

A Primer on the Condition of the Accounting and Auditing Profession

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Abstract

Never in its history has the accounting and auditing profession had to deal with the scale of challenges the 21st century brought to the table. Over the past 15 years, the accounting and auditing profession has undergone much change in terms of its standards. In June 2009, the FASB announced that the new Codification would now be the single source of authoritative literature for nongovernmental U.S. GAAP. In addition, there is movement to have IASB standards become GAAP for U.S. companies. Historically, the public considered the accounting and auditing profession a highly trustworthy vocation. However, over the past 15 years, that trustworthiness has been greatly challenged. Because of the many accounting scandals in the early 2000s, most notably Enron, three major changes occurred in the accounting and auditing profession. This article explores the condition of the accounting and auditing profession through a discussion of the early history of accounting, the current condition of standards, and the accounting scandals of the early 2000s.

Much has changed since the inception of the accounting and auditing profession over a century ago. Never in its history has the accounting and auditing profession had to deal with the scale of challenges the 21st century brought to the table. An unprecedented analysis of the accounting and auditing profession's status and its future direction is currently taking place around the globe, in both practice and education.

This article explores the condition of the accounting and auditing profession through a discussion of the early history of accounting, the current condition of standards, and the accounting scandals of the early 2000s.

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Early History of Accounting

Formed in 1898, the Industrial Commission met to discuss immigration, labor, agriculture, manufacturing, and business in the United States. No accountants served on the commission, but their preliminary report issued in 1900 noted that an independent public accounting profession should be established in order to curb the corporate abuses that were taking place at the time. Following this report, the International Congress of Accountants was formed in 1904, marking the initial development of the organized accounting profession in the United States. Several states already had organized state societies, but the American Association of Public Accountants, formed by the International Congress of Accountants, was the first professional organization of accountants in the United States on a national scale. Later, in 1916, the group reorganized into the American Institute of Accountants (AIA). Finally, in 1937, the AIA merged with the American Society of Certified Public Accountants and formed what is known today as the American Institute of Certified Public Accountants (AICPA). Ever since, this organization has had increasing influence over the development of accounting theory (Schroeder, Clark, & Cathey, 2010).

In 1959, the AICPA formed the Accounting Principles Board (APB). This body was to advance the written expression of generally accepted accounting principles (GAAP), narrow the many areas of difference in practice, and discuss the unsettled and controversial issues accountants faced. In 1973, resulting from the growing criticism of the APB, the AICPA formed the Financial Accounting Standards Board (FASB) to replace the APB. This body was now responsible for issuing accounting standards, and remains as the body officially designated by the AICPA as having the authority to issue standards for financial accounting today. The FASB not only develops broad accounting concepts and standards for financial reporting, but also provides guidance on the implementation of those standards (Schroeder et al., 2010).

Current Condition of Standards

Over the past 15 years, the accounting and auditing profession has undergone much change in terms of its standards. The FASB has undertaken a number of initiatives aimed at improving the quality of standards and the standard-setting process, including improving the conceptual framework, codifying existing accounting literature, transitioning to a single standard-setter regime, and converging FASB and IASB standards.

In June 2009, the FASB announced that the new Codification would now be the single source of authoritative literature for nongovernmental U.S. GAAP. This was effective for all interim and annual reporting periods ending after September 15, 2009. The FASB restructured all U.S. GAAP literature by topic into a single authoritative codification and modified its standard-setting process to focus on updating the codification. This was a major improvement over the old research process, in which accounting professionals had to review at least four different sources of literature to resolve even simple accounting issues (Schroeder et al., 2010).

International Accounting Standards

A truly global economy emerged during the 1990s, with many U.S. companies generating significant amounts of revenue and profits in foreign markets. Currently, capital-seeking firms must reconcile their financial statements to the accounting rules of the nation in which they are seeking capital. Additionally, investors must be able to identify foreign reporting differences. This makes it quite difficult to conduct business transactions in the current global economy. As a result, the International Accounting Standards Board (IASB) was formed to simplify the process and push to synchronize international accounting standards. Those international accounting standards are known as International Financial Reporting Standards (IFRS). There is movement (i.e., convergence) to have IASB standards become GAAP for U.S. companies (Schroeder et al., 2010).

Accounting Scandals of the Early 2000s

There is no doubt that business transactions have become more and more complex. Accordingly, the accounting and auditing profession has become more and more ethically complex. Historically, the public considered the accounting and auditing profession a highly trustworthy vocation.

However, over the past 15 years, that trustworthiness has been greatly challenged. Recent financial statement frauds and the resulting bankruptcy of several large corporations reported in the news have greatly influenced the financial markets in the United States and have destroyed the public's trust and confidence in our financial reporting system.

The apparent failure of independent public accountants to reveal the financial problems earlier led to strong criticism against public accountants in general and calls for reform (Schroeder et al., 2010).

Because of the accounting scandals, most notably Enron, three major changes occurred in the accounting and auditing profession. First, Arthur Anderson, formerly one of the Big Five audit firms, has gone out of business. There are now only four big audit firms. Second, the Sarbanes-Oxley Act (SOX) was signed into law in July 2002, which imposes several new corporate governance rules on publicly traded companies. Third, the Public Company Accounting Oversight Board (PCAOB) was established to oversee compliance with SOX (Schroeder et al., 2010).

SOX and PCAOB

In an effort to address corporate accountability in response to the accounting scandals, congress passed SOX, which established the PCAOB. The PCAOB has the responsibility of setting auditing standards, reviewing the practices and procedures used by public accounting firms when conducting audits, and ensuring compliance with the new corporate governance rules imposed by SOX. As a method of ensuring compliance, SOX requires corporate presidents and chief financial officers to certify the accuracy of a company's financial statements. More specifically, they are required to indicate that they have reviewed both quarterly and annual filings, and to their knowledge, the reports do not contain any untrue statements or material misstatements of financial information (Schroeder et al., 2010).

It is important to note that SOX did not come without great costs. Because SOX significantly increased the depth and breadth of internal control evidence that auditors must assess, the law became one of the most costly accounting-related regulations in history (Bradford, Taylor, & Brazel, 2010). Despite the increase in costs, Chambers, Hermanson, and Payne (2010) concluded in their research that the financial reporting environment has significantly improved since the passage of SOX. They agree that it is difficult to quantify the improvement, but suggest that the evidence in their study is consistent with the idea that SOX significantly improved the quality of financial reporting.

It is quite clear that the accounting scandals of the early 2000s have affected the accounting and auditing profession a great deal.

Since the Enron debacle, and other similar scandals, accounting educators throughout the world have been called to provide the additional education necessary to enable new accounting professionals to make the business and accounting judgments that will prevent future accounting scandals (Diamond, 2005). It is likely that additional ethics and professional conduct training will be necessary in the accounting curriculum of colleges and universities across the globe to help increase awareness of ethical and moral issues in business.

Conclusion

This article explored the condition of the accounting and auditing profession through a discussion of the early history of accounting, the current condition of standards, and the accounting scandals of the early 2000s. To overcome the challenges brought to the table by the 21st century, the accounting and auditing profession must continue to expand its dedication to its role of protecting the public interest in a rapidly changing business and financial environment. The profession's ability to manage this change will determine its position in the marketplace of the future. In the accounting and auditing profession, it is important to embrace change when it happens, and engineer change when it matters.

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