Does Size of a CPA's Employee Benefit Plan Practice Correlate with Audit Quality?

Yes. The results of this audit study clearly indicate a link between the number of employee benefit plan audits performed by a CPA and the quality of the audit work performed. Analysis of the data indicates a wide disparity between those CPAs who perform the fewest plan audits and those firms that perform the largest number of plan audits. As the following chart shows, CPAs who performed only one or two employee benefit plan audits annually had a 76% deficiency rate. In contrast, the deficiency rate at the stratum of firms performing the most plan audits was only 12%.

Major Deficiency Audit Rates

by Stratum

(95% Confidence Level; Statistically Significant Differences between Stratum)

Strata	Audit Reviews	Audits With Deficiencies	Standard Error	Lower Bound	Upper Bound
1-2	95	75.8%	4.4%	66.1%	83.4%
3-5	95	68.4%	4.8%	58.3%	77.0%
6-24	95	67.4%	7.7%	50.9%	80.4%
25-99	65	41.5%	9.7%	24.4%	61.0%
100-749	25	12.0%	4.9%	5.2%	25.4%
750+	25	12.0%	8.0%	3.0%	37.8%
Total Reviewed	**400**	**38.8%**	**3.5%**	**32.2%**	**45.9%**

Note: Statistics are calculated using sample weights, which account for the different amount of audits performed by each stratum. For this reason, the population average may be different from the un-weighted sample averages.

Not only did CPA firms with smaller employee benefit plan audit practices have significantly higher overall deficiency rates, but their audits also had an unacceptably high number of deficient audit areas. As seen in the table below, for the 1-2 plan audit stratum, 56% of the audits contained five or more deficient audit areas. Similarly, in the 3-5 plan audit stratum, about 42% of plan audits contained five or more deficiencies. Similar trends hold for the next two strata as well. In the two largest CPA firm audit strata, the audits that had five or more deficiencies (one in each stratum) presented unique audit situations not normally encountered in performing a routine plan audit.