

**Issues in
Professional Advanced Accounting Education:**

**A Survey of Tax and Auditing Courses
in Australia and New Zealand**

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Issues in Professional Advanced Accounting Education: A Survey of Tax and Auditing Courses in Australia and New Zealand

ABSTRACT

Accounting education is arguably now attracting more attention, both scholarly and professional, than ever before, to educational issues such as core curricula, institution accreditation procedures and professional society admission requirements. This working paper presents background information about accounting education in the United States, Australia and New Zealand, before focussing special attention on the professional subjects, auditing and taxation. Within the accounting curriculum, traditionally these have been viewed as advanced level professional subjects with relevance to accounting practice. The paper contrasts and compares the teaching of these subjects in Australia and New Zealand, and discusses potential implications and improvements extending from recent United States education research.

1. INTRODUCTION

Over the last two decades, both educators and practitioner bodies have expressed their concerns in the area of accounting education. John Simmons in his 1989 AAA presidential address noted:

"Changes that potentially affect accounting education are occurring rapidly. Major changes in the business world include an increasing trend towards globalization, the creation of complex financing schemes, . . . Accounting education faces a challenge in determining to what extent it will meet both the need for broader education and the move towards increased specialization."

In addition to the need to determine an educational response to the trend towards increasing specialization, educators face challenges in other areas: for example, the use of alternative approaches to teach core subjects; increased utilisation of computers in accounting courses; the need to teach communication skills; and to give a more international perspective in business courses.

This paper draws upon these issues to examine the teaching of auditing and taxation, two advanced professional accounting subjects, in Australia and New Zealand. The paper is structured as follows. Section two backgrounds and outlines current issues in general accounting education in the United States, Australia and New Zealand. Section three examines how taxation and auditing are taught in Australia and New Zealand, including the relationship with the structures and requirements of professional bodies. A comparison with the United States is given. Section four addresses how some of these issues might be approached using findings from recent research in the auditing and taxation areas. Further discussion and some concluding remarks are contained in section five.

2. ACCOUNTING EDUCATION: A BACKGROUND SUMMARY

United States

Close scrutiny of accounting education is not a new phenomenon. To illustrate, Sprouse (1989) backgrounds some of the current concern by detailing a 1954 AAA Report which stated that five or more years of university training would be desirable before embarking on an accounting career. More recently there have been several significant developments in the United States.

One of these was the Bedford Committee Report (1986) which studied the accounting profession and the educational environment. Its primary focus was on the future scope, content and structure of accounting education (10 recommendations made) but it also addressed faculty, administrative and professional concerns. The Committee's 28 recommendations are best described as insightful, yet ambitious in their content and implementation schedule. Mueller (1989) backgrounds ongoing work since this report, including three follow-up committees. He suggests that there has been a shift away from quality teaching to a research emphasis, and cites Zeff's view that accounting textbooks are regressive and mechanistic with an overemphasis on accounting standards and regulatory aspects. Two other developments arising from the Bedford Report have been the formulation of an AAA mission statement on accounting education and the establishment of the Accounting Education Change Commission (AECC) chaired by Gary Sundem for its five year term. Nine financial grants have been made for implementing changes in the academic preparation of accountants as of March 1991, committing all funds, although these projects are naturally still in progress.

On a professional level, the adoption by the AICPA of the 1986 Anderson report will require AICPA membership applicants from the year 2000 to have completed 150 semester credit hours of higher education i.e. a five year training. Sprouse (1989) comments that if employers are unable or unwilling to pay the higher salaries required for a graduate with a five year training, then there is still considerable scope for improvement to be made to the four year program. The AICPA is also funding projects on accounting education and released a position statement on accounting education in Fall 1990 which contains an action plan with far reaching ramifications.

In the United States, accreditation of business and accounting programs is governed by the American Assembly of Collegiate Schools of Business (AACSB). State Boards of Accountancy attend to the certification and licensing of individuals and all states have uniformly adopted the CPA qualifying exam to serve as an entrance requirement for profession membership.

Australia

The 1990 Review of the Accounting Discipline in Higher Education (the Matthews Report) revealed that Australasia faces similar problems to those found elsewhere, as illustrated in the following sample of conclusions.

- After a long period of chronic neglect the accounting discipline is in great need of support and revitalisation. [Conclusion 1]
- The undergraduate program is failing to meet its educational objectives. Changes in course structure and duration are necessary. [Conclusion 22]
- Accounting courses need to become more conceptual and less procedural. Computing needs to be an integral part of accounting courses and communication skills need to be more highly developed. [Conclusion 26]
- There is scope for considerable improvement by making courses less routinely predictable and boring by adopting innovatory teaching methods and by using the classroom more effectively. [Conclusion 27]

The two Australian professional accounting societies, the Australian Society of Accountants and the Institute of Chartered Accountants in Australia (at the time of writing, functioning as separate bodies despite a mutual interest in

merging to form a single society), have a similar standard of study required for entry to membership. The standard is normally a degree at a tertiary institute, or the equivalent thereof. The difficulty of incorporating all material desired to a high quality standard in the time available has been subject to comment.

New Zealand

In its study considering the future of the profession for the next 20 years (NZSA, 1984), the New Zealand Society of Accountants (NZSA) considered entry to the professional body. This included an overview and a historical review of professional education. The study considered that employment prospects were a significant factor in students' selecting accountancy study (p. 72) and it emphasised the need to give "open support for those bodies educating its future members, giving support wherever, whenever and however possible" (page 74). The future accountant required a variety of skills (NZSA, 1984, page 75), it was reported, including not only technical competence and flexibility in the application of their abilities, but also communication skills and in the management of people and resources, and personal integrity and professionalism.

A dual system of university and polytechnic education providing accountancy education and serving as preparation for entry to the professional society, which operated for some considerable time, has recently been supplemented with a final qualifying exam¹. New Zealand's uniform final examination was

¹ Weightings for topics in the examination approximate the following: structure of the profession, 20%; professional pronouncements, 35%; ethical issues, 25%; current professional issues, 20%. The pass rate for the May 1991 exam was 65%.

regarded initially as one in which "high pass rates will be expected and quite properly so" (NZSA, 1984, page 90).

Six New Zealand polytechnic institutions which offer preparation for entry to the accountancy profession are subject to an accreditation process, carried out by the NZSA, the single professional body. Appointed reviewers ensure a core of knowledge, defined by the Society, is taught to an acceptable standard. Most universities have agreed to participate in a "review" of their programs by the Society; the majority of entrants to the Society are university graduates (NZSA, 1984, page 81). University degree content is available to the NZSA for review on an ex post basis. The more common length of accountancy degrees is three years, although a few institutions have programmes that can only be completed in four years of study.

A comparison between New Zealand standards for entry to the profession, and those of other countries of similar historical background, is shown in Figure 1.

insert figure 1 about here

The NZSA has no specialist designations at present, although this has been suggested as a possible development in the future (NZSA, 1984). The NZSA has indicated that commencing from 1995 it will require four years of university training and that the broad band requirements will be 35% general education, 35% business (including basic accounting) education and 30% specialized accounting education. The academic response to this is not yet known.

Summary²

In all three countries, attention has been and continues to be paid to concerns about the breadth of professional education. In addition to professional and technical knowledge, educators have debated the extent to which general as well as specialist knowledge should be taught (Fowler (1991)).

3. AUDITING AND TAXATION EDUCATION IN AUSTRALASIA

The extent of faculty surveys is not as extensive in Australasia as it is in the United States, so to survey methods of teaching and assessment used in Australia and New Zealand, a questionnaire was issued by mail to the 56 institutions listed in the 1990 Directory of Australasian Accounting Academics³. 44 responses were received in total, a response rate of 78%. After eliminating unusable responses, remaining responses numbered 39 for auditing courses and 40 for tax courses (response rates of 69% and 71% respectively).

Insert Table 2 about here

² It is our intention to expand the countries covered to include the U.K. and Canada.

³ The Directory lists 55 institutions. The authors added one new institution in New Zealand of which they were personally aware. A copy of the survey instrument is available on request. We have since sent a follow-up questionnaire to the six New Zealand polytechnics offering accredited accountancy programs and are currently incorporating these into our analysis.

In considering the link between the professional accountancy societies and accounting education in the areas of tax and auditing, data obtained in the questionnaire included identification of those courses which were mandatory for students seeking admission to any professional accountants' societies. The dichotomy of mandatory and non-mandatory courses is shown in Table 2.

The 40 responses to the taxation section of the questionnaire contained information about 85 tax courses, 81 of which could be analysed. Of these 81 courses, 46 (57%) were indicated as mandatory for professional society admission. Apart from the stage 2 level, where there were only 11 courses in total, average rolls of mandatory courses were higher than non-mandatory courses.

The 39 responses to the auditing section of the questionnaire contained information about 67 auditing courses, out of which complete details were provided for 58 courses. Out of these 58 courses, 36 (62%) were courses which respondents indicated as mandatory for professional society admission. Average rolls for these courses, at all levels, were higher than average rolls for audit courses which were indicated as not mandatory.

For both subjects, a degree of interest in the subject per se exists, but to a lesser extent than study prompted by professional society requirements. The student enrolment as indicated by minimum and maximum student rolls in Table 2 was lower in non-mandatory courses than in mandatory courses.

The majority of papers were offered at third-year level, for tax and audit courses of either status. This may reflect two issues, one educational and one career-oriented. From an educational point of view, students would need an understanding of the legal and organisational context surrounding auditees, particularly companies, before studying the audit of those entities. This also

applies with respect to the taxation of different forms of organisation. As far as career considerations are concerned, students may find their accounting interests become more focussed at a later stage of study. As a result, courses which will have career application in the immediate future may become more attractive. Table 2 also provides evidence of advanced courses in taxation and auditing (i.e. those at year 4 level). There is evidently interest in further study of professional or theoretical issues, although class sizes for such courses, particularly if not mandatory, tended to be small.

Over the 58 auditing courses, 78 different answers involving 22 types of course material were analysed in response to a question about auditing textbooks used. Textbooks or written resource material identified included professional pronouncements as well as texts, and for only one course did a respondent indicate that no text was used.

The most popular textbook had a clear majority, being identified in 26 out of 78 responses (33%). Accordingly, one-third of all courses taught in Australia and New Zealand use this text. The next two most popular texts were used in respectively 8 and 7 instances (10% and 9% respectively). Other course material identified by respondents had usage scores of 4 or fewer instances.

In comparing the two countries surveyed, the most popular auditing text was used in both countries. Three of the 26 instances of use were in New Zealand, the remaining 23 being in Australia. Whether this cross-over of use of one textbook justifies treating the two countries as one homogenous pool of auditing courses can be debated. Common use of one text in a small number of instances is only weak evidence to support combined treatment. However, with the small number of New Zealand institutions included in the survey, it is unlikely that a greater extent of common resource use would have been expected.

Over the 81 tax courses, 126 different answers involving 19 types of course material were analysed. Reflecting the statutory approach to tax teaching, the most popular text was the tax legislation itself. This was closely followed by the CCH Master Tax Guides for each country. A very country-specific approach is adopted in tax education in respect of the textbook adopted. One other tax text was used in 19 courses, but the next most popular was used in only 8 instances.

Textbooks are, of course, a traditional teaching resource. In order to begin to identify alternative resource material used, respondents were asked whether they used a computer in teaching their courses. Out of the 81 tax courses, only 6 (7.4%) used computer resources in their teaching. This probably reflects the country specific approach to tax teaching, and highlights the resource use problem facing tax teachers in countries where there are a relatively small number of tertiary accounting programs.⁴ Out of 58 auditing courses, respondents replied that in 22 (37.9%) cases, use was made of a computer. Excluded from this total were any responses which indicated that word-processing facilities were available to the students for use in preparing assignments or other work.

The third and final major area of information which was obtained in the survey was on assessment methods. Respondents were asked to indicate the extent to which student grades were spread over assignments, case studies, term tests and final examinations.

insert Table 3 about here

⁴ There is a scarcity in New Zealand of computer software for use by tax teachers.

Table 3(a) summarises the frequency of use of any one assessment type. One difference between tax and auditing courses lies in the amount of use of case studies. 31% of respondents for tax courses replied that they made use of case studies. For respondents on auditing courses the usage rate was 60%. This difference can be explained by reference to the differences in nature between tax and auditing courses. Although they share common pedagogical characteristics, such as positioning in the curriculum, link to the profession and career orientation, there is a difference in subject matter. Auditing is a subject which, although placed within a legal context, applies its skills and techniques in terms of organisational structure, operation and systems. In contrast, tax can be compartmentalised within a regulatory system, where emphasis is laid on the rules of the system (e.g. statutes, regulations and case decisions). The method of thinking that students are trained in for auditing courses therefore lends itself more readily to the use of case studies for discussion and presentation of alternative, equally acceptable, solutions. The more modular structure of tax, together with the country-specific approach of applying rule-based solutions, may be one explanation why case study use is lower in tax courses.

Included in the responses in total were ten courses where the respondent indicated that 100% of a course was graded on one type of assessment. Table 3(b) omits all instances of 100% weighting. In both taxation and the auditing responses, a weighting of 100% was given to assignments, case studies and final exams in, respectively, two, one and two instances. These instances of extremes of grade assignment also represent complete opposites in terms of educational philosophy about student performance assessment. One common

feature of these courses is that the majority were taught at postgraduate level⁵.

4. POSSIBLE IMPROVEMENTS

Auditing curricula usually endeavour to balance two overall teaching purposes: the understanding of concepts and the development and application of procedures. No matter which country is being surveyed, the need to balance these issues appears to be a primary concern. These two purposes also apply in taxation, but as outlined in the preceding section, emphasis has historically been placed on procedural aspects. Teaching traditionally has used either a case law approach or a regulatory code basis, emphasising tax planning - see Cassidy (1990). Due to the proliferation of tax reforms, many teachers find it difficult to 'keep abreast' of new developments or to find the time within the basic tax course to do all topics justice.

Auditing

Some refinements of auditing teaching methods that have been suggested have included a number of different approaches to facilitate student understanding or ability to apply auditing concepts. Methods of developing the relationship between financial statement assertions and audit work have been suggested to assisting students in structuring the way they understand or develop audit testing. Other suggested areas of improvement include the need to broaden the topics covered in auditing courses or to increase the length of time spent

⁵ All but one of the five auditing courses were post-graduate courses. The fifth was not clearly identified as post- or under-graduate, but appears likely to be a postgraduate course also. Three of the five tax courses were post-graduate courses and the other two were third year courses.

in tertiary study. Either alternative has been regarded as allowing inclusion in under- or post-graduate auditing courses increased coverage of significant areas such as international auditing and auditor liability. In particular, the need to relate theory to practice for students, the majority of whom have little or no practical experience of auditing or, indeed, of business practice, has regularly received consideration.

As a component of auditing courses, EDP auditing and/or EDP auditors have been studied, together with the incorporation of these issues into the auditing curriculum. The degree of use of micro-computers or computer-based learning has also been surveyed. Such learning aids have made significant contributions in the teaching of some topics within auditing curricula such as the audit use of statistical sampling.

Taxation

Rather than an advanced course in accounting or law, it has been suggested that tax is a truly interdisciplinary study of parts of law, accountancy, economics and government. Sommerfeld (AAA, 1975) believes that the first course in taxation should be an introduction to elementary techniques and a survey of the field (drawn from the preceding topics), but should not be a course maximising the number of specific tax rules which a student can recall on a moment's notice. As a second best solution he favours a tax planning/advice approach. Tax education in Australasia is bordering on this second best solution, but an interdisciplinary approach to conceptual tax teaching has largely been ignored to date.

Recent United States taxation education research contains a number of interesting analyses. Anderson (1989,1990) consider the relative effectiveness of different instructional strategies (cases, concepts or examples) under

experimental settings. Their results suggest that instructional strategy and variation in context during learning influence the transfer of tax knowledge. Where there is pre-existing knowledge, performance will depend on the ability of an instructional strategy to communicate any difference between old and new situations. De Merville (1988) explains that variance analysis can be a useful teaching technique to demonstrate the incremental impact of tax law changes on taxpayers comparing the treatment under previous law with that under current law.

It is well accepted that future accounting education should utilise computing resources and enable students to acquire or sharpen computer skills. Auditing has progressed down this path more quickly than taxation, possibly due to the process nature of auditing and the regulatory (and non-static) nature of taxation.

5. DISCUSSION AND CONCLUSIONS

A number of implications arise in respect of these extant issues in auditing and taxation education. First, the concerns over accounting education that have been expressed in past research and commentaries do not appear to have been laid to rest by later developments. These issues have included, for example, concerns over the length of time spent in tertiary education, let alone concerns about the content of that time of study.

Secondly, the increasing globalization of business, including the chartered accountancy firms, has meant that professionals are increasingly mobile. The extent to which this is recognized in teaching and facilitated by the use of resource materials such as appropriate textbooks needs to be determined. In taxation, with the current emphasis on country-specific procedural aspects, students are inadequately prepared for shifts to other countries. In auditing,

this is less of a problem as regards the procedural aspects of auditing tasks, but may require additional study on regulatory aspects.

Thirdly, there is a continuing need to balance conceptual and applied aspects of professional subjects. A more conceptual approach would assist in developing internationally relevant approaches to professional subjects, but might conflict with the co-existence of many courses with professional society admission requirements.⁶ Educators' needs to prime students with information appropriate to pass a qualifying examination may impact on their ability to experiment with and improve the curriculum.

An additional issue of concern relates to the development of new or expanding boundaries of these subjects. Teaching approaches which concentrate solely on application of the subject in practice can be criticised as shortsighted. The risk is that such an approach will not allow the research-practice-teaching triangle to develop. The interface between these three areas is of crucial importance as Dyckman (1989), Sprouse (1989) and Kinney (1989) acknowledge.

It is our hope that the issues currently being addressed in the United States accounting education literature will be addressed from an international perspective and result in improved teaching of professional subjects such as auditing and taxation throughout the Asian-Pacific area.

⁶ For example is there a captive audience for audit and tax papers thus removing any incentive for innovative course teaching; or is innovation being restricted because of student or profession pressure for certain material?

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Table 1: Comparative professional society requirements for entry

Country	Society	Degree	Dip/Prof. Course?	Exam	Exempt?
Australia	ASA,ICAA	Y	Y	Y	R
Canada ⁷	CICA	Y	Y	Y	R
England & Wales	ICAEW	N	N	Y	S
Ireland	ICAR	N	N	Y	S
New Zealand	NZSA	N	Y	Y	R
Scotland	ICAS	Y	O	Y	R
U S A ⁸	CPA (state)	Y	N	Y ⁹	R

Key to symbols:

- N Not indicated as required
- O Optional or possibly required
- R No exemptions granted
- S Some exemptions granted
- Y Required for entry to society

(Adapted from *Horizon 2000*, NZSA (1984), page 78, together with supplementary information)

⁷ There may be some variation from province to province.

⁸ There may be some variation from state to state.

⁹ Usually adoption of the final CPA examination.

Table 2: Courses offered analysed by year and status

Course level and status		Tax Courses				Audit Courses			
<u>Mand.</u>	Level: (yr)	No.of courses	Mean Roll	Min Roll	Max Roll	No.of Courses	Mean Roll	Min Roll	Max Roll
	2	7	223	30	480	3	191	90	363
	3	36	192	21	620	30	195	32	710
	4	3	46	26	82	3	39	20	74
		46				36			
<u>Non-Mand.</u>	Level (yr)								
	2	4	72	40	129	2	64	30	98
	3	15	109	25	240	11	93	12	250
	4	16	11	3	30	9	8	3	20
		35				22			
Other: Not analysed/unusable		4				9			
TOTAL COURSES		85				67			

Notes to Table 2

Mand. (Mandatory) Includes courses which were indicated as compulsory for admission to professional society.

Non-mand (Non-mandatory) Includes courses which were indicated as not compulsory for professional society admission.

Level (Year) This indicates the earliest year of study at which a course can be taken by a student. Level 4 indicates post-graduate or Master degree level of study.

Table 3: Analysis by type of assessment

Table 3(a): Frequency of use of assessment type

Frequency assessment used:	Tax Courses	Audit Courses
	%	%
Assignments	77	79
Case studies	31	60
Term tests	35	41
Final exams	97	100

Table 3(b): Percentage weighting on type of assessment

Percentage weighting on:	Tax Courses		Audit Courses	
	Mean	Std. Dev	Mean	Std Dev
Assignments	19	11	24	12
Case studies	21	10	21	11
Term tests	21	8	24	16
Final exams	61	13	67	12

Notes to Table 3

Table 3(b) omits from analysis any course which allocated 100% of weighting to any one type of assessment.

Table 4: Auditing Texts

<u>Text</u>		<u>Frequency</u>
Arens et al	Auditing in Australia	26
Harding et al	Readings & Case studies in auditing	1
Lee & Kenley	Company auditing	1
Porter & Perry	EDP Audit & Control	1
Gill & Cosserat	Modern Auditing	8
Watney & Turney	Auditing EDP systems	2
Weber		3
Kent Shearer & Turley		1
Gul, Teoh, Andrew	Theory & Practice of Australian Auditing	7
Fraser & Aiken	Stettlers System based audits	1
Ratliff, Wallace,		
Loebbecke, McFarlane	Internal Audit Principles	3
Brink & Dittenhofer	Case Studies	1
Carmichael & Willingham		1
Pratt	External auditing	4
	Apple Blossom Audit Tape (Aust)	2
Defliese et al	Montgomery's Auditing	1
ICAA (Aust)		2
	Applications of Statistical auditing	1
NZSA	AS, AG	2
Best & Barrett	Auditing computer-based accounting systems	2
	Various readings	7
	Use no text	1

2/81	Burritt	Australian auditors, bankers and supervisors: a change in relationships?
3/87	J P Walsh	The Accountant, the Client, and the Fair Trading Act 1986.
1/88	R L Burritt and J G Hollingworth	Management Buy Outs - a Jekyll and Hyde phenomenon?
1/89	K J Bebbington and D J Hasseldine	The Management of Tax Evasion.
1/90	M W A Fleming and D J Hasseldine	Towards a Solution to the Dividend Puzzle: Preliminary evidence and a further proposal.
2/90	J J Vargo and Y S Kong	Case productivity in New Zealand.
3/90	J J Vargo	An information systems approach for the MBA degree in a competitive environment.
4/90	J J Vargo	Acme engineering - an information systems case.
5/90	J J Vargo, C J Bacon and A J Robb	Ethics and morality in accounting - A Christian perspective.
6/90	C W Cattermole and B J Clarke	The Activity Based Costing Model: An algebraic abstraction in relation to product mix determination.
7/90	R H Gray	Social and Environmental Accounting in the Western Capitalist Economies: A Review
1/91	P W Bell	On Establishing Guidelines for Financial Reporting
2/91	J P Walsh D J Hasseldine	Issues in Print Media Liability
3/91	D J Hasseldine A Y Neale	Issues in Professional Advanced Accounting Education: A survey of tax and auditing courses in Australia and New Zealand
4/91	A J Sawyer	Company Effective Tax Rates in New Zealand: A Preliminary Analysis