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NEWSROOM

PUBLIC COMPANY AUDITING STANDARDS EVOLVE

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Auditing standards in the U.S. continually evolve. According to the American Institute of Certified Public Accountants (AICPA), widespread adoption of auditing standards first occurred when railroads began growing during the second industrial revolution in the late 1800's. Efforts by the railroads to report and control costs led to major developments in the U.S. accounting profession. Years later after the stock market crash of 1929, auditing of public companies became an obligatory process in the United States.

The Securities and Exchange Act of 1934 created the Securities and Exchange Commission (SEC). The SEC initially had authority to develop accounting standards and audit oversight functions.

After the creation of the SEC, auditing standards continued to evolve mostly as reactionary measures that occurred in response to significant negative events. As a result the AICPA issued Statement of Auditing Procedures (SAP's) beginning in October 1939 through the Committee on Auditing Procedures. The Committee on Auditing Procedures was the first organization to issue Statements on Auditing Standards. The first such standard discussed the auditor's responsibility in applying judgment in audits. This first standard was then followed by a series of standards through the early 1970's.

In 1972 the AICPA consolidated all auditing pronouncements up to that date under Statements of Auditing Standards. In 1978, the AICPA established the Auditing Standards Board as the primary body, in establishing Generally Accepted Auditing Standards (GAAS).

In 2002, the Sarbanes-Oxley Act established the PCAOB (Public Company Accounting Oversight Board) which had authority over auditing regulations related to public company audits. In April 2003, the PCAOB adopted the existing standards of the Auditing Standards Board. Since 2003, the PCAOB has issued 18 new standards that superseded at least 10 existing standards and amended the majority of the other auditing standards to varying degrees.

The PCAOB has now reorganized existing standards (include the original Statements on Auditing Standards) and the PCAOB standards into integrated standards organized in a topical structure. The reorganization is intended to present the standards in a logical order that generally follows the flow of the audit process.



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The reorganized standards were approved by the PCAOB on March 31, 2015. The new standards are not meant to create new requirements or change the substance of the existing standards. The amended standards are effective as of December 31, 2016 subject to SEC approval.

Auditing standards continually evolve in response to changes in industry, the complexity of business transactions and introduction of new technologies. As the world of business continues to change, audit standards guide auditors as they navigate the ever-changing landscape. As a result, companies will continue to see changes in the way public audits are performed.

Jeffrey B. Kramer, CPA is an audit partner at Goldstein Schechter Koch. His clients include managed care organizations, HMO's, insurance companies, manufacturers and not for profit organizations.