



Documentation of Use of a Type 2 Service Auditor's Report in an Audit of an Employee Benefit Plan's Financial Statements

PLAN NAME:	CLIENT NUMBER:
PLAN YEAR END:	SCOPE OF PLAN AUDIT: LIMITED____ FULL____

Note:

This non-authoritative tool is intended to assist CPAs auditing the financial statements of employee benefit plans that use one or more service organizations (user auditors). It is designed to assist user auditors in documenting their procedures and findings related to controls at a service organization that are likely to be relevant to the employee benefit plan's internal control over financial reporting. It focuses on the user auditor's use of a "report on management's description of a service organization's system and the suitability of the design and operating effectiveness of controls" (a type 2 report). Both a type 1 report and a type 2 report provide a user auditor with information about the design and implementation of controls at a service organization that are likely to be relevant to user entities' internal control over financial reporting. Such information is intended to provide the user auditor with a basis for identifying and assessing the risks of material misstatement in the employee benefit plan's financial statements related to the services provided by the service organization. A type 2 report also includes a description of the service auditor's tests of the operating effectiveness of controls and the results of those tests. That information should enable the user auditor to determine whether he or she can rely on the operating effectiveness of the controls that were tested for the purpose of determining the nature, timing and extent of substantive procedures on related account balances, classes of transactions, and disclosures in the employee benefit plan's financial statements.

The AICPA has introduced a series of three Service Organization Control (SOC) reports. Service auditors' reports that address controls at a service organization relevant to user entities' internal control over financial reporting are referred to as SOC 1 reports; for example, a report on management's description of a service organization's system and the suitability of the design and operating effectiveness of controls is referred to as a type 2 SOC 1 report. SOC 1 engagements are performed under SSAE No. 16, Reporting on Controls at a Service Organization, and the related reports are referred to as SOC 1 reports.

This tool is not intended to be used as an audit program or to provide authoritative guidance and should be tailored to the user audit or firm's employee benefit plan audit practice and the circumstances of the individual plan audit. Certain sections of this tool may be completed by the user auditor firm's reviewer (if applicable) to document the use of a type 2 SOC 1 report in an audit of an employee benefit plan's financial statements while other sections may be prepared by the engagement team to document procedures performed to evaluate controls at a service organization. For purposes of this tool, the plan auditor is the user auditor.

Section I – Type 2 SOC 1 Report General Information

NAME OF SERVICE ORGANIZATION
NAME OF SERVICE AUDITOR
SERVICES PROVIDED BY THE SERVICE ORGANIZATION
LOCATIONS COVERED (IF APPLICABLE)
PERIOD COVERED BY THE TYPE 2 SOC 1 REPORT

Section II – Service Auditor’s Opinion

What type of opinion did the service auditor express in the type 2 SOC 1 report?

Unqualified

Qualified

If qualified, document the nature of the qualification(s), and any potential effect it may have on the risk of a material misstatement in the employee benefit plan’s financial statements in the box provided below. Note: A qualification may affect a single control objective (e.g., controls related to enrollment) or may affect several control objectives (e.g., IT general controls over logical access.)

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Section III – Period Covered by the Type 2 SOC 1 Report

Does the type 2 SOC 1 report cover the period covered by the plan’s financial statements that are being audited?

Yes (skip to Section IV)

No

If the type 2 SOC 1 report does not cover a significant portion of the period covered by the plan’s financial statements, was evidence about the operating effectiveness of controls obtained for the period that is not covered by the type 2 SOC 1 report by performing additional procedures?

Examples of procedures that may be performed include:

- Making inquiries of the service organization about any major changes in the controls or processes, any noted issues, or any changes in programs or software at the service organization since the period covered by the service type 2 SOC 1 report.

(Note: Some service organizations provide a “bridge letter” that addresses the period from the date of the service auditor’s report through the most recent calendar year end.)

Name of service organization representative contacted:

Telephone number: _____

Date contacted: _____

Contacted by: _____

Results: _____

- Reviewing documentation and correspondence issued by the service organization to management regarding changes to the programs, software, or controls or any noted issues.
- Obtaining additional audit evidence regarding the operating effectiveness of controls at the service organization for the portion of the period that is not covered by the type 2 SOC 1 report. If the plan auditor believes it is necessary, he or she may request that the user organization (plan) contact the service organization to request that the service auditor perform agreed-upon procedures at the service organization or the plan auditor may perform such procedures.

Conclusion:

Document the plan auditor’s conclusion and any procedures performed, as applicable and include any supporting documentation.

Section IV – Service Auditor’s Professional Reputation

If the plan auditor is unfamiliar with or has no experience with the service auditor that issued the type 2 SOC 1 report, the plan auditor should perform procedures concerning the service auditor’s professional reputation. Examples of procedures could include reviewing on-line sources of such information such as the Public Company Accounting Oversight Board’s (PCAOB) website, which includes registration listings and inspection reports; the AICPA’s website from which peer review reports and peer review acceptance letters can be accessed; and the website of the applicable state accountancy board. If no information can be found, document that fact, and determine the effect on the audit.

Was the service auditor’s report prepared by a CPA firm with whom the plan auditor is familiar?

_____ Yes (skip to Section V)

_____ No

Document procedures performed and include any supporting documentation.

Section V – Use of Subservice Organizations / Carve-Outs

Did the service organization outsource any functions relevant to the plan’s internal control over financial reporting to another service organization (a subservice organization), and was the subservice organization carved out of the type 2 SOC 1 report?

Yes

No (skip to Section VI)

If yes, in the table below, list the names of the subservice organizations and the functions performed by the subservice organizations identified in the service auditor’s type 2 SOC 1 report (and also in the description of the service organization’s systems.) (If the service auditor’s report uses the carve-out method, the functions performed by the service organizations will be provided but the names of the subservice organizations may not be provided.) If the functions performed by the subservice organization are significant and relevant to the plan’s internal control over financial reporting, the plan auditor may consider obtaining additional information about the subservice organization’s controls. Such information may be available from user manuals, system overviews, technical manuals, the contract between the plan and the service organization, and reports on the subservice organization’s controls, prepared by other service auditors, internal auditors, or a regulatory authority.

Complete column 3 to document or reference work performed to address the carved-out subservice organization(s). If the controls and functions performed by the subservice organization are not deemed relevant or significant to the plan’s internal control over financial reporting, indicate N/A.

Name of Subservice Organization	Functions Performed	Work performed to address Carved-out Subservice Organization

Section VI – Identification of Control Objectives and Deviations Noted

In this section, the plan auditor will begin to note the control objectives to determine what is present and what is not, and any noted deviations identified in the results of tests of controls that may affect the nature, timing and extent of audit procedures in an employee benefit plan audit. List below the control objectives included in the description of the service organization’s system.

Control objectives included in the service organization’s description of its system	Were deviations noted in the service auditor’s description of tests of controls and results?		Page(s) #(s) in service organization’s description or service auditor’s description of tests of controls where control objective is located
	Yes*	No	
Controls provide reasonable assurance that:			

1.				
2.				
3.				
4.				
5.				

6.				
7.				
8.				
9.				
10.				

* For any yes answers, complete the table below.

In the table below, summarize the service organization's and plan auditor's response (if any) to any deviations identified by the service auditor in the description of tests of controls and results. *Note: Deviations in the results of tests of controls should be considered individually and in the aggregate to determine their effect, if any, on audit procedures to be performed.*

Control Objective # (from table above)	Deviation(s) noted	Service Organization's Response included in the description of the Service Organization's System (Such responses are not covered by the service auditor's opinion)	Plan Auditor's Response (see note below)

Note: Consider any mitigating controls in place at the plan sponsor, or consider designing procedures to address the risks related to the deviations identified in the table above.

Conclusion:

_____ Deviations were noted as documented above; however, we have concluded that they would not significantly affect the nature, timing and extent of our procedures in the audit of the employee benefit plan.

_____ Although the deviations did not result in a qualification of the service auditor's opinion on the operating effectiveness of the controls to achieve the control objective, the following procedures were completed by the plan auditor to address and evaluate the effect of the deviations on the audit.

Document procedures performed and include any supporting documentation.

Section VII – Complementary User Entity Controls

Summarize any complementary user entity control considerations identified in the service organization’s description of its system.

No.	Complementary user entity control considerations identified in the service organization’s description	Are the Complementary user entity control considerations identified in the service organization’s description relevant to the plan? If No, document below. If Yes, document or reference work performed to ensure complimentary user entity controls are in place	Work paper reference (see note below)
1.			
2.			
3.			
4.			
5.			
6.			
7.			
8.			
9.			
10.			

Note: Consider completing the evaluation of the plan sponsor/plan’s controls first. For controls already reviewed and evaluated by the plan auditor, insert the work paper reference where that work is documented. If the plan or plan sponsor has not implemented complementary user entity controls, then that should be documented, as well as the effect on the nature, timing and extent of audit procedures.

Section VIII – Documentation of Evaluation of the Control Objectives

If the type 2 SOC 1 report covers only the payroll process, skip Section VIII and go to Section IX.

In the following section, the reviewer or plan auditor can begin to evaluate whether the service organization’s description of its system contains controls and control objectives relevant to the assertions included in the employee benefit plan’s financial statements. (These are documented in columns #1 and #2 in the table below). In addition, the plan auditor will need to evaluate whether the tests of controls performed by the service auditor and the results of those tests provide sufficient appropriate evidence of the operating effectiveness of the controls to support the auditor’s risk assessment.

The plan auditor should consider the following factors in making that evaluation:

- The nature, timing, and extent of the testing. For example, when testing controls, the service auditor should perform procedures in addition to inquiry, as required by related risk assessment standards
- Results of the tests of controls (e.g., any noted deviations)

Evaluation of the Control Objectives

Page # in the service organization's description of its system or service auditor's tests of controls where control objective is listed (from Section VI)	Control objective as listed in the description (from Section VI)	Does the description of the controls and the control objectives enable the plan auditor to evaluate the design and confirm the implementation of relevant controls and assess risk? (Yes/No)	Do the tests of operating effectiveness and results of those tests support the achievement of the stated control objective? (Yes/No) <small>Note: Consider the effect of any deviations identified in the table above in Section VI</small>	Reference from Section VII to complementary user entity controls identified in the description that are in place to support the plan auditor's risk assessment
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IT General Controls/Control Objectives – Logical Access and Program Change Management				
Controls/Control Objectives Related to New Plan Set-up – Plan Provisions				
Controls/Control Objectives Related to New Plan Set-up – Participant Level Data/Accounts and Investments				
Controls/Control Objectives Related to Eligibility, Enrollment and Participant Data				
Controls/Control Objectives Related to Contributions – Plan Level				
Controls/Control Objectives Related to Contributions – Participant Level				
Controls/Control Objectives Related to Participant Account Income/Expense Allocations				
Controls/Control Objectives Related to Distributions to Participants/Beneficiaries				
Controls/Control Objectives Related to Distributions - Plan Expenses				
Controls/Control Objectives Related to Marketable Securities Held – Safekeeping & Valuation				
Controls/Control Objectives Related to Non-readily Marketable Securities Held – Safekeeping & Valuation				

Evaluation of the Control Objectives Continued

Page # in the service organization's description of its system or service auditor's tests of controls where control objective is listed (from Section VI)	Control objective as listed in the description (from Section VI)	Does the description of the controls and the control objectives enable the plan auditor to evaluate the design and confirm the implementation of relevant controls and assess risk? (Yes/No)	Do the tests of operating effectiveness and results of those tests support the achievement of the stated control objective? (Yes/No) <small>Note: Consider the effect of any deviations identified in the table above in Section VI</small>	Reference from Section VII to complementary user entity controls identified in the description that are in place to support the plan auditor's risk assessment
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Controls/Control Objectives Related to Investment Transactions – Purchases/Sales (Including realized gain/loss)				
Controls/Control Objectives Related to Investment Income – Plan Level				
Controls/Control Objectives Related to Report Processing – Plan Level				
Controls/Control Objectives Related to Report Processing – Participant Level				
DEFINED CONTRIBUTION PLANS ONLY				
Controls/Control Objectives Related to Participant Loans (Authorization, Calculation and Recording)				
Controls/Control Objectives Related to Participant Loan Repayments – Plan Level				
Controls/Control Objectives Related to Participant Loan Repayments – Participant Level				
Controls/Control Objectives Related to Investment Election Changes and Transfers				
DEFINED BENEFIT AND HEALTH & WELFARE PLANS				
Controls/Control Objectives Related to Participant Census Data				
Controls/Control Objectives Related to Plan Obligations				
HEALTH & WELFARE PLANS ONLY				
Controls/Control Objectives Related to Claims Processing				

Section IX – Payroll Processing Service Organizations

Most large payroll processors provide a type 1 or type 2 report but such reports vary widely as to what services are covered. In addition, some payroll processors issue several reports that cover different locations, services or markets. Plan sponsors may contract with different payroll processors to provide different services. Plan sponsors are expected by the payroll processors to have controls in place to ensure accurate input and submission of data to the payroll processors (complementary user entity controls). Once the plan auditor has obtained the proper type 2 reports, the plan auditor can complete the following sections.

Documentation of the Evaluation of Payroll Reports

In the following section, the reviewer or plan auditor can begin to evaluate whether the report contains controls and control objectives relevant to the assertions included in the employee benefit plans financial statements. (These are documented in columns #1 and #2 in the table below). In addition, the plan auditor will need to evaluate whether the tests of controls performed by the service auditor and the results of those tests provide sufficient appropriate evidence of the operating effectiveness of the controls to support the auditor’s risk assessment. The auditor should consider the following factors in making that evaluation:

- The nature, timing and extent of the testing. For example, when testing controls, the service auditor should perform procedures in addition to inquiry, as required by related risk assessment standards
- Results of the tests of controls (e.g., any noted deviations?)

Evaluation of the Control Objectives Continued

Page # in the service organization’s description or service auditor’s description of tests of controls where control objective is listed (from Section VI)	Control objective as listed in the description (from Section VI)	Does the description of the controls and the control objectives enable the plan auditor to evaluate the design and confirm the implementation of relevant controls and assess risk? (Yes/No)	Do the tests of operating effectiveness and results of those tests support the achievement of the stated control objective? (Yes/No) <small>Note: Consider the effect of any deviations identified in the table above in Section VI</small>	Reference from Section VII to complementary user entity controls identified in the description that are in place to support the plan auditor’s risk assessment.
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Controls/Control Objectives Related to Set-up of New Employees (demographic data, pay rates, withholding amounts)				
Controls/Control Objectives Related to Computation of Payroll Amounts Based on Rates (Salary, Hourly)				
Controls/Control Objectives Related to Computation of withholdings (401(k), H&W, etc.)				
Controls/Control Objectives Related to Reporting of Payroll Amounts Paid and Remitted				
Controls/Control Objectives Related to Termination of employees and removal from payroll records				

Section X – Conclusion

Has the user auditor obtained a sufficient understanding of the control objectives and related controls at the service organization that is relevant to the plan's internal control over financial reporting in order to assess the risks of material misstatements and to design the nature, timing and extent of further audit procedures?

_____ Yes

_____ No

Note: If the plan auditor concludes that information is not available to obtain a sufficient understanding to assess the risks of material misstatement, he or she may consider contacting the service organization to obtain specific information or request that a service auditor be engaged to perform procedures that will provide the necessary information, or the plan auditor may visit the service organization and perform such procedures.

Include any additional comments.

Prepared by: _____

Date: _____

Reviewed by: _____

Date: _____