



September 22, 2017

Ms. Sherry Hazel  
Auditing Standards Board  
American Institute of Certified Public Accountants  
1455 Pennsylvania Avenue, N.W.  
Washington, D.C. 20004-1081

Subject: Comment Request for the Exposure Draft of the Proposed Statement on Auditing Standards (SAS), "Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA."

Dear Ms. Hazel,

The Aerospace Industries Association ("AIA") appreciates the opportunity to provide comments on the American Institute of Certified Public Accountants ("AICPA") Proposed Statement on Auditing Standards, *Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA* ("proposed SAS").

AIA represents over 350 of the nation's major manufacturers of commercial, military and business products such as aircraft, helicopters, aircraft engines, missiles, spacecraft and related components and equipment. Our members sponsor some of the nation's largest employee benefit plans.

We support the Auditing Standards Board in its continued work on improving the quality of employee benefit plan audits. We have reviewed the proposed SAS with that objective in mind. Also, we have carefully considered the costs of implementing the proposed SAS when compared to the expected benefits to the users of the related financial statements. In general, we have concerns that this proposed SAS will fall short of improving audit quality and would create regulation outside of the established regulatory process. As it specifically relates to our role as plan sponsors and in consideration of our fiduciary responsibility to plan participants, we believe that the required procedures in paragraphs 15 and 16 as well as the requirement to report on any related findings would create significant unintended consequences. We will use the remainder of this letter to elaborate on these concerns and considerations.

#### *Audit Quality Consideration*

The intent of the proposed SAS, as noted above, is to improve the quality of employee benefit plan audits. It is unclear, however, how adding new requirements, such as those in the proposed standard, will not just result in similarly deficient audit execution of these new requirements. Said another way, we expect that quality audit firms will perform the required additional

procedures while other firms will either ignore the new standard or execute the procedures ineffectively. The proposal will not achieve the objective of increasing consistency of audit quality but rather add to the disparate execution of audits amongst firms.

We believe that the way to increase audit quality is to ensure proper education, specific industry training, and continuous monitoring of audit firms executing employee benefit plan audits. This alternative approach is analogous to the oversight currently provided by the Public Company Accounting Oversight Board which has increased audit quality for public company audits.

### *Regulatory Consideration*

Current regulation requires annual audits of employee benefit plan financial statements in accordance with generally accepted auditing standards (“GAAS”). The objective of a GAAS audit is to express an opinion on whether the financial statements are fairly presented in all material respects. The audit opinion provides participants, plan management, the Department of Labor (“DOL”) and other interested parties with information that indicates whether the statements provide reliable and relevant information upon which to assess the plan’s present and future ability to pay benefits.

A GAAS audit is not designed to ensure compliance with ERISA’s provisions or plan provisions unless such departures would materially change the financial statements. In prescribing procedures, regardless of materiality, the AICPA is requiring procedures beyond the current scope of the required GAAS audit and in doing so, the AICPA is creating de facto regulation without having gone through the established regulatory process.

### *Unintended Cost Concerns*

We believe that the requirement to report on findings associated with the procedures performed in paragraphs 15 and 16 will have significant unintended costs to both the plan sponsors and the plan participants, to whom we have a fiduciary duty as plan sponsors and employers.

### Unintended costs of disclosure

Under current regulation, the vast majority of plan operational errors are curable by self-correction protocols or through a filing under the Internal Revenue Service Employee Plan Compliance Resolution System. These instances of plan operational errors pose no harm to plan participants because they are corrected and have no impact on the plan’s present and future ability to pay benefits. The error reporting under the proposed SAS would not allow for context on the extent of testing performed, error rate identified or magnitude of the findings either in determining what to disclose or how the findings are disclosed<sup>1</sup>. This lack of information does not provide the appropriate lens with which to evaluate the finding.

Providing incomplete information to plan participants creates unintended costs to both plan participants and plan sponsors. Plan participants will factor this incomplete and potentially

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<sup>1</sup> We acknowledge that paragraph 18 does allow for the omission of findings that are “clearly inconsequential”, however we do not believe that there is sufficient explanation to support this threshold since it is a new term and when paragraph 15 and 16 disregard materiality.

irrelevant information into their financial decisions potentially to their detriment. There will also be costs to the plan sponsors associated with responding to the undue alarm from plan participants on these findings. Additionally, presenting findings to the public without context or materiality provides potential fodder for unscrupulous lawyers or plan participants who, most likely, do not understand the scope of potential impact, if any, resulting from the findings. We believe that such misunderstandings, whether intentional or unintentional, will increase financial and time costs associated with meritless lawsuits and would unnecessarily damage the relationship between the plan participants and the plan sponsor.

The final cost to consider in disclosing these findings is the further disparity this will cause between audits. As we footnoted above, we do not believe that the threshold of “clearly inconsequential” is clearly defined. This lack of guidance coupled with the spectrum of quality audits that the DOL has identified will result in inconsistent disclosure. We can foresee that reputable audit firms that are highly risk averse will disclose every finding and conclude that clearly inconsequential is defined as zero. Other firms may conclude that everything is clearly inconsequential and therefore disclose nothing. This lack of consistency will lead to further disparity between audits of employee benefit plans and further audit quality issues.

#### Unintended audit related costs

There will be significant incremental audit costs associated with the performing, documenting and reviewing the new required procedures both because there are more procedures to perform, but also because there is a lack of clarity in the extent of testing required for these procedures. It is unclear how the procedures are to be applied to more complex plans where plan provisions can vary between groups of employees. Would the auditors be required to test the provisions by employee group or collectively? We believe this lack of clarity will only lead to a lack of efficiency in the procedures performed and therefore higher costs for the audit.

In addition, and perhaps more costly will be the costs associated with determining the form and wording of the audit report. We believe that there will be an inherent perceived risk to presenting these findings that will increase the scrutiny by the audit firms over their report. The audit firms’ costs will increase because of this increased scrutiny. Further, the plan costs could increase if it is deemed necessary to develop and implement new internal compliance review procedures simply to prepare for the annual employee benefit plan audit and related disclosure of immaterial findings.

Finally, without the appropriate lens by which to evaluate the findings, given that the audit report is to provide no context, we believe that it will be the fiduciary responsibility of plan sponsors to provide context in management’s response which, as indicated in paragraph A139, may be included in the auditor’s report. In many cases, we believe that management and legal input will be required in developing and approving these responses. Further, we would expect that the auditors would likely need time to review and test management’s response since it will be included in the report.

We would suggest that the ASB weigh these unintended costs with the perceived benefits of increased audit quality of the GAAS audits required by ERISA to ensure that the benefits truly outweigh such costs.

Thank you very much for your consideration of our views on the proposed auditing standard. If you should have any questions, please feel free to contact me at 703-358-1045 or email me at [ronald.youngs@aia-aerospace.org](mailto:ronald.youngs@aia-aerospace.org).

Sincerely,

A handwritten signature in black ink, appearing to read "Ronald J. Youngs". The signature is fluid and cursive, with a large, stylized initial "R" and "Y".

Ronald J. Youngs  
Assistant Vice President, Acquisition Policy  
Aerospace Industries Association