

## CROP POSITION ON COUNCIL'S CONSIDERATION OF AUDITING STANDARDS

The Council's consideration of Standards should really be two separate considerations: consideration of how auditors of non-public entities will find and follow professional standards and how and why the standards setting role of the AICPA was forced to change so dramatically

PCAOB has stated that they, NOT the AICPA, will promulgate all professional audit standards. They also emphasized that their sole concern is for audits of public companies. Responsibility for and drafting of auditing standards for non-public entities is currently in the "ether. Additionally, the FASB, in a similar move, has removed the AICPA from its historic role of setting most of the tier 2 & 3 level of GAAP.

Since the vast majority of the issued financial statements in the United States are not for public companies, members who perform closely held company audits are concerned that the future standards will be biased toward the needs of public companies. The AICPA historically tempered its standard setting process by balancing the needs of public and non-public entities. Based on PCAOB's stated focus, these differences will no longer be relevant to the standard setting process. Forcing privately held company auditors to meet PCAOB standards may well exacerbate audit work and related fees while needlessly increasing the liabilities of being an auditor.

Council should consider the impact regarding future audit standards relative to the smaller client and the smaller practice unit. One alternative would be for the AICPA to posture itself as retaining the standard setting process for those users. Another would be to issue interpretive standards, designed to translate the public standard into smaller audits. Both would have to be carefully crafted to ensure legal compliance without creating the potential dilemma of subjecting non-public auditors to the possibility of having to meet the higher of two standards. Additionally, Council may wish to consider how the AICPA in its new reduced role of GAAP setting best continue to advocate for its members.

The second consideration of how and why we lost these standard setting abilities is a different matter. Members of our profession have contemplated many explanations and points of view. The principal discussion topics generally include the public and private efforts of the AICPA relative to its open advocacy of multi-discipline practices, open fee structures, consulting revenues of audit firms, and the resistance changes associated with employee stock options.

These efforts clearly made the AICPA a more significant player in the political arena. Yet, it appears the Profession harmed its historic goodwill. When the crunch hit, we lost political significance and our historic standard setting franchise. CROP believes that Council needs to look at the "crash" of the AICPA in the same general way the NTSB (National Transportation Safety Board) looks at an airliner crash. This requires a detailed analysis of what went wrong, why it went wrong, and how can we do better in the future. This process, done correctly, should not find fault, instead it should be designed to gather the requisite information to do better in the future.