% of the participant's vested account balance from qualified plans, and repayment can be delayed.
- Temporary suspension of the rules in Sec. 401 for 2020 that retirement plan account holders take required minimum distributions (RMDs) from their retirement accounts once they reach a certain age.
- A delay of the requirement for a plan sponsor to make its minimum required contributions to a single-employer plan until 2021.

The provision for participants to take distributions or loans from retirement plans is left up to the discretion of the plan management. Many plans are permitting these withdrawals and/or loans, but their plan document hasn't yet been updated to reflect these provisions. The CARES Act allows the plan to be retroactively amended as of or by Dec. 31, 2022, for calendar year-end plans for provisions that are implemented immediately.

As a result, to get an understanding of what the plan permits, auditors need to go beyond their review of the plan documents and ask the appropriate personnel about any changes that

aren't yet formally amended.

"We're asking the clients what they've done in response to the CARES Act since we may not have a formal amendment, and we're handling it as a subsequent event disclosure if they have implemented any of those provisions and they're going to amend the plan later," said Gwen Stoute, CPA, a partner who leads the employee benefit plan practice at HoganTaylor in Fayetteville, Ark.

Any suspension of RMDs by the plan may be less of an issue for auditors because this change is not likely to significantly affect the plan.

But a delay in the plan sponsor's minimum contribution should be disclosed. This topic, too, may require additional inquiry on the part of the auditor, as a delayed contribution may not be made until the audit is completed.

"If the plan sponsor does make the decision to delay those, we would want to disclose that specifically and that they are delaying that funding under the CARES Act provision," Todd said.

Partial plan terminations

The occurrence of numerous workforce reductions as a result of the pandemic is likely to lead to partial plan terminations in many instances.

Partial plan terminations occur when more than 20% of the total plan participants are laid off in a particular year, over a different period, or in association with a significant corporate event such as a plant closing.

In the event of a partial (or full) plan termination, all employees are required to become fully vested in their account balance as of the date of the partial or full plan termination. This includes becoming fully vested in all employer contributions. (Plan participants always are fully

vested in their own contributions.)

Torrillo and Todd are recommending that clients consult with their legal counsel on whether their plan has been subject to a partial termination under the law, because the conditions are complicated.

“If they do conclude ultimately that a plan does have a partial plan termination, that would definitely be something you would want to focus on as a subsequent event disclosure that would be necessary,” Todd said.

Other disclosures

[Disclosures related to the pandemic may take various forms.](#)

Disclosures may be made as subsequent events in accordance with FASB ASC Topic 855, *Subsequent Events*; as risks and uncertainties in accordance with ASC Topic 275, *Risks and Uncertainties*; and perhaps as going concern in accordance with paragraph 40 of ASC Topic 205, *Presentation of Financial Statements*.

Disclosures that might affect the statement of net assets available for benefits could occur if the sponsor delays funding of a defined benefit plan or if a company with cash flow problems is waiting until later in the year to fund its discretionary match as an employer contribution to a defined contribution plan.

Other potential disclosures might include:

- **Information about investment values and investment declines.** Market risks, interest-rate risks, and credit risks may all be disclosed as risks and uncertainties. If the valuation of plan investments has fallen less than 20% since plan year end, Stoute is suggesting clients add wording to the risks and uncertainties footnote about the decline in value due to the pandemic. If the decline is 20% or more, she is suggesting

specific disclosures related to the decline in investment value.

- **Changes in workforce demographics.** Even if they don't rise to the level of a partial plan termination, layoffs and furloughs can affect the plan's obligations.

Beyond retirement plans

Health and welfare plans and employee stock ownership plans (ESOPs) may require special considerations.

Stoute said that with health and welfare plans, auditors need to understand how they are funded, whether the plan sponsor is having cash flow issues that may jeopardize payment of premiums, whether claims are getting denied unnecessarily, and what the appeals process is for claims that are denied.

"You may also have furloughed people who are involved in the operation of the plan, and that could cause some additional risk," Stoute said.

Meanwhile, Stoute said auditors should pay special attention to the assumptions and projections within the valuation of any ESOP plan. An interim or second valuation might be needed if the stock may be impaired because of subsequent events related to the pandemic. In a leveraged ESOP, the impact to the debt repayments and distributions may need to be considered.

"Typically ESOPs' plan sponsors contribute cash to fund the distributions," Stoute said. "If they're having cash flow issues, you need to be aware if they are possibly going to delay those distributions and whether the plan document allows for that or not. They might not be in compliance with the plan documents."

General audit considerations

The work-from-home and remote-auditing situation that affects many auditors also remains a challenge for employee benefit plan audits.

Auditors need to consider:

- **The impact working from home has on processing transactions.** New processes and procedures may require testing by the auditor.
- **SOC 1 reports.** If there are exceptions in these reports because of the pandemic, this could affect plan audits; however, this will more than likely affect 2020 year-end audits performed in 2021.
- **Creative solutions.** Exchanging information through secure systems and meeting through videoconferences are some of the strategies that auditors are using.

The key, Torrillo said, is making sure sufficient appropriate evidence is obtained.

“Whether it’s an electronic system or it was people 100 years ago doing things, it’s a process, and you’ve got to understand that process and test that process,” Torrillo said. “That’s what needs to be done. You need to make sure that process is working appropriately so you can rely on that audit evidence.”



– **Ken Tysiac** (Kenneth.Tysiac@aicpa-cima.com) is the JofA’s editorial director.



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Who We Are

Torrillo & Associates, LLC specializes in employee benefit plan audits including 401k audits, 403b audits, pension plan audits, and other retirement plan audits. We are licensed in 10 states including Pennsylvania, New Jersey, Delaware, New York and Florida. We are also able to practice in additional states that have passed firm mobility.

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- [Careers](#)
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- [FAQs](#)
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