

P A R T IV

PHILOSOPHY OF ACCOUNTANCY EDUCATION

CHAPTER 12

PHILOSOPHY OF ACCOUNTANCY EDUCATION AND TRAINING

AND OTHER CONTROVERSIAL ISSUES

12.1 The Role of Universities in Professional Education

Compared with universities in many countries throughout the world, universities in South Africa have played a major role in the education and training of accountants. It is, therefore, necessary to see what influence this has on the teaching at universities, and it is very important to define what the role of the university in education is. Historically, universities have endeavoured to be seekers of truth and systemisers of knowledge. Academics at universities have endeavoured to pursue knowledge in isolation, far away from the realities of the harsh, outside world. The pragmatists in the harsh, outside world have generally scorned the findings of the academics in their ivory towers, as being irrelevant and pedantic.¹⁾

Today there is great divergence of opinion about the role of a university. It must be acknowledged that as there are few excellent researchers, it is necessary for universities to make a deliberate effort to select the brilliant researchers so that they may strive to improve the society of tomorrow. On the other hand, there has been great pressure on available resources aggravated by a constant man-power shortage as well. It must be borne in mind that as the universities are financed to a large extent by the general public they thus have a responsibility to society in general. An important question to be decided is: What should the universities teach? Is it the responsibility of the university to train a person to be proficient at the existing techniques and procedures of the profession which no doubt could be obsolete ten years later? Or is it the duty of the university to educate the student how to study, to do research which will give him a broad, analytical and enquiring mind, enabling him to solve complex problems and adapt to a rapidly changing society?

1) Webb, Edwin C., "The Role of the Universities in Professional Education", *The Chartered Accountant in Australia*, October 1971, p.9.

An eminent Australian educationalist, Sir Eric Ashby, in an article entitled "The Case for Ivory Towers", indicates that students need know four things only and they are:

- "(i) A mastery of words and symbols of ideas;*
- (ii) an understanding (and, for some students, a mastery) of the concepts of mathematics as symbols of measurement;*
- (iii) a sufficient equipment of orthodox ideas in, at any rate one field to be able to use the ideas with confidence; and*
- (iv) a mastery of the accepted procedures for dissenting from orthodoxy and generating fresh ideas, expressed in words or in mathematics."*

To put it into one sentence,

"... the touchstone of university studies is not to teach great truths but to teach truth in a great way." 2)

The question arises why theology, law, medicine, pharmacy, engineering and accountancy should be taught at universities, whereas typing and carpentry are not.

The answer is that the professions catered for at universities require an understanding of complex theory, not simply the application of procedures learnt by rote. Another justification for teaching accountancy at a university is that a broad basis of academic knowledge is required for the practitioner to understand what he is doing in practice.³⁾

It is imperative that there be communication between universities and the professions, and it is also important that one should not dominate the other. It is important that there be cross-fertilisation of ideas between universities and the professions.

One of the functions of a university as described by the Van Wyk De Vries Commission is:

"... to advance learning by bringing to light the knowledge amassed through the ages, by systemising it, and by incorporating every facet into the various disciplines as a component of the whole structure of knowledge, and by new discoveries through investigation and research; after basic knowledge and research have been transmitted to

2) *Loc. Cit.*

3) *Ibid.*, p.8.

society to be employed there applied and directed science and research follow: briefly this function is the promotion of the humanities, the natural sciences and the applied sciences." 4)

Another function described by the Van Wyk de Vries Commission is the inculcation of qualities such as scholarliness and honesty, a scientific mind, perseverance and mental application, as well as the acquisition of a cultured outlook and a definite philosophy of life.⁵⁾ The Van Wyk de Vries Commission considers that one of the functions is to prepare students to practise a profession, but with the reservation that purely practical professional training is not a university function.⁶⁾ In its analysis of the relationship between universities and professional councils, the Van Wyk de Vries Commission states that there is good co-operation between universities and professional councils.⁷⁾ It does, however, express a reservation that the professional councils have the power to exert a strong influence on universities in the formulation of standards, curricula and syllabi. The Van Wyk de Vries Commission points out that university academics, because of minority representation on respective education committees of professional councils, could be placed in a subordinate position. It suggests equal representation by the universities and the profession on education committees of professional councils. It states:

The professions should not dominate the universities in this matter nor the universities the profession

The Van Wyk de Vries Commission warns that the curricula at universities must not over-emphasise the practical aspect, as this could result in the courses being purely vocational. If this is the case, a university cannot fulfill its true function, namely, the professional preparation of students.

The Van Wyk de Vries Commission sees the role of the university vis-a-vis professional education as follows:

"A profession should not be supplied with candidates who are only technically trained and equipped with the necessary applied and technical

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- 4) Department of National Education, *Main Report of the Commission of Enquiry into Universities*, under the chairmanship of The Honourable Mr. Justice van Wyk de Vries, Government Printer, Pretoria, 1974, p.73.
 5) *Loc. Cit.*
 6) *Ibid.*, p.74.
 7) *Ibid.*, p.163.
 8) *Loc. Cit.*

*knowledge; it should be supplied with well-developed and well-rounded persons of culture who have also acquired such knowledge, but will be able to apply it with greater understanding and to greater effect."*⁹⁾

This view can be concurred with and it may be added that the professional accountant must be "educated" and not "trained" at the university.

12.2 Broader Education

A major criticism of professional education is that it becomes too specialised too soon so that students become unresponsive to certain classes of social problems that require an inter-disciplinary approach to solve them.¹⁰⁾

Other criticisms levelled at the profession are that their members are not trained how to work with people or how to work as a member of a team. Professionals have been criticised for under-utilising the applied behavioural sciences. They lack the ability to sort out ethical and value issues inherent in their professional role, and they do not have the ability to continue studying during their careers.¹¹⁾

There can be no doubt that a broader education for chartered accountants is desirable, and if a full-time academic programme were followed, a broader education would be part of the academic programme. Roy and MacNeill, referring to "A Broader Education" in the *Horizons* study repeatedly express the hope that the future accountants will be cultivated men and women.¹²⁾ The broader education is seen as being concerned with humanity, i.e. with man himself, his heritage, the underlying philosophies of life, the language in which he

9) *Loc. Cit.*

10) Schein, Edgar H., *Professional Education - Some New Directions - Tenth of a Series of Profiles sponsored by The Carnegie Commission on Higher Education*, McGraw-Hill Book Company, New York, 1972, p.59.

11) *Ibid.*, p.60.

12) Roy, Robert H. and MacNeill, James H., *Horizons for a Profession*, a study sponsored by the Carnegie Corporation of New York and the American Institute of Certified Public Accountants, New York, 1967, p.217.

MacNeill stress the importance of oral and written communication, but agree that it is impossible to insist that the future accountants study humanistic subjects during their university careers. The hope is expressed that on their own volition students will pursue the arts throughout their professional lives.¹³⁾ They stress the importance of English language communication to the extent that a candidate be denied admission to the profession if unable to communicate properly, even if this be the only objection.¹⁴⁾ They do qualify their statement that the proficiency be limited to commercial usage of a language with the attributes of brevity, conciseness and lucidity, the essential ingredients of reports by accountants to clients and the investing public.¹⁵⁾

The importance of philosophy cannot be stressed sufficiently as logic and ethics play a very important role in the careers of accountants. Logic plays an important role in accounting and the double-entry system can be seen as a manifestation of logical relationships. Auditing, as well as computer programming, requires logic. It is superfluous to state that ethics plays a very important role in the career lives of accountants, and that the reputation of the profession depends on the ethical standards of its members. Roy and MacNeill state in this regard:

*"We do not believe that ethical behaviour is determined by instruction in the manner of dogma or catechism but we do believe understanding to be contributory to propriety. We therefore recommend that each beginning CPA knows the ethical precepts upon which the profession stand, in order that his own future behaviour may enhance, not diminish, its stature."*¹⁶⁾

The *Horizons* study also stresses the importance of the behavioural sciences by underlining the importance of motivation, which may be used to great advantage, and they continue:

13) *Loc. Cit.*

14) *Ibid.*, p.219.

15) *Loc. Cit.*

16) *Ibid.*, p.218.

"In the same way behavioral research studies of communication, decision-making, innovation, conflict, leadership, authority, learning, perception and creativity are providing knowledge which cannot be categorically prescribed or, like a poultice, applied but which can be understood and used to great advantage." 17)

It may be stated without fear of contradiction that most academics favour a broader education. The abovementioned requirements giving a broader education, as outlined by Roy and MacNeill, must be seen in the light of the American university programmes. The first two years of a four-year bachelor's programme consist mainly of a general education. Americans believe that these two years at university make up for certain deficiencies in school education. In a recent research study, sponsored by the Carnegie Commission, on higher education, *"More Options, Less Time"*, it has been suggested that the four-year programme be reduced to three years. If this is implemented it will no doubt necessitate a reduction in the general content of degrees. It appears that during times of recession, relevant commercial degrees are regarded as being of substantial importance.

It thus appears that if there is a major time constraint, as well as problems in the utilisation of resources, the general broadening content of an academic programme may have to be sacrificed. It has been stated that no civilisation can afford to allow a substantial number of its population to spend several years at universities purely for cultural improvement. The community feels that the privileged few who attend universities should pass on the benefits of their knowledge to the general community.¹⁸⁾

Besides the time constraint objection to a broader education, there are serious reservations whether a single course in philosophy, psychology, or sociology will really benefit the future accountant. As these are not generally terminal courses, and in fact more likely feeder courses, the lecturers

17) *Ibid.*, p.17.

18) Risk, James M.S., "The Educational and Training Requirements of the Accountant of Tomorrow", a paper presented at the Jerusalem Conference on Accountancy, as reproduced in *The Search for Better Solutions*, The Institute of Certified Public Accountants in Israel, Tel Aviv, 1971, p.29.

will not have the time to point out their relevance to the student's ultimate choice of profession. It has also been stated that if special courses are designed in which wide-ranging fields of study are reduced to miniscule proportions, this is not likely to train candidates for disciplined thinking, be it intensive or extensive.¹⁹⁾ A noted academic, Michael Schiff, states:

"Many schools require the accounting student to take courses in quantitative methods, computer systems and behavioral sciences. But these courses are viewed as appendages to the traditional accounting courses and in only rare cases are they integrated into the accounting courses. This is reflective of a system which requires change. ... The real challenge is the integration of this material from the related disciplines within accounting courses." ²⁰⁾

A noted academic, A.S. Carrington, stresses the relationship between behavioural sciences and accounting, communication, control systems, organisation structure, business objectives and states:

*"Unfortunately all but elementary courses, and sometimes even these in psychology, tend to require a degree of specialised concentration on that discipline which carries the student far from his main field and often with little prospect of discerning the connections. In the absence of time constraints this would be of little concern, but in terms of professional preparation, again it suggests an urgent need for integration of material in studies beyond the first year level."*²¹⁾

From the abovementioned extracts it must be apparent that there are reservations about courses which are appendages to the relevant course content of a degree. It is imperative that the broadening aspect be integrated in later relevant courses.

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- 19) Chambers, R.J., "Professional Education and the Vatter Report", in *Accounting Finance and Management*, Arthur Andersen and Co., Chicago, 1969, p.660.
- 20) Schiff, Michael, "Education of the Accountant of Tomorrow", reproduced in *The Search for Better Solutions, Op. Cit.*, p.71.
- 21) Carrington, A.S., "Education for the Profession", a paper contributed at the New Zealand Society of Accountants 1970 Convention, New Zealand Society of Accountants, Wellington, 1970, p.43.

12.3. Graduate Entry or Matriculation Exemption

A vexed problem facing the profession is whether the prospective chartered accountant should have a degree prior to commencement of the practical-experience period or not. A review of practices overseas finds the trend towards graduate entry gaining momentum. The socio-economic circumstances in each country must be taken into account in determining whether graduate entry is essential. What are the advantages stemming from graduate entry?

There are various advantages of a university education. The student has the opportunity of gaining a broader education as the pressures exerted on him are substantially less than when he is required to attend university on a part-time basis. The student will have the time to do more reading and will also be able to take certain non-relevant subjects which will increase his general knowledge. A degree requirement prior to the commencement of the practical-experience period would enhance the image of the profession as part-time study gives the impression of an apprenticeship scheme. Another important factor is that once the student has graduated, he will be a more mature person and be in a position to accept greater responsibility more quickly. A graduate will have been exposed to a certain amount of discipline at university and will have proved that he has a certain ability and competence. The advantage just cited, obviously depends on the standards of the individual departments at the various universities. There can be no doubt that the standards at various universities differ quite substantially. An additional justification for graduate entry can be found by looking at certain disadvantages of the present part-time educational set-up in this country. Greater breadth and depth of knowledge will be required in future and it is questionable whether the trainee accountant has the time to do sufficient reading. Part-time study must detrimentally affect the recruitment of the above-average student, and it has been stated that studying part-time is out of line with present educational sociological thinking. Another disadvantage of part-time study is the great stress under which the trainee accountant now has to work. Many accountants approach the

for the goose must be sauce for the gander". Part-time attendance at universities may have been possible in the earlier parts of this century as well as in the fifties and the sixties. The majority of students are qualifying through part-time university attendance at this particular point in time. It has to be taken into account that the syllabi have been extended quite substantially during the last decade or so. In 1966 Richard G. Wuth saw the basic requirements of the newly qualified accountant as follows:

"a) Academic:

1. *A proper understanding and appreciation of basic principles in all important areas of accountancy.*
2. *A liberal education and intellectual discipline.*
3. *A mind trained to analyse and assess problems and to recognise the principles to be applied in their solution.*

b) Practical:

1. *A good professional upbringing with an appreciation of professional ethics and good behaviour.*
2. *Sufficient practical experience to recognise the relationship between theory and practice.*
3. *An opportunity to survey the various fields of endeavour in the sphere of accountancy in order to be able to decide in which fields to specialise."* 22)

Wuth continues:

"The conclusion is inexorably reached that the only real solution to the profession's education and training problems is for the profession to determine its academic requirements and then look to the universities to provide these through the medium of an appropriate degree course. This course can be designed to make good some of the acknowledged weaknesses in the present system of general education and can pay due regard to the great importance of relating theory to practice." 23)

22) Wuth, Richard G., *A Graduate Profession*, a paper presented at The Third National Congress of Chartered Accountants (S.A.), Cape Town, April 1966, p.13.

23) *Ibid.*, p.14.

Wuth sees the only solution to the problem as being uninterrupted study on a full-time basis, and he questions whether part-time study with its known limitations should be countenanced. He further advocates a sandwich arrangement or internship so as to overcome the problem between the academic and the practical approaches.²⁴⁾

Opponents of graduate entry maintain that many students cannot afford to pay for full-time university education and the situation at home may require them to earn their own living. This argument is normally countered by the fact that there are bursaries available, and the question has been posed whether the profession should not actively stimulate the creation of a greater number of bursaries by individual firms. Protagonists of the status quo, namely matriculation as a condition of entry, maintain that the discipline resulting from working a full day, attending university and then doing the necessary assignments can only stand the future chartered accountant in good stead. The validity of this argument is not questioned, but what is questioned is the quality of education that a trainee accountant does get on a part-time basis.

The retention of part-time study is advocated by James M. Risk who states:

"Desirable though it may be to have a 'graduate' profession, for several if not many decades to come, many thousands and tens of thousands of accountants throughout the world will be educated and trained without the advantages of having spent several years at a university. On a world-wide basis, universities are for the privileged few." ²⁵⁾

A justification for the retention of present requirements is the present manpower shortage and economic climate. It may also be argued that the intake will be severely restricted if graduate entry is a pre-requisite.

Many investigations into the educational requirements of the future accountant have come out in favour of some period of

24) *Ibid.*, p.15.

25) Risk, James M.S., "The Educational and Training Requirements of the Accountant of Tomorrow", *Op. Cit.*, pp.29/30.

full-time education. William J. Vatter in his survey of accountancy education in Australia, suggests two years full-time study followed by full-time employment for another four years with part-time study on a restricted basis.²⁶⁾ Vatter points out that if the entrance standards are too low the trainee accountant will not have the basic tools with which to qualify as a professional accountant.²⁷⁾

A note of warning must be sounded and that is that members in public practice sometimes register a training contract of a student who does not have the potential to qualify as a chartered accountant. This is a retrogressive step and should not be condoned. It is a disservice to the trainee accountant as well as to the profession in the long term. It wastes energy and resources, and the person concerned should rather be placed in a working environment that suits his own capabilities. If the entrance standards are too low, the failure rate at universities and the long period it takes people to qualify as accountants can only harm the image of the profession.

There is no doubt that graduate entry is desirable, but seen in the context of the socio-economic conditions existing in South Africa it is difficult to envisage graduate entry being practicable in the next five to ten years. It is believed that the profession should endeavour to improve its image so that many more graduates at university who have possibly majored in other subjects in the commerce field, could be motivated to become accountants. It is important that the profession must eventually set a goal whereby graduate entry will be a pre-requisite. In Canada it is found that a trainee accountant may commence practical experience but is registered only when he graduates at a university. If the student does graduate, the practical experience gained prior to graduation is taken into account in assessing what practical

26) Vatter, William J., *Survey of Accountancy Education in Australia*, sponsored by the Australian Society of Accountants, The Institute of Chartered Accountants in Australia and The Australasian Institute of Cost Accountants, 1964, p.23.

27) *Ibid.*, pp.9/10.

experience still has to be completed.

A strong case is put forward for higher admission standards. Michael Schiff questions the validity of graduate entry on the strength of the different admission standards applied by various schools of business. Schiff suggests that students should be examined before they enter upon a course of study for admission to the profession at various universities. Schiff envisages that such tests will improve the quality of students admitted to accounting programmes, and states that the new accounting curriculum requires a high level student body. He continues:

"In the absence of stated standards on admission to study, the most forward looking curriculum staffed by a capable interested faculty will not achieve its objective since the inputs to the program do not possess the ability to cope with it." 28)

This puts another viewpoint forward, which may be acceptable in the highly competitive and affluent American society, but it is doubtful whether it is feasible in South Africa.

In the past, after reviewing the performance of the stragglers in the advanced classes at university and referring to their records, it has invariably been found that these students failed dismally in their first attempt at the elementary mathematical and statistical course at university. Supplementary examinations or another year was required by these candidates to pass the examination. Many academics believe that the ability to pass the Final Qualifying Examination of the Public Accountants' and Auditors' Board can be closely correlated with a person's mathematical ability.

It is believed that because the present circumstances in South Africa do not justify graduate entry, it is necessary that the entrance requirement be more stringent. It is suggested that a student must attain fifty percent for mathematics at the standard grade or a forty percent pass in the higher grade in the matriculation examination. It is further suggested that the prospective chartered accountant must have a fifty percent matriculation aggregate as well as a minimum of forty percent in both languages. Studies in the past have shown that when

28) Schiff, Michael, *Op. Cit.*, p.72.

admission requirements have been increased, the quality of the entrant has improved.

The abovementioned requirements may be harsh on a student who possibly does have the mathematical ability, but because his school did not have a good mathematics teacher, and it appears that they are scarce, he has not performed as well in mathematics as his capabilities permit. To overcome prejudicing a student, it is therefore suggested that if a student attains 40% and 33 $\frac{1}{3}$ % in standard and higher grade, respectively, his practical experience will be recognised, on the condition that if he does not pass his first year subjects without a supplementary examination, he must cease his studies. However, it is stressed, that the ultimate goal must be graduate entry.

12.4 Practical Experience Requirements

History

A perusal of the history of accountancy education and training reveals that a form of apprenticeship, articles or practical experience was an important means of gaining entry into the accountancy profession. The necessary skills required for the profession were obtained by working in the office of a practising accountant, and formal education played a very minor role, if any, in the educational process of the accountant. David Solomons refers to the Dean of the Harvard Law School who commented about accounting education as follows:

"The minds of accounting students are trained, but by and large, they are not stretched." 29)

No doubt the practical-experience requirement does contribute certain skills to the prospective accountant, but nowadays serious reservations have been expressed about it. It is to be noted that the value of practical experience per se, is not questioned, but serious reservations have been expressed, by many academics and

29) Griswald, Erwin, Harvard Law School, *Journal of Accountancy*, January, 1958, p.34., as quoted in *Prospectus for a Profession - The Report of the Long Range Enquiry into Education and Training for Accountancy Profession*, by Solomons, David and Berridge, T.M., Published by the Advisory Board of Accountancy Education, distributed by Gee & Co., (Publishers), Limited, London, 1974, p.100.

certain professional institutes, about the value of practical-experience requirements as they exist today. The value of the practical-experience requirement is questioned not only because of the lack of control over experience but also because of a lack of a definition of what experience should be. On the other hand many practitioners as well as academics, are strong advocates of practical experience as it is regarded as being complementary to education. The first question that arises is what is experience.

The Shorter Oxford Dictionary gives this definition:

"To have experience of, to feel, ... the observation of facts or events, considered as a source of knowledge, ... the state of having been occupied in any study or practice ..., the qualification thereby acquired."

Experience may mean virtually any feeling or sensation to some people, whereas to others it may be a specific skill as to experience in the broader sense whereas it could be narrowed down to a process of personally observing or understanding things. This understanding arises from having observed or encountered or undergone some exposure to the practical ways of doing things. An attempt at defining experience in relation to accounting has been made by Barbara A. Clough who visualises three levels of experience.³⁰⁾ She sees the three different levels being life experience, broad business experience, the knowledge of life and the understanding of general broad social and cultural forces which affect the life of an accountant. An understanding of the business world, and the forces that affect him during a business day as well as an understanding of his role in business, communications and decision-making, form part of the broad business experience. Accounting experience is having gained the skill and the requisite knowledge of accounting procedures through observance, encounter and understanding of the various aspects of accounting in the practical environment of the office of an accounting practitioner.³¹⁾ Clough states that the image of the profession will suffer if consistency of

30) Clough, Barbara A., "Towards a Definition of Experience", *The Accounting Review*, October 1973, p.798.

31) *Loc. Cit.*

application of the practical-experience requirements cannot be assured.³²⁾ It is therefore imperative that the profession be able to define the type of experience that the prospective chartered accountant be exposed to.

It is necessary to look at some of the qualities which are possibly gained by a prescribed period of practical experience. These qualities have been summarised as: professionalism, technical competence and administrative ability.³³⁾ It is considered that the most important quality, stemming from practical experience, is the discipline to which the trainee accountant is exposed. The trainee accountant not only faces pressures and has to meet deadlines within the office, but also has to comply with various office procedures. Advocates of the practical-experience requirement maintain that the resultant discipline stands the future chartered accountant in good stead irrespective of what his ultimate form of employment may be.

The review of the practical-experience requirements in the United States of America has shown them to be so diverse that the image of the profession can only suffer. The practical-experience requirement may be as high as six years in some instances and not apply in other states at all. The experience may be attained in various types of organisations and the value of this experience may also be questioned. The requirements for practical experience, if confined only to public practice have also been subjected to criticism, and certain quarters have requested that this experience be broadened. Bruschi states in this regard:

*"Broad requirements are assailed as meaningless anachronisms that should be eliminated."*³⁴⁾

Another question that arises is: Can experience be a substitute for education in our modern society? The answer can only be an unequivocal no. The chartered accountant will be faced with many complex issues in the future, and the tendency of overseas countries to accept a degree as a pre-requisite to entry to the profession is an indication of the importance

32) *Ibid.*, p.799.

33) Bruschi, William C., "Issues Surrounding Qualifying Experience Requirements", *Journal of Accountancy*, March 1969, in report of the Committee on Education and Experience Requirements for CPAs, American Institute of Certified Public Accountants, New York, March 1969, p.26.

34) *Ibid.*, p.23.

attached to formal education. The Beamer Report has suggested that the ultimate aim of the profession must be to accept a period of five years academic study and no practical experience.

Before accepting that this may possibly be the case, it is necessary to examine the advantages and disadvantages arising from the practical-experience requirements. Protagonists for the practical-experience requirements have stated that the experience gained by the candidate creates an awareness of the implications of professionalism. It has been stated that practical experience develops an understanding of professional independence. Opponents of the practical-experience requirement counter this argument by stating that implications of rules of professional conduct are dependent on qualities that stem from his life-long environment and education, and not just simply from experience as a trainee accountant. Advocates of the practical-experience requirement have stated that an awareness of the level of competence expected of a professional accountant is developed during the training period, and they state further that without the practical experience, an accountant could act irresponsibly causing damage to the reputation of the profession. This argument is countered by the belief that the trainee accountant is not being sufficiently extended during his experience period. The validity of the argument may not have been questioned during the first half of this century, but at this stage, accountancy education has changed its nature and scope quite considerably.

"Professional education is concerned with developing ability to order thoughts and with inculcating attitudes which characterize cultivated and ethical persons. And these attitudes are the values sought by the accounting profession in its recruits." 35)

Accountants who advocate the experience requirement, believe that the technical competence of the trainee accountant will improve because knowledge acquired cannot be imparted in the lecturer room. In the office he learns the practical

35) *Ibid.*, p.30.

applications of concepts taught at educational institutions. A further benefit of practical experience, it has been stated, is that exposure to experience makes it easier for the prospective chartered accountant to grasp the illusive concept of materiality. Those opposing the practical-experience requirement believe that the first year of experience as a junior accountant does little to improve the technical competence of the trainee accountant. They believe that essential elements of technical competence can be obtained from college study. Opponents of the experience requirement believe that shortages of manpower result in pressures being exerted on the principal so that the economic advantage of assigning repetitive tasks to the junior clerk predominate. This results in the trainee accountant doing these tasks quickly and accurately. It has been stated that a three-year practical-experience requirement may in effect be six months experienced six times over. It is further stated that during the first two years of experience a trainee accountant is seldom allowed to take important decisions with regard to auditing assignments.

A very strong argument in favour of the abolition of the practical-experience requirement is the lack of control exercised by the professional accounting bodies. Enquiries have revealed that very little effective control is presently being exercised by the professional institutes around the world. To a certain extent the market place determines which principals give efficient training. The market-place argument may be accepted up to a point, but it is believed that the profession throughout the world should ensure that the quality of experience is controlled, so that all trainee accountants may be assured of having the correct experience. In his analysis of the advantages stemming from the practical-experience requirement, Bruschi refers to administrative ability. This ability refers to the management of an accountancy practice as well as many other aspects such as personnel policies, policy appertaining to clients, how the firm attains its revenue and expenses, how professional fees are set. It has also been stated that a clerk is exposed to

the personnel problems of the firm.³⁶⁾ It is further affirmed that the pressures of professional service are impressed upon the trainee accountant and the needs of the client are also illustrated. Serious reservations are expressed by the opponents of the experience requirement as to whether the trainee accountant will in fact be exposed to the administrative problems in his first few years of practical experience. These opponents of the practical-experience requirement do acknowledge that the quality of administrative ability is an admirable one. Agreement is expressed with the view of the opponents of the practical-experience period, that they will have no exposure (or very little) to the administrative problems of practitioners.

The practical-experience requirement has a major objection against it, and this is that the competence attained by the trainee accountant is basically limited to that possessed by his principal. John S. Millis succinctly states the position as follows:

*"It seems to me that apprenticeship has one fatal flaw which makes it impossible to use in the current epoch, and that is its objective. The objective of the apprenticeship is the transfer from the master to the apprentice all that the master knows, and no more. Therefore the ceiling of education aspirations of the apprenticeship is the knowledge of the master. This was undoubtedly a valid educational objective in the nineteenth century, ...when the rate of discovery was relatively slow and the rate of discovery of new skill was even slower. But now our educational objective must be to provide a mechanism wherein the student of this generation may stand on the shoulders of all the preceding generations and then go beyond. Therefore the student must always surpass the teacher, and the apprentice must surpass the master."*³⁷⁾

The abovementioned objection is indeed a very valid one and if practical experience is to be meaningful this problem will have to be overcome. The quality of experience of the trainee accountant will now improve as a result of

36) *Ibid.*, p.32.

37) *Ibid.*, p.39.

the introduction of a quality-review programme for practitioners, similar to the one instituted by the American Institute of Certified Public Accountants. If a quality-review programme is introduced, it is believed that this will lead to an improvement of the standards of practitioners. A detailed discussion of the quality-review programme is discussed in the chapter titled, "Required Continuing Education".

Professional education is seen by David Solomons as being different from mere education in that it is a combination of knowledge and skill in a subtle way.³⁸⁾ Solomons continues:

*"From this combination, with the maturity that comes from experience and given the essential personal quality of integrity - a quality which can be nurtured by professional experience but which has to be implanted by earlier upbringing - comes the rounded professional man. ... Where we have gone wrong in the past is in being too little concerned that those who can do things know what are the right things to do. Performing seals can do things, but they are not too good at dealing with unfamiliar situations or in creating new tools to solve new problems."*³⁹⁾

The formal American policy which is reflected in the Beamer Report favours education in lieu of practical experience, but A.S. Carrington states as follows:

*"It is true that education is concerned with 'an understanding of underlying principles', but it is a poor sort of professional education if it contributes nothing towards learning how to apply that knowledge to practical ends. Since training, presumably, has the same objective, there is clearly an overlap or at least a common interface between education and training. ... It is better to view the total process of preparation for the profession as capable of being dealt with, in part, by means of a formal educational programme and, in part, within the more specific context of job-directed instruction. The division should be made on the basis of which is the more effective way of dealing with particular material."*⁴⁰⁾

38) Solomons, David and Berridge, T.M., *Op. Cit.*, p.101.

39) *Loc. Cit.*

40) Carrington, A.S., *Op. Cit.*, p.25.

It is important for academics, as well as practitioners, to bear in mind that each group can make a positive contribution to the endeavours of the other group. There are certain aspects that can be better taught in the lecturer room which assist in the development of a mental set - a professional attitude that should have breadth and sufficient depth to ensure that the student is properly prepared for further development in the practical environment. Practitioners can ensure that academic education is more meaningful by imparting a true, working knowledge of complicated auditing and accounting matters in the real world.⁴¹⁾

Another reason advanced for education in lieu of practical-experience requirements is the greater objectivity of measuring the compliance with educational requirements over practical-experience requirements.⁴²⁾

With regard to the practical-experience requirements it has been stated:

*"It must be stressed that the value of practical experience per se, is not in doubt; it is acknowledged that people learn by doing and that there can be no substitute in any profession for the knowledge, skills and judgement acquired from many years of experience. What is in effect questioned is the absence of guidelines defining suitable practical experience as well as the necessary control to ensure that the experience gained is of the right quality."*⁴³⁾

Many academics believe that students should be exposed to practical experience during their academic career. Many of these academics however, do not favour part-time study and believe that a system of internships is desirable. The student is released from responsibilities on the campus,

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- 41) Robertson, Jack C., and Smith, Charles H., "Relevance, Auditing and Professionalism", in *Accounting Education : Problems and Prospects*, edited by Edwards, James Don, American Accounting Association, Sarasota, 1974, p.76.
- 42) Carpenter, Charles G., and Dascher, Paul E., "Education or Experience?" in *Accounting Education : Problems and Prospects, Op. Cit.*, p.117.
- 43) Wolman, B.S., *Future Trends in Accountancy Education*, a paper presented at the Autumn School of the Natal Society of Chartered Accountants, March 1976, p.92.

and works for a term, or a part of a term with an accounting employer. In certain countries the employer need not only be an accountant. In Australia it is found that during the third year the student is released completely from academic responsibilities and finds employment either with an accounting firm or any firm in commerce and industry or finance. An important characteristic of the internship is that there should be continuation of communication between members of faculty and their students. An alternative approach to internships is the co-operative system whereby a student attends class and works for employers on an alternating basis. The cycle varies and in some instances four months academic study will be followed by four months employment or alternatively the period may be six months on a similar alternating basis. The advantages of student internships appear significant and the results of an empirical survey reveal:

"Student internships are generally considered to be both educationally and practically advantageous. Educational benefits stem from the diversity of actual experience generally afforded to the student. In a practical vein, many employers feel that the internship programs present an opportunity to attract high quality entrants into the profession." 45)

Student internships or co-operative programmes assist in countering the criticism that there is no contact between the academic and the real-life situation. The introduction of internships, or a sandwich arrangement, has been propogated in South Africa as far back as 1966. Richard G. Wuth propogated the introduction of such a sandwich arrangement in his paper "*A Graduate Profession*" presented at the Third National Congress of Chartered Accountants (S.A.).⁴⁶⁾

45) Carpenter, C.G., and Dascher, P.E., *Op. Cit.*, p.120.

46) Wuth, Richard G., *Op. Cit.*, p.15. (see footnote No. 22)

12.5 The Conceptual Approach to the Teaching of Accounting and Related Subjects

A group of accounting academics, consisting of Professors Fertig, Miller, Mueller and Sprouse, formulated a proposal on which the educational philosophy of the conceptual approach is based. A part of the proposal reads as follows:

"The importance of accounting as a whole to a private enterprise society suggests that the first course in accounting should not be influenced by the educational needs of prospective accounting majors. Instead it should seek to convey to a general audience of college students the conceptual content of accounting, the overall scope of the accounting function, and the interpretation of accounting reports. Furthermore it should, in analytical terms, have a primary educational objective of informed citizenship. As such, the course should be important for all college students without regard to major area." ⁴⁷⁾

The major difference between this and the traditional introductory accounting course, is a shift away from the traditional "preparer of accounting information" premise to a "function and social role of the accounting discipline" premise. ⁴⁸⁾

Briefly it means a radical shift from a producer of accounting information to a user function. The course is designed to introduce the student to the whole discipline of accounting during the first course. There will be exposure to financial, managerial and social accounting, as well as the attest function.

The difference between the procedural (technique-oriented) approach and the conceptual approach to the teaching of accounting can be compared to different learning theories. The contiguity learning theory is described as "we learn by doing". ⁴⁹⁾ In other words, one learns from one's experience. The conceptual approach can be compared with cognitive learning theory. Cognitive theorists strongly emphasise

47) Mueller, Gerhard G., (Ed.) - *A New Introduction to Accounting, A Report of the Study Group*, Price Waterhouse Foundation, New York, 1971, p.2.

48) *Loc. Cit.*

49) Willingham, J.J., McNeill, I.E., and Collins, E.F., "Learning Theories and Accounting", in *Accounting Education : Problems and Prospects*, *Op. Cit.*, p.173.

the intellectual processes of human beings and their role in learning.⁵⁰⁾

The question may be posed: Is it really necessary for the terminal student in the introductory course, in other words, the student who has no further interest than the introductory course, to be proficient in the balancing of trial balances, to be doing bank reconciliations, writing up ledger accounts, and so forth? This student, when he finally chooses his profession, will no doubt employ an accountant to do the routine work for him. In this respect, it is acknowledged that the objectives of the educators, who formulated the new approach to accounting, have been correct. A student requires a broad over-view of what accounting is all about.

An examination of the views of eminent authorities is of great interest. The authoritative work, *Horizons for a Profession*, strongly advocates the conceptual approach, believing that it is very difficult to simulate the world of affairs in academic situations, because they lack the essential ingredient of reality.⁵¹⁾ The book religiously favours a conceptual approach stating that if subjects are dependent on experience and if there is a shortage of time they should be the first to be winnowed out. The Report of the Committee on Education and Experience Requirements for CPAs under the chairmanship of Elmer G. Beamer, endorses the conceptual approach, as outlined in *Horizons for a Profession*.⁵²⁾ *Prospectus for a Profession* also highlights a conceptual approach stating that academics in the past have shown too little concern with what are the right procedures to follow, and have emphasised rather how procedures should be carried out. An analogy is drawn with seals that can do things that they know, but are not good at dealing with strange situations. They cannot create new tools to solve new problems.⁵³⁾ A protagonist of the conceptual approach is Michael Schiff, who pleads for the integrat-

50) *Ibid.*, p.174.

51) Roy, Robert H. and McNeill, James H., *Horizons for a Profession*, *Op. Cit.*, p.4.

52) *Report of the Committee on Education and Experience Requirements for CPAs*, *Op. Cit.*, pp.10/11.

53) Solomons, David and Berridge, T.M., *Op. Cit.*, p.101.

ion of various courses, such as quantitative methods, information theory and the behavioural sciences, into accounting courses. . He does not consider these courses to be simply appendages, and he endorses the new introductory course which has been developed and tested by academics at the University of Texas and the University of Washington.⁵⁴⁾

Members of the profession have varied views towards the conceptual approach. Carl J. Bohne Jr., a director of training of one of the large international firms, agrees with the broad objective of university education to prepare a student for his future career, and admits the value of the conceptual approach, but expresses reservations whether the procedural approach in accounting education should be abandoned entirely.⁵⁵⁾ Bohne states in this regard:

"The relative merits of the conceptual versus procedural approach cannot legitimately be assessed because business conditions have changed so dramatically from the time when most accountants were educated under the procedural approach." ⁵⁶⁾

A former academic, R.K. Mautz, who is now a partner of one of the large international firms, and who has criticised academics for being too theoretical in approach, writes:

"Applied accounting needs an educational system that gives attention to the preparation for a professional career. In that preparation, conceptual understanding is important but also important are technical skill and a professional attitude." ⁵⁷⁾

The problem is thus one of balance. In the transition to a new introduction to accounting, it may be difficult to find the correct balance in the first course, but it appears that the later courses should become more procedural in approach.

54) Schiff, M., "Education of the Accountant of Tomorrow", *Op. Cit.* p.71.

55) Bohne, Carl J., Jr., "Objectives of Professional Education and Training", in *Accounting Education : Problems and Prospects, Op. Cit.*, p.236.

56) *Loc. Cit.*

57) Mautz, R.K., "Where do we go from here?", *The Accounting Review*, April 1974, p.353., as quoted by Burns, Chris, "Anita comes to Natal", *South African Chartered Accountant*, February 1975, p.61.

A South African academic, who has been very much involved in the teaching of the new approach, believes that it is not necessary for a student to write up a set of books and prepare a set of accounts in order to be in a position to appreciate the issues and controversies inherent in accounting.

Chris Burns states in this regard:

"I do not believe this argument is educationally tenable. Revenue and expense recognition, relation valuation issues, current value accounting, the strengths and weaknesses of the conventional accounting model, etc. are the very stuff of our discipline. You do not have to be able to put through adjusting journal entries for stock losses to appreciate the controversial nature of the former topics." 58)

It may be beneficial to scrutinise more closely the experience of the University of Natal in its introduction of a new approach to the teaching of accounting.

12.6 ANITA as taught at the University of Natal

The experiences of the University of Natal, (in Durban) in implementing a new introduction to accounting (ANITA), are reflected in an article entitled, "A New Introduction to Accounting - A Review of the First Year".⁵⁹⁾ To state that the introduction of the new approach was traumatic, may be an understatement. The practitioners in Durban regarded the introduction of a new introduction to financial accounting as horrific. This reaction may be motivated by self-interest. The new approach does not guarantee that students will be proficient in some of the basic techniques, such as writing up cash books, bank reconciliation statements and posting to ledgers and balancing trial balances, and so forth. Under the ANITA approach, there is limited exposure to techniques in the first year, possibly not sufficient to make the students as proficient

58) *Loc. Cit.*

59) Burns, C.A. and Seneque, P.J.C., "A New Introduction to Accounting - A Review of the First Year", *South African Chartered Accountant*, March 1976, pp. 97/100.

as the practitioners would like them to be. A practitioner asked if the emphasis of ANITA is now placed on accounting in a user function, and no longer as producer of accounting information, who is going to produce the information in future.

The views of the Department of Accounting are reflected in the following quotation from a paper by P.J. Seneque:

*"I believe that accounting is an academic discipline and as such has a proper place at the university. It is an academic discipline precisely because it offers a rich and highly normative approach to its studies. ... The inter-disciplinary nature of accounting can be stressed and the students made aware of the relationship of economics, mathematics and behavioural sciences to accounting if the emphasis is placed on the conceptual approach. The accounting educator cannot afford to mirror the practising accountant. If he does so he is of little use to the practitioner or to the student who will join the professional ranks."*⁶⁰⁾

Seneque then maintains that if universities are to teach skills and techniques instead of why and for what, then accounting has no place in a university curriculum. Many academics will agree with this viewpoint. The balance between conceptual and procedural approaches is seen by Carrington as being the understanding of the underlying philosophy, on the one hand, which should contribute towards the application of that knowledge to practical ends on the other. He further states that education and training do have certain common ground in that they do have similar objectives.⁶¹⁾

The experience at the University of Natal has shown that the lecturer as well as the seminar leaders have found the new approach a great challenge, and those seminar leaders, who had reservations about the first year students coping with the new course, were pleasantly surprised at the manner in which the students handled the course material.⁶²⁾ A questionnaire

60) Seneque, P.J.C., *Problems in the Teaching of Accounting at a University*, a paper presented at the Teachers' Training Programme for South Africa (A Joint Programme of South African universities at the Graduate School of the University of Stellenbosch), September 1975, p.10.

61) Carrington, A.S., *Education for the Profession, Op. Cit.*, p.25.

62) Burns and Seneque, *Op. Cit.*, p.97.

testing student reaction found it to be overwhelmingly positive. The response to a question whether the experience in the introductory course had affected the student's choice of a major, indicated that 10% decided to take Accounting II, and 29% felt more inclined to take Accounting II. 57% indicated that it had not affected the selection of a major. Only time will prove whether the course will succeed in attracting more students to second and final year courses in accounting. If the course succeeds in doing this, it will be beneficial for the profession in the long run. It appears that the 1976 enrolment for the Accounting II course is the highest ever.⁶³⁾ Bachelor of Accounting students indicated that they would have preferred exposure to the bookkeeping section of the course, which takes up 20% of course time, at an earlier stage. This matter is receiving attention and it is intended to have this section presented earlier in the year.

The question arises whether the profession has not completely abdicated its responsibilities. If the profession provided a "bookkeeping course" at the beginning of the year, would it be necessary to change the structure of the course? It may be debatable whether techniques will not assist in the understanding of the concepts. It is important to bear in mind that the major portion of the students taking Accounting I have no intention of majoring in the subject.

The examination papers of the Department of Accounting at the University of Natal (Durban) were sent to sixteen South African academics from ten universities, and five comments were received. Four of the comments were positive and one non-committal. One comment of the head of a Department of Accounting reads:

"In our opinion the paper is of a high standard. If students were able to cope with it they must have reached a very much higher

63) This information furnished by P.J.C. Seneque, Head of the Department of Accountancy at the University of Natal, Durban.

standard than we expect of our first year students." 64)

The views of an academic in the United Kingdom reflect the following:

"I feel that the paper represents a considerable improvement on previous papers I have seen from South African universities." 65)

In an analysis of the prospects, and in retrospect, the authors, Burns and Seneque, observe that the most vocal critics of the new approach have been practitioners, and they submit that the majority of critics base accounting on a definition by the American Institute, published in 1941, which refers to accounting as

"the art of basically recording, classifying and summarising ... transactions and events which are, in part at least, of a financial character ...".

The Department of Accounting at the University of Natal has adopted the following definition of accounting:

"Accounting is defined as a discipline which deals with the design, management, and evaluation of information systems as they relate to decision-making processes incident to societal and enterprise goals." 66)

The conclusion of the article reads as follows:

"There is no doubt in our minds that our new introductory course is a success. In one or two areas there is room for improvement. This will receive our attention in 1976. But taken as a whole and as a matter of principle we are confident our approach is correct. ..." 67)

Certain academics may disagree with these sentiments but the ultimate success of this approach will depend on how the intermediate and subsequent courses are structured. The intention is to build the second course on the concepts developed in the first course. The emphasis will again be on information prepared for users of accounting information,

64) Burns and Seneque, *Op. Cit.*, p.98.

65) *Loc. Cit.*

66) *Ibid.*, p. 100.

67) *Loc. Cit.*

and emphasis will be on financial reporting and the provision of information to internal and external users who require the reports for making decisions.⁶⁸⁾

The advanced course will be more professionally oriented. Problems are anticipated about what should be left out of the advanced course. Seneque suggests:

"... that to do full justice to the needs of the accounting-major student the advanced accounting course should not only imply specialisation in accounting topics. It requires a focus on advanced concepts and principles so that the student is exposed to the principle of 'divergent thinking' requiring imaginative thought and inventive solutions to problems as well as 'convergent thinking' which leads to logically correct answers. At this level the use of open-ended case studies as compared to accounting problems and exercises commends itself. In real life there is seldom one absolutely correct solution to a problem." ⁶⁹⁾

If a prognostication may be ventured, the annual address by the incumbent of the President of the Natal Society (hopefully Chairman of the Durban Regional Society) in 1986 may contain the following:

"The practitioners in Durban were very critical of the Accounting Department at the University of Natal a decade ago. Experience has proved that the accounting graduate from the Department of Accounting at the University of Natal, which utilises a conceptual approach to the teaching of accounting in the first two years, have proved to be more efficient than practitioners anticipated ten years ago."

It is believed that the conceptual approach may produce better accountants because the students will have greater exposure to the underlying philosophy of accounting, and will not be so preoccupied with preparing one accounting tutorial after the other. This approach must surely allow the student much more time for reading, which can only be beneficial in the long run. A caveat which must be sounded is that there

68) Seneque, P.J.C., *Problems in the Teaching of Accounting at a University*, Op. Cit., p.13.

69) *Ibid.*, p.14.

must be a move to a more professionally-oriented approach in the final year.

It must be stressed that a balance between the conceptual and the procedural approach must be maintained.

The deliberations resulting from the controversy regarding the conceptual approach at Natal University, it is believed, will eventually be in the interests of teaching of accounting at universities, as well as in the long-term interests of the profession. The controversy has resulted in those concerned with accounting and accountancy education re-examining their philosophy to the teaching of accounting.

A schism in the accountancy profession does not facilitate the educator's task. This schism manifests itself in the fact that there is a *de facto* multi-tier profession. The large firms of accountants and auditors would prefer the academics to adopt a conceptual approach to auditing. They would like to see the university academic teaching the philosophy of auditing, i.e. the 'why' and not the 'how'. The larger firms feel that they are better equipped to impart the application of auditing concepts than their colleagues at universities. The smaller and medium-sized firms would like to see the universities teaching the philosophy as well as the application of the techniques. This approach is quite understandable considering the facilities available to the smaller and medium-sized firms.

The following question arises: Is it possible for an academic to teach the applications of auditing, if he does not have constant and regular exposure to the practical vagaries of auditing? The other problem encountered by the academics is that it is very difficult to simulate real-life situations in the lecturerroom. It is acknowledged that case studies can simulate real-life situations to a certain extent only. It is believed to be imperative for the auditing lecturer to have experience in exercising his judgement about the scope and extent of tests, as well as in deciding what is material and what is not material.

The correct approach, it is suggested, is one of the following. The auditing lecturer in the department of accounting and auditing must spend at least three months of every two years, preferably as one period, working for a large firm of accountants who use modern auditing techniques. Alternatively staff training partners of large firms should be asked to conduct lectures on a modular basis. The latter suggestion is preferred. This would ensure that the staff training partner, who has the necessary experience of the applications and who is in constant contact with the latest developments within the profession, will be imparting the latest developments to the students. A member of the department can still have control of the subject, but this latter approach will ensure that students are being exposed to the latest developments.

The suggested modules of the Price Waterhouse Study Group for the introductory accounting course are detailed below:

MODULES OF THE STUDY GROUP

MODULE 1 : THE NATURE AND FUNCTION OF ACCOUNTING

1. *Scope of Accounting*
2. *Accounting in Decision-Making Processes*
3. *Characteristics of Information Systems*
4. *Communication of Accounting Information*

MODULE 2 : ACCOUNTING AND ITS ENVIRONMENT

1. *Economic, Social, Political, Legal and Organizational Interactions with Accounting.*
2. *Accounting as a Social Force*
3. *Accounting for the Firm*
4. *An Historical Perspective on the Interaction of Accounting and its Environment : Antiquity to 1900*
5. *Evolution of Accounting in the United States*
6. *Nature and Rôle of Accounting Under Different Contemporary Socio-Economic Systems*

MODULE 3 : VALUATION AND MEASUREMENT OF ECONOMIC RESOURCES

1. *Welfare, Wealth and Income*
2. *Valuation Concepts*
3. *Theoretical Framework for Economic Resource Allocation*
4. *Limitations in the Implementation of Valuation Concepts*

MODULE 4 : A TRANSACTIONS APPROACH TO ACCOUNTING MEASUREMENT

1. *Foundations of the Conventional Accounting Model*
2. *Accounting Conventions and Their Impact on the Measurement Process*
3. *Accounting Reports*
4. *Introduction to Financial Statement Analysis*

MODULE 5 : DATA ACCUMULATION

1. *Accounting Data Capturing Processes*
2. *Accounting Data Classification and Transformation*

MODULE 6 : CONTEMPORARY FINANCIAL ACCOUNTING FOR PROFIT-SEEKING ENTERPRISES

1. *Measurement of Assets*
2. *Measurement of Equities*
3. *Measurement of Revenue and Expenses and Periodic Income Determination*
4. *Preparation of Traditional Accounting Reports*
5. *Preparation of Special Purpose Accounting Reports*

MODULE 7 : CONTEMPORARY ACCOUNTING FOR INDIVIDUALS AND NOT FOR PROFIT ORGANIZATIONS

1. *Reporting the Financial Affairs of Individuals*
2. *Accounting Measurements in Organizations Not Operating for Profit*
3. *Macro Accounting : National Income Accounts and International Balance of Payments Accounting*

MODULE 8 : MANAGERIAL ACCOUNTING

1. *Management Decisions and the Need for Accounting Information*
2. *Management Decisions and Organizational Goals and Constraints*
3. *Decision Choice, Decision Implementation, and Relevant Information*
4. *Accounting Information for Short Run Decisions*
5. *Accounting Information for Long Run Decisions*
6. *Extension of Long Run Decision Problems*
7. *The Budget as a Comprehensive Planning Device*
8. *Performance Evaluation and Control" 70)*

70) *Meuller, Gerhard G., Op. Cit., see note 47. pp. 9/10.*

An outline of the course taught at Natal University is detailed below:

	<i>Approximate Number of Lectures</i>
<i>PART A</i>	
1. <i>The Nature, Function and Environment of Accounting.</i>	4
2. <i>Accounting With Regard to Resource Allocation, Decision-Making and Information Systems.</i>	2
3. <i>Valuation in relation to investment decisions.</i>	4
4. <i>The conventional accounting model.</i>	6
5. <i>General Price Level Adjustments and Recognition of Current Exchange Rates.</i>	4
6. <i>Institutional influences on accounting Theory/Practice.</i>	2
7. <i>Revenue/Expense recognition and related valuation issues.</i>	8
8. <i>Resource flows : Income, Cash, Working capital.</i>	2
9. <i>The Attest Function in financial reporting</i>	2
10. <i>Managerial uses of Accounting Information.</i>	6
<i>PART B</i>	
1. <i>Concept of double-entry</i>	} 10
2. <i>Conventional Accounting Records</i>	
<i>TOTAL</i>	<u>50</u>
	71)

12.7 Specialisation within the Profession

The oft-quoted term "knowledge explosion" illustrates the rapid growth of knowledge during the twentieth century. It has been stated that the development of knowledge during the

71) Burns, Chris, "ANITA Comes to Natal", *The South African Chartered Accountant*, February 1975, p.62.

first half of this century has far exceeded knowledge accumulated since the beginning of recorded history.⁷²⁾ It has further been affirmed that knowledge since 1950 has quadrupled and certain authors, endeavouring to look into the future, have stated that the volume of knowledge will double every five years. These thoughts are no doubt frightening, but the accountancy profession will have to provide for the realities facing it. It has been contended that the explosion of knowledge applicable to the accounting profession has not been as dramatic as that in other fields, but it is stated that there has been a tremendous explosion of expectations, with regard to the accountancy profession. It may be pointed out that society's expectations of the accountancy profession will increase in future, and the accountancy profession must see these demands as opportunities, regarding them not as problems but rather as challenges. Adam Smith's principle of division of labour also applies to the professions, and the ultimate division of labour in a profession will result in specialisation.

The question may be posed: What is specialisation? A definition of an accountancy specialist reads:

*"... is one who knows more about a particular sector of the broad universe of accounting than most of his professional colleagues."*⁷³⁾

It has often been stated that specialisation is a process whereby one learns more and more about less and less, and this definition can ultimately lead to the absurd situation with the specialist knowing everything about nothing. The latter definition does however sketch one of the problems resulting from over-specialisation. This problem is referred to by John L. Carey who states that if a person is pre-occupied with the study of one field of knowledge in great depth, he runs the risk of becoming intellectually blind, forgetting how his field relates to other fields and to society as a

72) Stone, Marvin L., "Specialization in the Accounting Profession", *The Journal of Accountancy*, February 1968, p.25.

73) Lawler, John, "The Specter of Specialization", *California CPA Quarterly*, March 1969, p.8.

whole. He further states that the ability to adapt to changing circumstances is lessened, or, putting it another way, the risk of obsolescence increases.⁷⁴⁾

An analogy can be drawn with the development of specialisation in the medical profession where through the evolutionary process of many general practitioners, one has witnessed the development of many specialist fields in medicine. A patient consults a general practitioner before being referred to a specialist. The accounting profession has also become more specialised through an evolutionary process. The rapid increase in the volume of knowledge, as well as the demand for a wider range of services by the clients of public accountants, has resulted in the accountants specialising as well.

An examination of the various types of accountancy practices reveals a trend towards specialisation. Each partner in a medium-sized firm will develop his own speciality, and if a client requests certain specialist advice, he will be referred to the partner with the relevant expertise. The large accountancy practices have specialisation to a much greater extent as they have various departments catering for auditing of electronic data processing installations, management advisory services departments, taxation departments, and estate planning departments. They may have specialists who cater for clients wishing to go public. This phenomenon of specialisation extends even further as some firms become known as specialists in certain industries. In South Africa it is found that certain auditing firms do a large proportion of the audits in a certain specialised industry or commercial sector. South Africa has also witnessed the position where firms are expected to prove their ability and competence to do stock broker audits. It can thus be concluded that there is *de facto* specialisation within the accountancy profession.

74) Carey, John L., *The CPA Plans for the Future*, American Institute of Certified Public Accountants, New York, 1965, p.448.

The increased expectations of society and the greater demand for services, has resulted in a welcome development which is the merger of many firms. This has resulted in the firms, because of the number of partners, being able to specialise to a greater extent. South Africa has recently witnessed a number of amalgamations of large-sized firms and the absorption of smaller firms by the larger firms. It is believed that the trend in future will be many more mergers of small into medium-sized firms, so as to enable these chartered accountants to cope with the greater demands made of them. It has been stated that necessity is the mother of invention and these mergers will come about because of necessity. The fate of the smaller firm is more uncertain and Marvin L. Stone states in this regard:

"To me, it seems inevitable that the practice of public accounting by sole practitioners will virtually pass from the scene in favor of joint practice by association of CPAs." 75)

This view is not shared by John H. Lawler who sees the position as follows:

"... there is every reason to believe that it will (the small firm) continue to share in the overall prosperity of the profession.

The firm which is primarily interested in providing a general service will be needed. ... The specialist may create awe; but the generalist in any profession is the one who is cherished as a continuing source of aid and comfort." 76)

It is believed that there will always be scope for the small practice, but at the same time the merger of the very small practices is to be encouraged so that these practices may develop into medium-sized practices. The resultant benefits are the obvious greater competence to render services of a high quality to the public. One problem facing the very small practice is a resistance to a referral system whereby clients could be referred to specialists. An inherent danger in this resistance is that some practitioners may accept assignments for which they do not have the necessary competence. The existence of the small practice will no doubt continue for

75) Stone, Marvin L., *Op. Cit.*, p. 26.

76) Lawler, John L., *Op. Cit.*, p.13 and p.38.

a long time, as many people, because of certain personality traits, cannot adapt themselves to a larger organisation.

From the above it can be noted that it is not the case of when specialisation in the accounting profession will become a reality, but how a formal system of specialisation can be effected within the structure of the profession.⁷⁷⁾

Many chartered accountants seem to resist the formation of a formal specialist register on the grounds that there is *de facto* specialisation in the profession anyway. It is submitted that a formal structure of specialisation within the profession should result in an improved quality of service being rendered to the public. The possibility has been mentioned of a sole practitioner possibly accepting an assignment beyond the limits of his own competence. This can not only harm his reputation, but also the image of the profession and be detrimental to the general public.

The formal acceptance of specialisation within the profession does result in many problematical questions arising. The problematical questions are: In what fields should specialists be developed? How will competence as specialists be proved? What designations will apply to these specialists? What are the implications on the size of firms in professional practice? Will the specialist operate on his own or form part of a large firm of accountants? Another problem confronting the profession is how to overcome the narrowness of interests of specialists.

In determining what specialities should be provided for, it is necessary to state the premise, that all future chartered accountants should have the same level of competence at the point of qualification. It is further submitted that the belief that all chartered accountants are equally competent, is fallacious. The fields of specialisation can be categorised in three broad fields, namely, auditing, taxation

77) Graber, Dean E., "Professional Specialization in Perspective", *The Journal of Accountancy*, May 1972, p.58.

and management advisory services. Within these three categories one has many specialist categories, and within the fields of taxation one can have specialists in company taxation, in estate planning, in taxation planning, in taxation of multi-national firms and so forth. In the management advisory services category there can be many specialities. In the fields of auditing, certain specialists are found, but the importance of the generalist must not be overlooked.

The scope of accounting practices has been given much attention recently, and it appears that the profession in the United States of America does not envisage the curtailment of certain services presently being rendered. An important factor that should be borne in mind is that the market place is a very good indicator of what is expected of the profession.

The answer to the question, how specialisation will be attained is problematical and it can be foreseen that universities will develop specialist courses and build up reputations for these. However, the accreditation of specialists will have to be left to the profession. It is therefore necessary, that if universities are to play a great role in the specialisation of chartered accountants, there be co-operation between universities and the profession. It is believed that it will be necessary for members of the profession to assist the universities in providing these courses, and the ultimate entrance examination should be a combined effort between members of specialist panels in the profession and university academics. It is further believed that a minimum period of practical experience in the particular field is imperative for the future specialist. It must be stressed that every specialist must be a competent general accountant prior to specialisation, and this will counter the argument that the creation of a specialist register could be divisive. The common bond between the general accountant and the specialist will be the successful completion of a Final Qualifying Examination, and the designation of C.A. (S.A.).

Another problem facing the profession is whether non-chartered accountants, employed for their expertise in specialist fields within the accountancy firm, should be recognised in some way or another. It has been suggested that certain minimum levels of accounting, auditing and taxation be attained by these non-chartered accountants prior to their being given a C.A. designation. The members of the profession in the United States of America were unhappy about this suggestion. John Lawler envisages the long-range goal of the profession to be that nearly all future specialists should be CPAs, and states that unless this is the case, it may lead to tensions within the profession.⁷⁹⁾

Another problem that will require the attention of the profession, if specialist registers are created, is how to identify these specialists. The problem has been discussed by H. Justin Davidson, and in the American context he has suggested four designations: CPE - Certified Public Examiner; CPTA - Certified Public Tax Adviser; CPC - Certified Public Consultant and CPG - Certified Public Generalist. The designation CPA - CPE would indicate that the man has the minimum competence required for the CPA and that he has chosen to practise primarily but not exclusively, in the accounting and auditing field. The designation CPA - CPG would refer to a generalist recognised as a specialisation. Davidson draws the analogy of the CPA - CPG meaning the accounting equivalent of the family doctor.⁷⁹⁾ Davidson does not envisage that accreditation will allow only those accredited to practise as specialists in those specific fields.

In the South African context, opponents of the formation of a specialist register argue that if a person wishes to specialise, he may be able to attend courses at universities, and the university qualification will indicate what his speciality is. This argument can be countered by the fact that the mere attendance and the successful completion of a specialised course at university will not necessarily result in the candidate really being a specialist. The practical

78) Lawler, John, *Op. Cit.*, p.12.

79) Davidson, H. Justin, "Accreditation of CPA Specialists", *The New York Certified Public Accountant*, June 1970, p.460.

experience is as important as the academic education. The following designations may be suitable for the profession in South Africa:

- C.A.(S.A.) (P.A.A.) - Chartered Accountant in practice as Public Accountant and Auditor
- C.A.(S.A.) (M.A.S.) - Chartered Accountant specialising in Management Advisory Services
- C.A.(S.A.) (Tax.) - Chartered Accountant having specialised in taxation
- C.A.(S.A.) (E.D.P.) - Chartered Accountant having specialised in Electronic Data Processing.

A special accreditation board will have to be formed to define the standards and syllabi of the various specialist spheres. Sub-committees will be formed with members setting examinations for the specialist areas. No grandfather clauses should be permitted; that is, if a person states that he is a specialist, he should have sufficient confidence in his own competence to complete the necessary requirements successfully. Initially those chartered accountants who believe that they have the necessary competence need only write the prescribed examinations. In a transitional period of two or three years anybody desiring to be registered as a specialist could attempt the examinations, without attending relevant university courses. They would, however, have to give proof of relevant, approved experience of a minimum period of, say, three years.

The effect of specialist registers on the structure of the profession may not be as profound as some accountants believe. It may be stated that a multi-disciplinary approach to the profession will be required to ensure that the profession will be able to meet its demands. No doubt certain specialists will prefer to practise on their own, but it can be visualised that most specialists will form part of a team in a large or medium-sized firm.⁸⁰⁾

80) Stone, Marvin, *Op. Cit.*, pp.26/27.

Attempts at instituting a referral system in South Africa have proved to be a dismal failure. It appears that accountants have an inherent fear that they will lose clients who are referred to another firm. It has been suggested, to counter this possibility, that the consulted firm may not be appointed auditors of the referred firm for a period of three years. This, it is affirmed, is a restriction on freedom of choice. However, if this restriction will make the referral system successful, it may have to be applied.

With all professions vying to attract the cream of the school-leavers, the creation of a specialist register may result in attracting a better quality student to the profession. The image of the profession will have to be presented in a dynamic manner and this will require long-term planning.

For obvious reasons much has been written about greater specialisation being required in the future. The question that the profession must ask itself is: whether the specialisation should be recognised formally. It is believed that the profession should investigate the implications of the creation of a specialist register, and set itself the goal of creating this register within the next five to ten years. It is by no means an easy task, as is witnessed by the fact that the creation of a formal specialist register has been discussed for more than a decade in America, and in its last survey the matter was again referred to a committee for a special investigation into all the implications.⁸¹⁾

12.8 Accounting Technicians

Time is a very scarce commodity in this quick developing world. Chartered accountants find that their time is at a premium, and to utilise time to its best advantage it should be spent in the solution of complex problems. Nevertheless despite the introduction of modern auditing techniques there will always be a certain number of routine tasks to be performed. Division of labour, if taken to its ultimate

81) American Institute of Certified Public Accountants, *Final Report of the Committee on Scope and Structure*, New York, 1975, p.27.

in the accountancy profession could find the skilled and complex work on the one hand being done by certain people and routine work on the other hand being done by other people. The skilled and complex work could lead to the formation of specialist tiers, and the routine and simpler tasks to the formation of accounting technician tiers. The possibility of the creation of a technician tier has not been favourably received and it is wondered whether the reluctance to accept this stems possibly from fear. It has been stated that the greatest insurance policy for the accountancy profession in South Africa is the Companies Act, because irrespective of the quality of service provided by the practitioner, every private company must have an auditor. The existing practitioner possibly fears that the accounting technician will insist on greater rights such as doing the audit of small companies. The accounting technician must be seen in proper perspective. He will be doing technical work such as writing up books where this is still done manually and assisting in routine audit procedures. A review of the position in the various countries reveals that the Australian Society of Accountants and the Institute of Chartered Accountants of Australia have approved the Institute of Affiliate Accountants. In Scotland the Higher National Diploma in Accounting Studies is also recognised by the Scottish Institute, and, subject to certain conditions, the holder of such a diploma can eventually become a member of the Institute if he complies with certain educational and practical-experience requirements. The Institute of Chartered Accountants in England and Wales did make provision, in its policy statement of May 1972, for an accounting technician. In *A Policy for Education and Training* provision was made for junior staff, referred to as accounting technicians. To date the English Institute has not instituted a lower tier.

Solomons suggests two pre-requisites to ensure that a technician grade will be successful.⁸²⁾ The first condition is for the accounting technician to belong to an organisation

82) Solomons, *Op. Cit.*, p.128.

he can trust, and which will promote his welfare and interests. He must obviously be a voting member of such an organisation. The second condition is a designation indicating his qualification.⁸³⁾ In *The CPA Plans for the Future*, John L. Carey also discusses the possibility of technician specialists and states:

*"CPAs might find it useful to encourage accreditation of technicians in subprofessional areas of the accounting function. The day may come when groups similar to nurses, pharmacists and laboratory technicians could be highly useful to CPAs."*⁸⁴⁾

Carey discusses the possibility of young people, not having the ability to qualify as CPAs, performing invaluable duties as junior staff assistants. With adequate supervision these people could perform routine tasks very efficiently.⁸⁵⁾

In South Africa the COBOK Report recommended the creation of a second or junior tier, members of which would not be allowed to practise as accountants and auditors, but would be able to function as secretaries and bookkeepers. It was envisaged that a candidate for the junior tier would have to complete three years' service, registered with the Public Accountants' and Auditors' Board in the office of a registered accountant and auditor in public practice.⁸⁶⁾ In its motivation for a junior tier, it appears that the profession wanted to ensure that certain people would be retained in the profession. With mathematics being a subject required for entry by some universities at that time, and presently mathematics is a requirement for certain accounting departments, the intake to the profession would diminish. It was also felt that many candidates who could not complete the Certificate in the Theory of Accountancy for a variety of reasons would possibly qualify for the lower tier and could be retained within the profession. The creation of a lower tier was also seen as providing the black accountant, whose educational standards may not be sufficient to admit him to university, with a qualification and he could then also perform useful functions

83) *Loc. Cit.*

84) Carey John, L., *Op. Cit.*, p.461.

85) *Loc. Cit.*

86) The National Council of Chartered Accountants (S.A.), *COBOK Report*, *Op. Cit.*, Part 2., pars. 7 and 8.

within his own community. It was also felt that this would alleviate the staff problem of the smaller practices who could possibly not provide all the training facilities necessary to meet the higher standards of the future. Another reason given for the creation of a second tier was the anticipated rate of economic growth which would make greater demands on qualified chartered accountants to take up management posts in commerce and industry.

The recommendations did provide for the accounting technician to progress from the junior tier to the higher tier. It was envisaged that these examinations would be set by the organisation designated by them to set the examinations. The recommendations for the junior tier detailed the school leaving certificate as being the entry standard. Tuition was to be provided through colleges for advanced education, technical colleges and correspondence schools with the examination to be set by the colleges under the aegis of the Public Accountants' and Auditors' Board. It was further envisaged that these members could become junior members of the provincial society and also be subject to the rules of professional conduct. The body of knowledge applicable to the lower tier included subjects such as accounting and auditing, company law, mercantile law, and other regulatory legislation, taxation, data processing, general business knowledge and comprehension and communication.

Antagonists of a lower technician tier in South Africa aver that a *de facto* technician grade exists anyway and a formal creation of such a tier is not necessary. Other arguments against the formation of a lower tier are that members of this tier will insist on practising rights. The legislation should not allow this, but should provide for the technician to progress to a chartered accountant if he has the ability. It is further argued that other professional bodies do provide for such technicians anyway. This is a valid argument, but the rules of professional conduct applicable to the accounting profession do not apply to them. It is also propogated that a specialist tier be formed, with the present chartered accountant being the lower tier. This does not solve the problem of who will perform the routine tasks.

It is therefore recommended that the profession seriously consider sponsoring the formation of an organisation to cater for accounting technicians in which they will receive recognition and status. It is further recommended that if members of this organisation indicate a minimum average achievement, of say 60%, in their examination, they be able to qualify as chartered accountants, after complying with certain academic and practical-experience requirements. As the profession will be sponsor of this organisation it will be able to monitor standards. Liaison with other institutes is necessary to achieve maximum effectiveness.

It is recommended that the course content be similar to that prescribed by the 1969 COBOK Report, which is reproduced in Annexure I.

The tuition may be catered for by the Colleges for Advanced Technical Education and universities could provide conversion courses for Certificates in the Theory of Accountancy which should enable the accounting technician to qualify as a chartered accountant.

CHAPTER 13

THE COMMON BODY OF KNOWLEDGE

13.1 Introduction

It is a complex problem to decide whether a common body of knowledge should be described in detail by professional institutes or whether broad outlines should be given. If a detailed list is given, the common body of knowledge could possibly have a stultifying effect on academic institutions. A disadvantage of detailed common bodies of knowledge is that they could become obsolete very quickly. It is therefore desirable that a common body of knowledge should be flexible. A review of the syllabi for various aspects of professional accountancy education reveals a diversity of approach. Some institutes' give a detailed outline of the requirements, whereas others tend to give a general outline.¹⁾

What criteria should determine what should be included in the common body of knowledge? There is the perennial time constraint as well as the decision making. A.S. Carrington has defined four criteria for determining whether an item should be included in a curriculum or whether its time should be dramatically cut.²⁾ These criteria are: probable utility, which is seen as the given skill or quality proving useful during the entrant's entire career; disaster potential, which is the measure of disadvantage or disaster in the event of the item being omitted from the programme; teachability, which is the relative efficiency with which these skills can be taught by academic institutions compared to the possibility of these skills being acquired in a practitioner's office; complementarity, which Carrington describes as the simultaneous acquisition of two skills or qualities, or reinforcement of the one by the other. Carrington gives a high rating for short-term skills but questions the accuracy of predictions and is aware of ideas becoming obsolete. The disaster criterion could exclude specific

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- 1) See Annexure H for extracts from selected syllabi of accounting institutes around the world.
 - 2) Carrington, A.S., *Education for the Profession*, a paper presented at the New Zealand Society of Accountants 1970 Convention, Auckland, 1970, published by the New Zealand Society of Accountants, Wellington, 1970, pp.22/23.

techniques, which could readily be learned by a competent practitioner as the occasion demands. Broader qualities and skills, fundamental to individual and collective professional development and survival, must be included. Teachability will no doubt depend on the prejudices of the teacher, but what must be decided is where subject matter can be taught most effectively, and if it is of a professional nature and could be taught better by a practitioner, there is no doubt where it should be taught. Carrington sees complementarity being achieved by the study of general skills such as the diagnosis of problem areas, the ability to make decisions on the basis of inadequate or uncertain data, and the development of logical approaches to unstructured problems.³⁾

The design of curricula, it has been stated, is best left to academic institutions. The following was said by B. Garner:

*"Concerning the recommendations of 'the common body of knowledge', it should be emphasised that the study does not spell out a curriculum with an all-purpose, all-pervasive nature; such matters are properly left to the judgment of academic institutions."*⁴⁾

It is submitted that broad outlines should be given for the required course content, because if too much detail is specified, academics may be inclined to accept the course as prescribed without giving much thought to the contents. It must further be borne in mind that the approaches to the teaching of subjects differ substantially, the timing differs from one university to another and the time allocated for various subjects also differs quite materially from one university to another. The accounting bodies can give broad outlines and regularly liaise with academic institutions concerning their requirements. If it is felt that an academic institution does not comply with certain minimum requirements, the professional institute need not accept it as a recognised teaching institution. Diversity of approach at universities is to be welcomed and Carrington states in this regard:

"The less conformist institutions, at times, may appear to be too independent in their approach to professional requirements,

3) *Ibid.*, p.24.

4) Garner, P., *A Critique of "Horizons for a Profession"*, a paper delivered to the Fifth Conference of Asian and Pacific Accountants, New Zealand Society of Accountants, Wellington, 1968, as quoted by Carrington, A.S., *Ibid.*, p.35.

but they may more than compensate for this by the pioneering of adaptation to new developments. The value of this independent and innovative attitude is undoubtedly a major reason why all the major recognised professions have developed their education firmly within the university structure. If education is primarily geared at perpetuation of existing norms of practice, professional development and innovation can become lost causes." 5)

An important factor to be borne in mind in the definition of the required body of knowledge for the future chartered accountant, is whether the accountant will have a certain period of academic instruction on a full-time basis or not. It is submitted that a student who obtains his first degree through full-time study will have had a much broader education. It can be argued that many liberal-arts subjects can be included in an accounting curriculum but what will the ultimate value of this education be? Most courses are designed to meet the needs of a student majoring in a specific direction. It can further be argued that many subjects such as psychology, sociology, history, political science could be included - all these would no doubt contribute towards a broad education, but it is imperative to decide, considering time limits, as well as financial and economic problems, whether the end result is satisfactory. Carey states in this regard:

"The field of human knowledge is so broad that no four-year course can hope to comprehend it all. The danger is that the student may taste a smorgasbord of many dishes without much lasting nourishment." 6)

Society, which indirectly finances the universities to a very large extent, cannot afford the luxury of allowing so many young students to broaden their education without deriving

5) *Ibid.*, pp.35/36.

6) Carey, John L., *The CPA Plans for the Future*, American Institute of Certified Public Accountants, 1965, p.278.

any benefits from this.

The aim of this chapter is not to define the detailed common body of knowledge, but rather to suggest certain additions to or deletions from the common body of knowledge, or possibly to indicate changes in emphasis. In the United States of America an over-view of the common body of knowledge indicates a de-emphasis of professionally-oriented subjects, so that accounting and accounting related subjects, including the use of an elective, account for 20% only of a four-year curriculum. Computers and quantitative techniques account for approximately 21%. It is significant to note that business law accounts for 3,3% only, and economics accounts for 10% of the total four-year programme. If the possibility is borne in mind that four-year programmes in America may be reduced to three-year programmes these percentages will no doubt increase and the general education will be sacrificed.⁷⁾ A review of the situation in the Netherlands reveals that law accounts for 4,4% only, mathematics, applied mathematics and statistics account for 11,5% and economics and business economics account for approximately 25%. Accounting i.e. techniques, is given 5,6% only and other aspects of accounting are included in organisation and administrative organisation, which together with business information account for 21,5%. Auditing theory accounts for 15,6%. It should be observed that emphasis on subjects varies from one country to the other.⁸⁾

In 1962 a sub-committee of the Education Committee of the Public Accountants' and Auditors' Board published a report on the education and training of accountants, and the suggested curriculum indicated that professional subjects accounted for approximately 60%, legal subjects for 20% and general education also approximately for 20%. A closer examination of the suggested times reveals the following: Accounting requires 30% of the suggested 1085 hours, which is not in line with present day thinking, because of the growth in the body of knowledge and the devel-

7) For a detailed breakdown of the American programme, see p.75.

8) For a detailed breakdown of the Dutch approach see p.126.

opment of computers. Economics accounts for only 6% of the time, company law for 17½% and mercantile law (including rights and duties of trustees and executors' accounting) for 12½%. Auditing accounts for 15% of the suggested curriculum.⁹⁾

The common body of knowledge suggested by the Common Body of Knowledge Committee of The National Council of Chartered Accountants (S.A.) did not outline the number of hours per course, but just indicated the total number of university courses required to meet the requirements of the common body of knowledge.¹⁰⁾ Although the division of courses on a course basis instead of contact hours would not be comparable to the 1962 suggested curriculum, it does reveal certain changes. Accounting, auditing management controls and taxation accounted for 50% of the suggested curriculum with company law accounting for 12½%. Financing and management accounted for 12½%, with mathematics and data processing accounting for 12%. Practical business economics and comprehension and communication accounted for 8¼% each. Nearly 22% of the suggested curriculum was devoted to accounting and nearly 16% to auditing. It is submitted that auditing has been over-emphasised in the past and possibly the subject has been made too difficult. From the abovementioned information it can be seen that the education of accountants has been very professionally oriented. The question that arises is in what direction should the accountancy education in South Africa move.

It is proposed to review certain areas of accountancy education and the practices overseas to determine whether their experiences may be applicable to South Africa.

13.2 Computers in Accountancy Education

A trite observation is that computers will play a substantially greater role in the information system in the future. There can also be no doubt that the number of computer

9) Public Accountants' and Auditors' Board, *Report of the Special Sub-Committee of the Education Committee of the Education and Training of Prospective Accountants*, Johannesburg, July 1962, pp.21/22.

10) The National Council of Chartered Accountants (S.A.), *Report of the Common Body of Knowledge Committee on the Knowledge Required by the Future Newly Qualified Chartered Accountants and Other Matters*, Johannesburg, November 1961, par.40.

installations will increase dramatically within the next ten to fifteen years. It is thus essential that the accountant of the future have sufficient knowledge of the computer so that he has the necessary competence to deal with it and its problems. One of the major problems facing educationalists in the accountancy field is whether the student should be able to write computer programmes or not. There can be no doubt that many accountants seem to have an inherent fear of the magical box called the computer. How does one design an educational programme that will eliminate this fear? It has been stated that for the accountant to overcome this particular fear, he must be able to write elementary programmes and debug them. On the other hand people have contended that it is not necessary to write programmes and debug them because a chartered accountant will not be expected to programme as such. A very interesting self-instruction programme has been developed by the University of New South Wales in Australia. This programme consists of a tape, workbook and a 35mm film strip. The equipment required is a tape recorder, and the "corral" which houses the little screen showing the various concepts graphically illustrated. A student has three hours in which to work through the programme. Various concepts are illustrated and the tape recorder gives an instruction at a certain stage that the student has to follow using the computer to enforce the concepts learnt. In the computer laboratory they have twelve "corrals" and five computer terminal points. The experience at the University of New South Wales has been that the objective of the designer of this approach, Philip Grouse, has been met, as it is not intended to make programmers out of the students, but to dispel the fears the students have of the computer.

A review of the syllabi regarding electronic data processing, shows very diverse approaches. At many universities it is found that the computer is being integrated into various courses and being utilised as a tool in a learning situation. It has been stated that the computer benefits the learning process in a variety of ways, and the first is that the student gains a needed measure of understanding and appreciation of

computer capabilities and potential, which results in a reduction of the fear of the computer.¹¹⁾ The second advantage resulting from the use of a computer as a problem-solving tool, is the possibility of an enhanced understanding of analytical techniques.

The third advantage of using the computer in a teaching role is that it reduces the computational burdens involved in analysis of complex problems, with the result that a wide range of approaches could possibly be utilised to solve a problem. The student thus has the opportunity to spend more time on the substantial issues and less time on detailed work involved in such cases. This could result in a better understanding of the problems involved.¹²⁾

Certain lecturers overseas expect their students to write programmes for use in the solution of complex problems in management accounting. The underlying philosophy is simply that to be able to write the programme, the student needs to understand the basic principles in detail. This approach is based on five learning theory concepts. The explicit objectives are that the lessons should be directed towards specific behavioural objectives, that is, that the student should understand and identify with the studies. The second concept is "bits" of knowledge, that is the inputs of knowledge are in small logically sequenced increments which lead to a rapid comprehension of the subject matter. The third concept is the active role of the student as this participation improves and sustains the learning process. The fourth concept is self-pacing which enables the student to progress at his own individual pace. The fifth learning concept is immediate reinforcement, that is, the learning process improves when direct responses are reinforced immediately and incorrect responses are eliminated immediately.¹³⁾

Computer-assisted instruction programmes have been developed at the University of Illinois at Urbana-Champaign. The

11) Edwards, James B., "Should Accounting Students Write Computer Programs?", *The Accounting Review*, January 1973, p.163.

12) *Ibid.*, pp.163/164.

13) *Ibid.*, pp.164/165.

student utilises the computer to teach himself a subject in his own time. The development of such programmes is very costly. It took 8 000 man-hours to develop the first semester material for elementary accounting.¹⁴⁾ The cost implication (including cost of hardware) makes it impracticable to consider such an approach in South Africa.

In the United States of America it is expected that the newly-qualified certified public accountant will have a basic knowledge of at least one computer system and of one computer language, as well as the ability to chart or diagram an information system of modest complexity.¹⁵⁾

A South African viewpoint by Brian Burrow sees the needs of the accountants in three areas.¹⁶⁾ Firstly he should be familiar with the principles of computer systems design so as to enable him to specify the controls that are to be built into the system. Secondly he should have enough knowledge about programming languages to be able to look through a programme listing in sufficient depth to be able to decide for himself what a programme is doing, and whether it is complying with its specification. Thirdly it has been stated that he should have sufficient knowledge of computer operations, both on-line and off-line, to be able to make a valid judgement on the effectiveness of the methods and data security controls in use. In describing a data processing curriculum for South African universities, P. Sulcas believes that very little emphasis should be placed on actual programming because it is submitted that the future accountant will not be a programmer, but be involved in systems analysis and design.¹⁷⁾

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- 14) McKewn, James C., *Computer-Assisted Instruction for Elementary Accounting*, Faculty Working Papers, College of Commerce and Business Administration, University of Illinois at Urbana-Champaign, June 1974, p.6.
- 15) Roy, Robert H. and MacNeill, James H., *Horizons for a Profession*, American Institute of Certified Public Accountants, New York, pp.13/14.
- 16) Burrow, Brian, "Where has all the data gone?", *South African Chartered Accountant*, February 1976, p.54.
- 17) Sulcas, P., "Data Processing (with special reference to computers) and the under-graduate accountancy student — A suggested educational programme for South African Universities", *The South African Chartered Accountant*, February 1976, p.60.

During November 1975 the Education Committee of the Public Accountants' and Auditors' Board approved a syllabus for data processing, including the use of computers as compiled by one of the universities in South Africa.¹⁸⁾ This syllabus does not emphasise programming and it is submitted that students write and debug elementary programmes. This exposure should eliminate the fear and magic surrounding the computer.

It is suggested that universities place much greater emphasis on computers in the educational process from an early stage in the academic careers of students. It is also necessary that the exposure to the auditing of computer systems be on a much greater scale than previously, and it is submitted that the expertise of the large firms should be used. Computers are changing so rapidly that it is necessary for the larger firms, that have the expertise, to be contacted to assist in imparting the necessary knowledge to the students. It would also be commendable if one or two of the universities were to concentrate on computer education in great depth and thus build up a reputation for their courses on data processing for accountants. Thus those students who wish to specialise in accountancy as well as data processing, should be given optional subjects at a few universities to ensure that they have a greater than average knowledge of computers. This is based on the philosophy of the University of Waterloo's Co-operative Program in Mathematics. There can be no doubt that many accountants with above-average expertise in data processing will be required in future.

13.3 Economics in Accountancy Education

In the past economics has played a major role in possibly stiling the development of accounting as an academic discipline, especially in the United Kingdom. The philosophy in the forties was that the accountancy students were

18) Sulcas, P., *Op. Cit.*, pp.59/60. This syllabus covers the depth of knowledge required by the Public Accountants' and Auditors' Board and the various universities have been advised of this by the South African Society of University Teachers of Accounting (Newsletter - Number 8.).

economics.¹⁹⁾

Basic economic truths form the basis of postulates in accounting, which lead to the formulation of accounting principles, on which accounting methods and procedures are based.²⁰⁾ Economics is therefore important because not only is the basis for accounting practice formed from it, but also the measurement of income is derived from it. Economics involves the science of decision making about the utilisation of scarce resources, and it is concerned with an analysis of maximising benefits. Economics must be seen both in the broader, that is macro sense and in the narrower sense, that is the micro sense. Macro economics, which refers to the economy in general, covers principles of the entire economic environment, and governmental policy as a major impact on allocation of scarce resources. Income, as well as employment policies, is of great importance, and national income, monetary and fiscal policy, the banking system, international trade and balance of payments are all aspects which affect the economy in the broader sense. It is very important for the accountant of the future to have an understanding of how macro economics affects the financial environment. The rapid growth of multi-national groups, the problems resulting from inflation will no doubt be of great importance to the future chartered accountant. With the rapid development of high speed international travel, the world has become a really small place which has resulted in an expansion of the economic world. Micro economics will provide the necessary perspective for the future accountant to see how the firm operates in a national economy. Micro economics relating to the firm plays a great role in the accountant's life, and

19) McNair Report, par.7. as quoted in *Prospectus for a Profession, The Report of the Long-range Enquiry into Education and Training for the Accountancy Profession*, by David Solomons with T.M. Berridge, published by the Advisory Board of Accountancy Education and distributed by Gee & Co., (Publishers) Limited, London, 1974, p.39.

20) Faul, M.A., Pistorius, C.W.I., and Van Vuuren, L.M., *Accounting An Introduction*, Butterworths, Durban, 1975, pp.21/25.

the accountant reports on the economic decisions of the firm. The accounting process relies heavily on economic concepts, and accountants report on the economic events of firms. This information is used by firms to determine whether the goals of their particular firm have been achieved. Roy and MacNeill see the relationship between economics and accounting as:

*"The accountants' adaptation of economic ideas has produced mutations which differ significantly from the original, but the ancestry is clear and the accountant typically justifies his adaptation on the grounds that the necessity for making measurements in the real world requires modification to bridge the gap between theory and practical feasibility."*²¹⁾

It is necessary for the future accountant to have a greater understanding of micro economics including the use of the tools of economic analysis. It is necessary for the future chartered accountant not only to understand the interaction of economic forces, but also the relationship between price and demand and factors of elasticity, competition, labour productivity and the theory of government policies towards business. The importance of economics to the future accountant is seen by Roy and MacNeill as:

*"... who does not understand the tools of economic analysis and who is not able to deal with economic concepts in prose, diagrams and mathematical equations can play only a limited role as an advisor to management."*²²⁾

Micro economics also covers the capital market, and thus capital budgeting decisions are also based on certain economic principles. Price determination under perfect and imperfect competition and the theory of interest are important aspects.

It is submitted that many chartered accountants in practice will question the value of economics for the future chartered accountant's education. It is submitted that the chartered accountant of the future should be exposed to economics in greater depth, because the understanding of the economic

21) Roy and MacNeill, *Op. Cit.*, p.226.

22) *Ibid.*, p.227.

exposure to economic theory will also have a broadening affect on the education of the accountant.

A review of the curricula of the various universities indicates that the educational programmes for accountants reveal a dearth of exposure to economics and economic theory. For the Certificate in the Theory of Accountancy a special course has been devised by many universities and the exposure of the students is limited to this particular course. It is submitted that the techniques could be reduced and certain of the present courses could be eliminated to provide for at least two courses in economics for the future education of the chartered accountant.

13.4 Law in Accountancy Education

It is imperative that a sense of balance be attained in the design of legal courses for accountants. It is acknowledged that the accountant is operating in a very complex environment, but it is submitted that at many universities in South Africa the legal education has been over-emphasised. The importance of company law cannot be sufficiently stressed, but it is submitted that the student's knowledge should be such that he has a conceptual understanding of the law involved and should know sufficient law to recognise a problem. It is submitted that if a complex legal problem is encountered in public practice, chartered accountants will normally obtain the opinion of a legal expert.

A cursory review of the legal system and its development should suffice. It is essential that the accountant of the future have a good grounding in contractual law as well as the law applicable to the various forms of organisation such as partnerships and companies. A trite observation indeed, to state that an understanding of company law, as it affects the accountant, is imperative. Legal responsibilities of accountants are of great importance as well. It appears that many universities teach company law as a separate subject which is repeated in great depth in the advanced auditing

courses. Although a knowledge of negotiable instruments is necessary, it is submitted that in the past the importance of this has been over-stressed. It is a very complex aspect of law and an in-depth understanding of negotiable instruments should be left to the legal students. In the past too much emphasis has been placed on the law of insolvent and deceased estates. It is submitted that with regard to deceased estates a broad outline could be given in the law courses, with the accounting for deceased estates being incorporated in a taxation and estate planning course. It is submitted that greater emphasis be placed on estate planning than on the actual technical procedures in winding up estates.

It is important that the chartered accountant of the future have an in-depth understanding of the Income Tax Act, but it is submitted that an in-depth knowledge of specialised areas such as mining, co-operatives, building societies, banks and so forth should not be required of the future chartered accountant. It is important that income tax planning and estate planning be taught to the future chartered accountant and an in-depth exposure should possibly be a post-qualification education.

A conceptual understanding of general legal principles is thus necessary. An in-depth knowledge of company and taxation law is required. It is wondered whether the obsession that universities have with the presentation of so many law courses does not tie up with the over-emphasis of auditing in the past.

13.5 Accounting in the Education of the Future Accountant

The question that arises is whether a detailed list of accounting topics should be prescribed in the common body of knowledge. A detailed list has a stultifying effect and it is submitted that the present common body of knowledge is given in too much detail. The common body of knowledge could

be defined in broader terms, and it is important that the functions of accounting be understood, as well as the communication that accounting information provides. The compilation of the financial statements, including an understanding of the underlying philosophies, is of utmost importance. Greater utilisation of computers in future will change the emphasis in accounting education. It is assumed that the accountant will have a thorough knowledge of the double-entry concept, but it must be emphasised that too much exposure to techniques will not be necessary. Computational ability could be de-emphasised as the computer, no doubt, will play a much greater role in the processing of business information. On the other hand, it must be borne in mind that the learning process will be strengthened or reinforced by exposure to techniques. Although knowledge of accounting will be essential as the accountant will assist in the design of management information systems. It is necessary for the future accountant to know the underlying theory applicable to measurement of income, as well as asset measurement, cost behaviour, and the sources of finance available. The future accountant would constantly be made aware of the contemporary issues involved in accounting. The legal requirements applicable to financial reporting, as well as the interpretation and analysis of financial information contained in the financial statements are important to the future accountant. Knowledge of advanced group accounts as well as implications of amalgamations, mergers and absorptions is also necessary. It is suggested that introductory management accounting concepts be integrated into accounting curricula.

13.6 Management Accounting in the Education of the Future Accountant

The nature of management accounting has changed quite dramatically during the last decade. It is no longer the simple cost accounting course which concentrated on the accumulation of costs and cost determination. It is important to realise that management accounting is an integral part of the management function.²³⁾ Therefore it

23) Caplan, Edwin H., "The Advanced Managerial Curriculum - Interaction with other Disciplines: Quantitative, Behavioral, the Business Administration Core", a paper presented at a symposium of the American Accounting Association, May 1974, reprinted in *Researching the Accounting Curriculum Strategies for Change*, American Accounting Association, Sarasota, 1975, p.86.

is necessary that management accounting be taught in an interdisciplinary manner involving an application of knowledge from the fields of economics, quantitative methods and organisational behaviour.²⁴⁾

The objectives of management accounting education are seen as:

"... should aid the student in integrating accounting and measurement concepts with managerial performance. The student should be confronted with the need to develop appropriate economic criteria for performance in light of management's end structures. The impact of decisions on economic objectives and of economic objectives on decisions should be stressed." ²⁵⁾

24) *Loc. Cit.*

25) The objectives in greater detail are:

- "A. Management accounting should be related to the planning functions of managers. This involves:

 1. Goal identification
 2. Planning for optimum resource flows and their measurement*
- B. Management accounting should be related to organizational problem areas. This includes:

 1. Relating the structure of the firm to its goals.
 2. Installing and maintaining an effective communication and reporting system.
 3. Measuring existing resource uses, discovering exceptional performance, and identifying casual factors of such exceptions.*
- C. Management accounting should be related to the management control function. This includes:

 1. Determining economic characteristics of appropriate performance areas which are significant in terms of overall goals.
 2. Aiding to motivate desirable individual performances through a realistic communication of performance information in relation to goals.
 3. Highlighting performance measures indicating goal incongruity within identifiable performance and responsibility areas.*
- D. Management accounting should be related to operating systems management, by function, product, project, or other segmentation of operations. This involves:

 1. Measurement of relevant cost inputs and/or revenue or statistical measures of outputs.
 2. Communication of appropriate data, of essentially economic character, to critical personnel on a timely basis."*

- American Accounting Association, "Report of the Committee on Managerial Accounting" *The Accounting Review*, Supplement to 1972, pp.6/7.

It may be appropriate to examine the views of the eminent author, Robert N. Anthony, regarding the content of management accounting. Anthony sees management accounting being structured to consist of three courses, namely, cost accounting in the conventional sense of cost finding, management control and analysis for decision making.²⁶⁾ Management accounting courses will have to integrate relevant concepts from related disciplines such as quantitative and behavioural topics. A knowledge of management information systems is important for the future accountant.

13.7 Auditing in the Education of the Future Accountant

It is necessary to define the objectives of auditing education at a university. There can be no doubt that the student registering for an auditing course is interested in a professional auditing career.²⁷⁾ The question that should be answered by auditing academics is to what extent they are capable of imparting auditing knowledge. Should this be restricted to a conceptual understanding of auditing, namely the how and why, or should the auditing education be very technical as the conventional auditing courses have been in the past?²⁸⁾ Of late, there have been many requests from eminent authors that accounting and auditing academics should realise that students are interested in education that can be utilised in a practical manner in the outside world.²⁹⁾ Professionalisation of the accounting curriculum has also led to discussions of the possibility of the formation of schools

26) Anthony, Robert N., "Models for Financial Accounting vs. Models for Management Accounting: Can (Should) they be Different? - A Critique", presented at a symposium of the American Accounting Association, May 1974, reprinted in *Researching the Accounting Curriculum: Strategies for Change*, Op. Cit., p.125.

27) This is so in most cases except where universities have a mandatory course in a B.Com.: Accounting Programme.

28) Grinaker, Robert L., "The Auditing Curriculum - Is there a need for Change?", in *Researching the Accounting Curriculum: Strategies for Change*, Op. Cit., p.128.

29) Mautz, Robert K., "The Over-Intellectualization of Accounting Education", in *Accounting Education: Problems and Prospects*, American Accounting Association, Sarasota, 1974.

of accounting.³⁰⁾ It is important to recognise the responsibility of the firm, where, it may be stated, the very technical aspects of auditing should be taught. The conceptual and semi-technical aspects should be taught by the academics.³¹⁾ This delineation may be more difficult to apply in practice. The report of the Committee on Auditing of the American Accounting Association, in which certain principles are outlined, states that the use of case studies or simulations has proved to be ineffective, because the experiences taught or described are not the ones that the students will put in practice.³²⁾ It acknowledges, on the other hand, that concepts are sterile, when presented without the benefit of examples drawn from experience.³³⁾ It states further that technical knowledge should be taught by those who have the daily responsibility for making operational decisions and solving practical problems. Another statement is that a conceptual knowledge should include those matters which tend to transcend time and application to omitted circumstances.³⁴⁾ It is averred that because it is imperative that the auditing lecturer have contact with the profession, he must work for a continuous minimum period of three months every two years to make such contact fruitful.

In defining an outline for auditing education in South Africa, it is necessary to recognise the dichotomy of interests between the large firm and the medium-sized/smaller firms. The former prefer a conceptually-oriented approach to the teaching of auditing, believing that they can impart the practical and technical aspects of auditing more effectively than their academic colleagues. A technique-oriented approach is preferred by the medium and smaller-sized firms.³⁵⁾ It is

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- 30) Moonitz, Maurice, "The Beamer Committee Report - A Golden Opportunity for Accounting Education ", *The Journal of Accountancy*, August 1973, p.67.
- 31) American Accounting Association, "Report of the Committee on Auditing 1972/1973", *The Supplement to the Accounting Review*, 1974, p.158.
- 32) *Ibid.*, p.159.
- 33) *Loc. Cit.*
- 34) *Loc. Cit.*
- 35) Zeigler, John H., "Current Trends in the Teaching of Auditing", *The Accounting Review*, January 1972, p.168.

suggested that teaching technical aspects, which simply require the regurgitation of facts which can be read up in a text book, is an exercise in futility, wasting precious time. The question that follows is whether case studies should be used at university to teach certain aspects of auditing. The Beamer Report states in this regard:

*"We believe that there is no way to successfully simulate an audit engagement in the classroom and long detailed practice sets traditionally take more scarce time from an already crowded curriculum than is warranted with the result generally achieved."*³⁶⁾

John H. Zeigler, in a study on auditing in the United States of America, found that 46% of the academics interviewed, utilised a practice case or a simulated audit, and many, not requiring such a case, would have used it if they had had the time. It must be realised that in many curricula in the United States of America, auditing is a one-semester course.³⁷⁾ It is submitted that case studies could be utilised very fruitfully in an auditing class. In South Africa the time constraint is not as pressing as it is in the United States of America. Many large firms are always willing to provide case-study material.

The future auditor will need to have an understanding of the necessity of internal control, which will become even more important with increased utilisation of computers. It is further submitted that the future auditor will need to be familiar with statistical sampling and the applications of computerised accounting information. As the number of computer installations will escalate dramatically in the next decade to fifteen years, the auditor must not fear computers. It is essential that ethics and rules of professional conduct be taught at the university level. In outlining the ethics it is imperative that the question of the independence of the auditor be stressed, as it is one of the cornerstones of the profession. Other aspects that require emphasis are the importance of working papers and procedures, the verification of assets and liabilities, the legal responsibilities of auditors, the importance of the audit reports and the implications of qualifications of such reports.

36) American Institute of Certified Public Accountants, *Report of the Committee on Education and Experience Requirements for CPAs*, New York, 1969, p.57.

37) Zeigler, John H., *Op*

In an empirical study, two academics in the United States of America interviewed practitioners in Texas to determine the relevance of the various aspects in the auditing curriculum.³⁸⁾ It is interesting to observe that the theory of auditing was ranked as the most important subject area.

It is submitted that in the past, company law has been emphasised too much in South African presentations of auditing at universities. It is realised that legal relationships are very important but the auditor on encountering a complex problem will refer it to a legal expert.

It is necessary to realise that operational auditing or management effectiveness audits will be of much greater importance in the future and greater emphasis must be placed on this aspect. It is submitted that it is very important to teach operational auditing at the correct time. Pre-requisite knowledge is essential. It is suggested that the student should have had exposure to various aspects of management and finance before being exposed to

38) Robertson, Jack C. and Smith, Charles H., "Relevance, Auditing and Professionalism", in *Accounting Education: Problems and Prospects*, *Op. Cit.*, pp.68/72.

The rankings of this survey (p.71.) by Robertson and Smith showed the following:

<u>Ranking</u>	<u>Subject</u>
1.	Theory of Auditing (Ethics, generally accepted auditing standards, basic concepts, processes of judgement formation based on evidence.
2.	Audit Reports.
3.	Workpapers and Procedures.
4.	Legal Relationships.
5.	Internal Control.
6.	Auditing Relationships (Between internal auditing, firms of accounting, significance of the attest function).
7.	Electronic Data Processing.
8.	Sampling in Auditing.
9.	SEC Practice and Procedure.
10.	Human Relations in Auditing (Client relations, leadership, motivation, partner-staff relations).
11.	Extensions of the Attest Function.
12.	International Dimensions.
13.	Mathematical Models in Auditing.

For ranking of importance of various topics to Chartered Accountants in South Africa see Annexure D.

operational auditing. The following subjects, given by Robert L. Grinaker as pre-requisites for operational auditing, cover a very wide field: Communication, behavioural sciences, economics, computers, mathematics and statistics, social environment of business, business law, production systems, marketing, finance, organisation, group and individual behaviour, quantitative applications in business, written communication and business policy.³⁹⁾ It will be observed that the pre-requisite knowledge is of great importance.

Contact with the practical aspects of auditing is important. It is suggested elsewhere that as the ultimate goal of the profession within the next decade must be graduate entry, it will be important for the students to make contact with the practical aspects. It has been suggested that teaching practices be utilised.⁴⁰⁾ Robert L. Grinaker does not clarify this proposal, but it is suggested that in practice this would be difficult to implement. It is suggested that students who study on a full-time basis would benefit from vacation employment and this is to be encouraged. As an experiment, an auditing class was given an assignment to do the actual audit of an association of students at an American university, and it was found that, because of this contact, many students, who had not been interested in public accounting chose it as a career, and all the students became more motivated and interested.⁴¹⁾

To sum up, the future accountant must be exposed to the ethics and rules of professional conduct, the reasons for the importance of attested financial statements, the importance of internal control, the verification of assets and liabilities, the interpretation of financial statements, the quantitative applications in auditing, statistical sampling, regression analysis *et.al.* and an understanding of the audit implications of computer installations. It is also important to bear in mind that as operational auditing will assume much greater importance in the future the curriculum must provide for this. There should be less emphasis on law, but the legal

39) Grinaker, Robert L., *Ibid.*, pp.140/141.

40) *Ibid*, p.143.

41) Lantry, Terry L., "An Experiment", *The Accounting Review*, July 1971.

responsibilities of auditors must be stressed. It is also important to bear in mind that a de-emphasis of techniques is necessary, with a happy medium between conceptual and technique-oriented approaches being maintained. The techniques as such could be taught during the practical-experience period.

13.8 Behavioural Science in the Education of the Future Accountant

Accountants must realise that people are involved in the management process, and are motivated by information flowing from the accounting system. Many complex relationships can arise from the interplay between the accounting process and the people not only involved in it, but also motivated by it. A knowledge of human behaviour is thus necessary. It is suggested that, as far as possible, the behavioural sciences be incorporated into the existing accountancy curricula. Reservations have been expressed about simply tagging on courses in philosophy or psychology, if they have not been designed specifically for accounting students.

13.9 Quantitative Techniques in the Education of the Future Accountant

It is apparent from developments overseas that greater emphasis is being placed on the mathematical ability of accountants. It is stated that with future developments these mathematical trends and capabilities will play a great role in the future chartered accountant's work. This is one viewpoint but another viewpoint is that many aspects of the mathematical syllabi have been included without real consideration of the issues involved. None other than the eminent authority, R.J. Chambers, has submitted that many aspects have been included without considering whether it is applicable in the accounting environment or not. Chambers states in this regard:

"The case for greater mathematical sophistication on the part of the general body of accountants can hardly be said to be established when it rests only on beliefs and an infection of enthusiasm from the few. If there is a case, it should surely rest on the common body of problems which the performance of the accounting function requires to be resolved." 42)

42) Chambers, R.J., "The Mathematics of Accounting and Estimating", as reproduced in *Accounting, Finance and Management*, by R.J. Chambers, Arthur Andersen & Co., p.718.

These comments of Chambers were prompted by Roy and MacNeill's preference for a detailed and in-depth body of knowledge of statistics for the future accountant and they state in this regard:

"While we deny neither the possibility of our own bias, nor even the possibility of preconception nor the pertinence of these collective opinions to public accounting today, we believe that tomorrow's CPAs will require something more than the elements of mathematics, statistics and probability and shall so recommend ..." ⁴³⁾

It has been stated that not all future chartered accountants will require to have an in-depth knowledge of mathematical and statistical techniques.⁴⁴⁾ There are many accountants who can have useful working lives without mathematical techniques. On the other hand, there can be no doubt that an in-depth knowledge of mathematics and statistics can be of assistance in the fields of management accounting, and accounting and auditing of large corporations. It is therefore recommended that the future accountant understand the mathematical concepts and those applications that can usefully be employed in the business environment. For those chartered accountants who have an above average-mathematical ability, it is suggested that the University of Waterloo approach be adopted, which is that certain universities design their degree courses to allow for options in mathematics and statistics. There can be no doubt that there is much room for chartered accountants with an above average expertise in mathematics and statistics.

13.10 Management and Related Fields in the Education of the Future Accountant

It is submitted that, as the accounting function is the summation of many complex business transactions, it is necessary for the future accountant to have an understanding of the management and operation of companies. It is

43) Roy and MacNeill, *Op. Cit.*, p.246.

44) See Annexure B.21 for statistics with reference to use of modern mathematical techniques by chartered accountants not in public practice.

necessary for the accountant to be exposed to problems facing manufacturing concerns in its formulation of policy. It is also necessary for the accountant to have a broad over-view of marketing, merchandising, micro economics, the purchasing function, personnel relations, business finance and corporation strategy. It is not necessary for the student to be exposed to a variety of courses similar to those of M.B.A. programmes, but it is submitted that the future chartered accountant could be exposed to at least two or three courses in aspects of management. This exposure should ensure the necessary understanding of the business environment and its implications for the accountant. Implications of behavioural sciences in the organisational structure of businesses could also play a predominant role.

13.11 Timing of Courses and a Suggested Curriculum

The course content is important in the education of the future accountant, but the timing of the courses must not be overlooked. The quality of education in the advanced subjects will depend on the knowledge acquired in prior courses. Operational auditing, for example, can only be taught after the student has had exposure to the core requirements of a business curriculum.⁴⁵⁾ The matter of timing is important and is stressed in literature on accountancy education.⁴⁶⁾

45) Grinaker, Robert L., "The Auditing Curriculum — Is There a Need for Change?", a paper presented at a symposium of the American Accounting Association, reproduced in *Researching the Accounting Curriculum: Strategies for Change*, American Accounting Association, Sarasota, 1975, p.140/141.

46) DeCoster, Don T., "The Advanced Managerial Accounting Curriculum — Interaction with other Disciplines: Quantitative, Behavioral, the Business Administration Core, A Critique", *Ibid.*, pp.100/101. DeCoster sees the following prerequisites for managerial accounting (semester hours indicated in brackets):

Algebra and Calculus (6 to 9)
Statistics and Probability (including regression & correlation)(3 to 6)
Computers and Information Systems (Basic or Fortran Language and machine familiarity) (3)
A specific behavioral science (probably sociology or psychology)(6 to 9)
Economics, both macro and micro (6)
Social Environment and Law (6)
Elementary Accounting (both into to financial and to management)(6)

In suggesting a curriculum for the future education of the chartered accountant, it must be borne in mind that diversity of approach in accountancy education is very desirable. It is suggested that the ideal situation would be a school of accounting within a university. Lecturers for all subjects would be employed in the school. A co-operative or sandwich arrangement with the student attending university for six months of the year, followed by five months with a firm of accountants, is desirable. The course is intended to be intensive and the duration is three years' full-time study and two years' part-time study. The practical-experience requirement for such graduates should only be two years.

The suggested curriculum is:

- YEAR 1 : Communication Studies I ($\frac{1}{2}$ course - first quarter)
 Electronic Data Processing I
 Economics I
 Mathematics and Statistics I
 Mercantile Law I
 Accounting IA ($\frac{1}{2}$ course - 2nd quarter) - (overview of course including an introduction to auditing)
 Elective.
- YEAR 2 : Accounting IB ($\frac{1}{2}$ course - first quarter)
 Aspects of Management I
 Economics II
 Quantitative Techniques in Business ($\frac{1}{2}$ course - first quarter)
 Accounting IC (including introduction to management accounting) - ($\frac{1}{2}$ course - 2nd quarter)
 Electronic Data Processing II ($\frac{1}{2}$ course - 2nd quarter)
 Elective.
- YEAR 3 : Accounting II
 Aspects of Management II
 Mercantile Law II (including Company Law)
 Taxation I

First degree awarded after three years.

YEAR 4 : Advanced Management Accounting
(PART-TIME) Auditing I ($\frac{1}{2}$ course - first semester)
 Business Policy
 Financial Management ($\frac{1}{2}$ course - 2nd semester)

YEAR 5 : Accounting III
(PART-TIME) Auditing II
 Taxation and Estate Planning

It is believed that the student should be exposed to computers in the first year of study to overcome any fear of computers. Thereafter it is to be integrated into other courses. The ability to communicate effectively is essential for the future chartered accountant. A knowledge of human behaviour together with communication would be an advantage to the newly qualified accountant.

Aspects of Management will include coverage of Finance, Marketing, Organisational Behaviour, Production and Personnel Management.

13.12 Conclusion

It is recommended that a common body of knowledge be given in broad outline, leaving the details to university academics. Changes to the common body of knowledge should be effected more expeditiously in future. It is recommended that any amendments to the common body of knowledge gazetted prior to the 30th day of June each year, may be included in the final qualifying examination of the next year.

CHAPTER 14

QUALIFYING EXAMINATIONS OF PROFESSIONAL INSTITUTES

14.1 Rationale for a Qualifying Examination

The question is often posed why certain professions, such as medicine, engineering, architecture and law (advocates), allow the universities to set their examinations whereas other professions insist on setting their own examination to determine the entrants to the profession. There are various definitions of a profession, and one of the criteria postulated by Schein reads:

*"Professionals form professional associations which define criteria of admission, educational standards, licencing or other formal entry examinations, career lines within the profession, and areas of jurisdiction for the profession. ..."*¹⁾

In terms of this criterion a profession does have the right to set its own examination, but the question is why some professions rely on universities and others do not. An analogy is always drawn with the medical profession. It has been maintained that if universities are good enough to decide who will become doctors and thus be responsible for public health, then surely universities can also decide who will become the future accountants and auditors.²⁾ An important aspect in this regard is one of attitude. In medical schools, it is found that the lecturers and professors may be experts in their particular fields, and the hospitals where they lecture are also the operating hospitals used by these specialists. In other words the specialist in the particular field also lectures to the future doctors. Top members of the profession therefore have direct contact with the student in the operating and medical environment. The attitudes of accounting academics differ quite substantially from those of the accounting practitioners. There may be a difference of opinion between the academics and the

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- 1) Schein, Edgar H., *Professional Education - Some New Directions*, McGraw-Hill Book Company, New York, 1972, p.9.
 - 2) *South African Chartered Accountant*, "Marrying the Academic and Practical Approaches"- Report of interview between the Editor and B.S. Wolman, October 1974. p.350.

practitioners as to what should be included in the academic preparation for the accounting profession.³⁾ If the views of the practitioner are adhered to, the course may be weighted with too many professionally oriented subjects, which many academics will no doubt regard as being unsuitable for degree purposes. Carrington observes that academics must realise the importance of practical experience, and practitioners must realise that many techniques that they expect universities to teach are not appropriate in the university environment.⁴⁾

Another factor, which is seen as contributing to the attitude that the qualifying examination may be necessary in the accounting profession, is that of time. It is maintained that the period for formal accountancy education in certain countries is too short compared with that of other professions. The available time does not allow for simulation of the real world in accounting laboratories. It is further averred that universities lack the necessary facilities because only in small groups can professional knowledge be imparted. It has been stated that if more time were available for academic courses at university, and if the necessary facilities were available, less formal practical experience would be required and the final qualifying examination might not be necessary.⁵⁾ It is suggested that another reason for the accountancy profession preferring to set its own examinations is that it has to bear in mind the legal liability situation of its members. By setting its own examination it may ensure not only a uniform standard but also an assurance that incompetent candidates will not be successful.

14.2 Advantages and Disadvantages of a Uniform Qualifying Examination

What are the advantages of an examination set by the accounting institutes? These may be detailed as follows: Uniformity of standards for the country on a national basis as well as minimum standards for competence of individuals are set; the

3) Carrington, A.S., *Education for the Profession*, a paper contributed at the New Zealand Society of Accountants' 1970 Convention, Auckland, published by the New Zealand Society of Accountants, Wellington, 1970, p.49.

4) *Loc. Cit.*

5) *ibid* pp 49/50

profession does not have the responsibility of evaluating the educational programmes at universities. It has been stated that another advantage of a uniform examination is the constructive influence that it could have on educational programmes.⁶⁾ It is submitted that this advantage is a greater disadvantage because it could have a detrimental effect on accounting programmes at universities. Another advantage cited is that as the C.A. designation is recognised by law, the layman thus has respect for the qualification.⁷⁾ It has also been stated that because the examinations are normally difficult a fraternal feeling, or an *esprit de corps* is created.

The disadvantage could be, as stated above, that it could have a substantially undesirable effect on the teaching of accountancy at universities and it is suggested that this has been the case in South Africa. It has been stated that universities have to teach obsolete material because this is needed for the examinations. Also candidates have to memorise material instead of being able to use reference books. A disadvantage of a uniform examination is that because of the importance attached to it by students, it becomes all-important and is regarded as the requirement instead of just simply being a requirement for entry to a profession.⁸⁾ This influences the academics who have a substantial responsibility educating the students. It has also been stated that the people setting the examinations do not have the ability to do so as they have generally not taught the students. This argument can be countered by the fact that it depends on the type of examination. If the examination is professionally oriented, this criticism does not apply. However, certain academics maintain even if an examination is more professionally oriented, students will be able to cope, but not all academics share this view.

Complaints often levelled at accounting institutes are that the examinations take into account the requirements of the practitioner only, and overlook the requirements of

6) Committee on the CPA Examination under the chairmanship of Pattillo, James W., *The Accounting Review*, Supplement to Volume XLVIII (1973), p. 20.

7) *Ibid.*, p.23.

8) *Ibid.*, p.22.

the other fields of interest in accounting. It has been stated that as so many chartered accountants are not in public practice, the examinations should cater for all aspects of the profession. It is submitted that many non-practising accountants take up the profession because of the status and esteem in which the qualification is held in the commercial world. The chartered accountancy designation is recognised by law, which gives it added status.⁹⁾ It is recognised by law because the qualification must give the assurance that people expressing opinions on the fairness of financial information have the necessary competence. In view of this, it is submitted that the examination should be more professionally oriented, although it should not overlook certain aspects of data processing and management accounting as these are of great importance to the practitioner.

Another contentious issue is what type of questions should be set for the qualifying examinations. Solomons refers to a test of professional competence and advocates the use of case studies, involving a number of disciplines and requiring analysis and report.¹⁰⁾ Solomons does not go into the details about the context, the setting and the marking of the paper. He does see the advantage of monitoring examination standards set by universities and other poli-technics without directly interfering with them.¹¹⁾

14.3 Review of Qualifying Examinations around the World

Before deciding on the nature of the examination and of the questions, a brief summary of some of the approaches of accounting institutes around the world may be beneficial. In Australia, the Institute of Chartered Accountants does not regard the examination as a hurdle as is indicated by the examination statistics. Although the statistics indicate a high pass rate, it must be remembered that the performance in

9) *Ibid.*, p.24.

10) Solomons, David with Berridge, T.M., *Prospectus for a Profession-The Report of the Long-Range Enquiry into Education and Training for the Accountancy Profession*, Advisory Board of Accountancy Education, Gee & Co., (Publishers), Limited, London, 1974, p.157.

11) *Loc. Cit.*

the examination is not the only criterion used to determine whether a candidate is successful or not. The evaluation process is dependent on mandatory attendance at all sessions of the Professional Year, and the completion of assignments during the Professional Year. The participation of the candidate in class discussions is also noted and considered in the final evaluation. Thus the evaluation takes into account different aspects, namely those mentioned above as well as the performance in the examination. The examination, which consists of two three-hour papers, revolves mainly around the reporting function, and this is illustrated by the fact that most of the examinations cover fairness of presentation of financial statements. The examination is normally written after the completion of the Professional Year.

The Canadian approach to the final qualifying examination is indeed very thought-provoking and interesting. As the object is to retain an impeccable image, the examination is intentionally difficult. The examination consists of four papers of approximately four hours each. Various types of questions are set, such as comprehensive (case study), multiple-subject, single-subject as well as the latest developments reflected in current literature. Single-subject questions are being de-emphasised and greater emphasis is being placed on the multiple-subject and comprehensive questions. Use of multiple-subject questions results in questions being longer and the case study question is a three and a half to four hour paper. The case study question has caused its fair share of controversy and the Canadian Institute is at present reviewing the whole comprehensive case study question. A protagonist of the case study approach to examinations, L.S. Rosen, examines the following criticisms levelled at the comprehensive question:

- (a) Comprehensive questions cannot be marked objectively
- (b) Comprehensives do not test the ability to practise
- (c) Comprehensives cost too much to mark
- (d) Comprehensive questions are classroom tools and not examination devices. ¹²⁾

Rosen counters the argument about questions that cannot be marked objectively by stating that a marking guide can be devised, and he maintains that the greatest so-called subjectivity occurs in the wording of questions and the marking guide. This applies to single-subject questions as well.¹³⁾ Regarding the criticism that comprehensives do not test the ability to practise, Rosen, finding the comment puzzling and weak, states that these questions can test both the breadth and depth of the candidates knowledge. He further states that the candidate must recognise problems and analyse them and these questions involve accounting, auditing and taxation issues. He states that as the Education Committee becomes more proficient in setting these questions, they will test the overall knowledge of the candidate.¹⁴⁾ It may be stated that many universities throughout the world have been using case study questions quite successfully. On the other hand people do argue that it is not a suitable teaching and examination device. Rosen counters

12) Rosen, L.S., "Educational philosophy and examination approaches to the comprehensive case question", *CA Magazine*, March 1975, pp.57/61.

13) *Ibid.*, p.58.

14) *Loc. Cit.*

the argument about the cost of comprehensives, by stating that if costs and benefits are compared the long-term benefits will justify the increase in costs. During a visit to Canada it was noted that trainee accountants earn relatively high salaries. Considering that everything is relative, and comparing the total cost of the examination to salaries, the cost, in comparison with costs and salaries earned a decade or so ago, is not as high as it is made out to be.

With regard to the criticism that comprehensive questions are classroom tools and not examination devices, Rosen states:

"Probably the proponents of this view have not taught many CA candidates over the years. It is time to be very frank. Several teaching colleagues have remarked that CA students are tougher to handle than most other groups. Why might this be so? Two common speculations are that their daily work experience at a junior level has taught them (a) to look for the immediate practical solution, rather than one useful over the long term; and (b) to keep their mouths closed when uncertain of an answer. These behaviour patterns are then carried into the classroom, with the result that: 'teach me only what I need to know to pass the final examination,' with no effort at active participation in the classroom. But instructors need feedback to operate classes effectively!

Unfortunately it appears that they need to use the spectre of the Final Examination content to teach students the accounting theory of tomorrow (and even some of today's). For years the accounting theory course pitched at CA students was a particularly harrowing experience for instructors. For an explanation, simply look at any accounting theory questions, appearing on past Uniform Finals - if you can find any. Now the presence of current literature questions has improved the situation. What was considered far-out theory in the early 1960's is now finding its way into both U.S.A. and Canadian professional pronouncements. Examining and encouraging studies on possible future practice helps to discourage rapid

knowledge obsolescence of newly qualified CAs." 15)

The controversy surrounding the comprehensive questions is illustrated in articles appearing in the *CA Magazine*. In a recent article, J. Desmondffolliott outlines the benefits of the comprehensive question. Having had substantial experience in marking a few thousand answers to the comprehensive type question, he states that the question does test the competence of the student in the following areas: ability to understand inter-relationships; ability to establish priorities; ability to apply professional judgement under pressure; ability to organise large quantities of data; ability to write a logical and coherent report; problem solving skills and accounting skills.¹⁶⁾ Desmondffolliott maintains that the opposition to the comprehensive question is basically because students have not been prepared for these examinations, and academics will have to change their teaching styles to cope with this type of question.

The marking of the comprehensive question has caused its fair share of problems, as some answers have had to be marked up to five times to obtain some correlation between the marks of the various examiners. It is believed that it is possibly very difficult for examiners to mark within a four percent range. It is believed the questions could be marked in certain categories such as 'very good', 'good', 'marginal' and 'fail'. Once the papers have been placed into various categories a mark can then be awarded. It is obvious that there can be no single most suitable answer for a comprehensive, and over-marking techniques are used in various areas of the answer to the question. However the over-marking in each area must be limited because students could then attain marks on peripheral issues instead of the key issues.¹⁷⁾

In a recent letter to the *CA Magazine*, a successful candidate in the 1974 examination stated that he feels the comprehensive question is essential for evaluating a candidate's ability,

15) *Ibid.*, pp.58/59.

16) Desmondffolliot, J., "Time to face up to the Comprehensive Disaster", *CA Magazine*, November 1975, p.57.

17) *Ibid.*, p.58.

and a successful pass in this question be made mandatory for passing the finals.¹⁸⁾ In favouring the comprehensive question he states that it does give the candidate the opportunity to show genuine thought instead of mechanical or memory ability.¹⁹⁾ He further feels that the comprehensive question should account for approximately one half of the total marks. He does state a reason for the opposition to the question is possibly that during the two-year exposure to practical experience in large firms, clerks do not have sufficient experience to cope with the question. He further states that a clerk in a smaller firm would have had wider experience and thus possibly be better equipped to write the examination. He concludes his letter with:

*"Let's increase the students exposure, or go back to a three year term of service so that candidates will have this necessary background. This will be far more beneficial than limiting or eliminating the Comprehensive Question."*²⁰⁾

Bearing in mind that the writer of the letter may be prejudiced by his own success in the examination, the comments made are of interest.

An examination of the contents of the Uniform Final Examination of the Canadian Institute reveals that there is an integration of the various subjects in all the papers. It will not be found that one paper is predominantly an auditing paper. The comprehensives have revolved mainly around accounting, finance and management accounting issues, but there is no reason why the case study question could not be devoted more to auditing questions. Some of the multiple-subject questions are on auditing issues. It is believed that integration of the various topics is commendable because auditing involves the expression of opinions on all subjects affecting the accountant. Aspects of professional practice

18) Garnett, Robert W., "We need the Comprehensive", *CA Magazine*, February 1976, p.5.

19) *Loc. Cit.*

20) *Loc. Cit.*

cannot simply be compartmentalised according to subject-titles. In practice an overall knowledge of accountancy is a pre-requisite — this should surely manifest itself in the final qualifying examinations of accountancy institutes.

The literature questions are interesting and a choice is given. Multiple-choice questions are used to a very limited extent accounting for only approximately 4% of the total marks of the 1974 paper. Much criticism has been levelled at the multiple-choice (objective) questions because of the problems in the validation process. This process is facilitated by the use of computers which will indicate whether the question has possibly been ambiguously interpreted. In the United States of America where this question is used to a much greater extent, if the computer tabulations prove that a question may be suspect because responses to another alternative are high, the second alternative may also be accepted. One major advantage of the multiple-choice question is that it can test knowledge of concepts in substantial breadth.

An examination of the *Wirtschaftsprüfer* examinations in Germany reveals that the emphasis is on the ability of the candidate to apply his knowledge. The examination consists of two parts, namely written and oral, and the candidate is also expected to write a thesis. The object of the thesis is to test the ability of a candidate to do research on a specific subject. The candidate is given a choice of two subjects and he has to complete the thesis within eight weeks. The thesis is expected to be between 60 and 70 type written pages. The written examinations are in auditing and economics and company law and taxation. A half an hour before the oral examination the candidate is given three topics relating to professional practice and he must speak on one of these. The oral examination may not exceed two hours per candidate. Candidates may be referred in unsatisfactory subjects. Only three outright failures are allowed. The German approach is interesting and is facilitated by the fact that not many

candidates enter for the examination. In the Anglo-Saxon countries oral examinations are not used, with the exception of the Scottish Institute where a student may be given an oral examination after the assessment of his supplementary examinations. The oral examination does have the merit of being able to test a candidate's ability to express himself, and certain doubtful points in the answer presented by the candidate can be cleared up. A problem with the oral examination is the maintenance of consistent standards among centres. In South Africa more than 800 candidates write annually and how does one give oral examinations for such a large number of candidates spread over the whole country? A consideration may be to give borderline cases oral examinations.

The performance of students in the comprehensive question will automatically improve when the academics have more experience in teaching and the students more exposure to this type of question. The comprehensive question in accountancy examinations will no doubt lead to the publication of books in this field and one such book has already been published.²¹⁾ There can be no doubt that academics will teach to the form of the examination eventually, and publication of case study text books designed specifically for accountancy students will facilitate this process.

Diversity once again is symptomatic of the approaches of the various institutes throughout the world. A review of the examinations set by the Institute of Chartered Accountants of England and Wales, in terms of their new regulations, reveals that the professional examination consists of five three-hour papers in financial accounting II, auditing, taxation II, management accounting and elements of financial decisions. Their approach to the auditing paper utilises short questions. The paper is divided into three parts with Part A consisting of six compulsory questions. Part B and Part C consist of two questions each and one question in each part must be answered. The philosophy of the English Institute to its

21) Rosen, L.S., *An Introduction to Accounting Case Analysis*, McGraw-Hill Ryerson Limited, Toronto, 1975.

examinations is described as:

"The examinations must therefore be regarded primarily as tests of whether candidates have prepared themselves adequately in the principles of their work, have developed certain minimum skills and have acquired a sufficient knowledge of such facts as chartered accountants should know. However, a student as he progresses through his training period should increasingly build up a mode of thinking, and a method of approaching problems, characteristic of a chartered accountant and to this extent questions set in the later papers can be more problem-oriented." 22)

This philosophy is based on the premise that as the practical experience of students and of chartered accountants varies so widely, it would be impossible to set a fair, final examination based on practical experience. This is valid and stresses the importance of the profession setting high standards for practical experience, and ensuring that the quality of the practical experience can be controlled. Topical contentious issues appear in the examination papers of the Institute of Chartered Accountants in England and Wales. This is illustrated by the fact that the July 1975 Financial Accounting II paper had a question on constant purchasing power adjusted financial statements. This is to be commended.

Professional examinations are constantly being subjected to criticism because of the low pass rates, and it is appropriate to review the pass rates of a few of the major accounting institutes. Although the pass rates of the Australian Institute are high these must be seen in relation to their evaluation process which includes performance in the Professional Year. The statistics of the Canadian Institute reflect an improvement during the last three years with 50,1% of the candidates being successful in 1973, and 55,6% in 1975. This can also be attributed to the fact that students have had more exposure to the controversial comprehensive questions. The pass percentages of the Institute of Chartered Accountants in England and Wales are consistently low. The statistics in Table Number 31 show that the pass rate in Scotland is fairly high, but this is after having taken the results of the

22) The Institute of Chartered Accountants in England and Wales, *A Policy for Education and Training*, London, May 1972, p.14.

supplementary examinations into account. There can be no doubt that many students pass the supplementary examinations and thus qualify as chartered accountants.

Table No.: 31.

Schedule Reflecting Extracts from Examination Statistics of Certain Accountancy Institutes ²³⁾

(Percentages indicate successful candidates)

<u>Australia</u>	-	1972	- 76%
		1973	- 84%
		1974/5	- 86,7%
<u>Canada</u>	-	1973	- 50,1%
		1974	- 53,7%
		1975	- 55,6%
<u>England</u>			
<u>Final Part II</u>	- November	1972	- 43,01%
	May	1973	- 42,37%
	November	1973	- 43,71%
	May	1974	- 44,32%
	November	1974	- 45,42%
	May	1975	- 28,86%
<u>Professional Examination II</u>			
	- July	1975	- 44,73%
<u>Scotland</u> ²⁴			
		<u>1974</u>	<u>1975</u>
Part I		64,0%	76,7%
Part II		71,4%	76,1%

14.4 The Nature of the Final Qualifying Examination

The aim of the final qualifying examination of an accountancy board must be clearly defined taking into account the great importance of public interest. The examination must assure that those qualifying are competent to serve the public interests. It is important that no person, who could be an

23) These statistics have been furnished by the various institutes

24) These statistics take the results of the referred students into account. The percentage appears to be high, but candidates presenting themselves for both examinations, are only counted once.

embarrassment to the profession, be able to pass the examination. It thus follows that a qualifying examination should be designed to test the professional competence of a student in the disciplines of accounting and related fields. The candidate must have adequate technical competence as well as the ability to apply knowledge skillfully and with good judgement. An important aspect is whether the examination should be of a practical nature. It is submitted that this examination should be of a practical nature and not just a retesting of what has been tested at universities. It is important to remember the British philosophy that, because of the lack of control over the quality of practical experience, this may not be possible. It is believed that a case study approach to examinations is desirable together with other forms of questions. The pro's and con's of the comprehensive question have been discussed in detail, and it does have the advantage of assessing whether a candidate can decide what is relevant and what is not. The multiple-choice question could be used to a limited extent, because it can test a wide range of a candidate's knowledge. It is important to remember that to be of any use these questions must be correctly validated. It is also important that candidates bear in mind that they are expected to be educating themselves for life. It is therefore essential that the latest developments be incorporated in a final qualifying examination. If this is not the case, it could be a sad indictment against universities for not succeeding in teaching students how to teach themselves.

Before endeavouring to discuss how a comprehensive question could be set, an analysis of characteristics of a good examination should be made. These have been described as adequate reliability and adequate validity.²⁵⁾ The former is affected by such matters as the length of the paper, the number and mix of questions, the clarity of questions, the appropriate level of difficulty, the variation from day to day of candidates' individual standards, the objectivity of marking and the variations of marker standards. Validity could be maintained

25) Gilkison, W.S., "Examiners and Examining", *Accountants Journal*, August 1975, p.281.

by ensuring relevance of questions, freedom from ambiguities and representativeness of content.²⁶⁾

No doubt major objections will be expressed about the introduction of a comprehensive-type question in the South African Qualifying Examination. The criticisms that will be levelled at this type of question will no doubt be similar to those expressed in Canada. One major objection will be that it is difficult to set this type of question. It is submitted that this is not an objection but a challenge. The comprehensive question in Canada has been based mainly on an accounting and financial case study which has also entailed knowledge of taxation and management accounting. It is submitted that the case study could be utilised very effectively for testing a candidate's application of auditing knowledge. It is submitted that it should not be difficult to set such a question. It is envisaged that extracts from working-papers' files could be given to candidates with very brief instructions. The candidate will be placed in the role of the practitioner who is in charge of an audit and who has to review the audit working-papers' files. The working-paper schedules and the information can be drafted in such a manner that there will be a comments column for the candidate to indicate his comments and queries. It is envisaged that there will be errors of principle in tax calculations, possibly errors in principle with regard to stock valuations and this the partner will have to pick up in the normal course of his review. If supporting schedules are required for the calculations, the candidate can do this on a loose sheet of paper and cross-reference the schedule to the working-papers' file and vice versa. It is submitted that if the large firms co-operate, the setting of such a question should not be difficult. The auditors report as drafted by the clerk would have no qualifications, yet the indications in the working-papers' file would be such that there was something materially wrong which the clerk had not detected. This would test a candidate's knowledge of qualifications of an auditor's report. It is believed that the scope of this type of question is unlimited as it can test all facets of a chartered accountant's work. Principles involving accounting, management accounting, taxation, auditing, and financial principles could be tested in detail, in breadth and in depth.

26) *Loc. Cit.*

It is further submitted that the marking of the question should not be too difficult as the comments required on the working-papers' file will be anticipated, and credit will be given to any other valid comments. The candidate should not be expected to regurgitate unnecessary facts. Necessary extracts of tables, rebates and abatements, as well as important extracts from the relevant statutes should be made available to the candidate. In this manner he is being placed in an in-office environment. Other case studies testing the candidate's knowledge of computer systems, finance and accounting (including taxation implications) could also no doubt be devised. It is not intended that shorter questions should be completely eliminated.

Another objection to the comprehensive type question is that a student may be too heavily penalised because of certain errors made in the beginning of a question. This comment is not valid as the guide for markers will take into account other alternatives and an over-marking technique is also used. It may therefore be stated that the future examination for the Public Accountant and Auditor in South Africa must be a difficult one. It is believed that it should consist of three, 4 to 5 hour papers which could utilise comprehensive type questions, multiple-choice questions and multiple-subject questions, and test a candidate's knowledge of the latest developments as reflected in current literature. It is further suggested that the Canadian precedent of just simply numbering papers be accepted and that questions of the various subjects be integrated into any paper. The sub-minimum of any one paper to be forty-five percent and an aggregate of fifty percent be attained to pass the examination. It is imperative that the examination should not retest what has been taught at universities, and if the suggested examination outlined above achieves this aim, then experimentation leading to such an examination should be welcomed.

Another important question is whether the scores attained by candidates should be adjusted. Educationalists maintain that standards of candidates should not vary substantially from year to year, and any marked variation in pass rates must be due to variations in the standards of the examiners.

They maintain that these variances can be corrected by scaling results either upwards or downwards to produce consistency. Examiners of certain professional institutes believe that the standard of candidates does vary from year to year basing this on their experience of the marking of scripts for many years. Educationalists have proved their hypothesis by applying the statistical formulae to the examination results of school leavers, and members of the professional institutes aver that this does not apply to a much smaller number of examination candidates of a professional institute.²⁷⁾ Members of professional institutes refuse to pass candidates who fail to achieve the expected standards simply to meet arbitrary standards. It may also be stated that a member of a professional institute would not reduce the pass rate to comply with a pre-determined pass rate. If the candidate has succeeded in passing he should not be penalised.²⁸⁾ It is noteworthy that the results of the largest institutes namely the United States of America and Canada, are adjusted, by taking statistical methods into account, to ensure consistency of standards. It has been stated that if questions are properly validated, statistical adjustments may not be necessary. However, experience in the past has shown that the pass rate has fluctuated quite materially, and the fluctuations could be attributed to various factors such as the accounting content being too high and resulting in high pass marks. Low pass marks have been attributed to unbalanced papers where one could possibly find two exceptionally difficult questions in one paper. It is suggested that the Education Committee of the Public Accountants' and Auditors' Board investigate the possible application of statistical formulae to its examination results.

14.5 Conclusion

Notwithstanding earlier views held,²⁹⁾ it is suggested that a professional institute of accountants does have the right

27) *Ibid.*, p.281.

28) *Loc. Cit.*

29) See Footnote 2.

to set a uniform qualifying examination, which should be so designed to test a candidate's professional competence. It is submitted that such an examination must be a difficult examination, which will ensure that the public interest is also taken into account.

CHAPTER 15REQUIRED CONTINUING EDUCATION15.1 Introduction

It is generally acknowledged that the growth rate in the body of knowledge will accelerate much more quickly in the near future than has been the case until now. The view has been expressed that the body of knowledge will double every five years. The fact remains that the so called "knowledge explosion" is with us and this presents a great challenge to the accountancy profession.

15.2 Rationale for a Required Continuing Education Programme

The rationale for mandatory or required continuing education is the so called "knowledge explosion" during the twentieth century, and substandard quality of work by practitioners. It is in the public interest that public accountants maintain their competence.

It has been stated that the term, "knowledge explosion", is over-used and that this explosion applies more to physical sciences than the social sciences.¹⁾ The point has been made that with regard to the accountancy profession there has been an explosion of public expectations rather than knowledge.²⁾

On the other hand the practising accountant has to contend with developments in inflation accounting, the development of multi-national groups with its associated problems, the continuous changes in taxation and other legislation, the anticipated growth of the use of computers, the greater emphasis and utilisation of statistical and mathematical techniques. Laws and regulations applicable to various industries tend to become more complex with the efflux of time. It cannot be denied that greater technical competence will be

1) The New York Society of Certified Public Accountants, *Report of the Committee on Mandatory Continuing Education*, New York, March 1973, pp.2/3.

2) *Loc. Cit.*

required of the practitioner in future.

Another justification for required continuing education is the substandard quality of work done by practitioners. It has been stated that this substandard work is not done wilfully, but is due to ignorance.³⁾

Discussions with practising accountants reveal that the review of colleagues' working papers has left much to be desired and it is felt that required continuing education will really help to improve the quality of the work performed by these colleagues. Examples quoted of substandard work reveal that certain colleagues are not up to date with their knowledge. Statements such as: "We did not verify the physical existence of stock" in the auditor's report of private companies cannot be tolerated. The quality of working papers also leaves much to be desired.

Opponents of required continuing education will argue that attendance of courses will not necessarily enhance the competence of practitioners and reduce the number of complaints to the Investigation Committee of the Public Accountants' and Auditors' Board. It may improve the technical knowledge of the practitioner but not necessarily his competence.

This argument may be countered by drawing an analogy with a rugby referee. To be a good referee, you must know the laws of the game, but knowing the laws of the game does not necessarily imply that you will be a good referee. On the other hand if you do not know the laws of the game you cannot be a good referee. Thus for an accountant to be competent, he must know "the laws of the game".

A very strong argument in favour of required continuing education is that of public interest. If public interest is regarded as paramount, which it is believed it should be, the profession must not only endeavour to maintain competence, but also it "should be seen to be maintaining its competence." The auditor's duty was emphatically stressed in the statement

3) Stone, Marvin, "The Arguments for Requiring Continuing Education by Legislation", *The Journal of Accountancy*, January 1972, p.57.

made by the Minister of Finance when opening the first meeting of the Public Accountants' and Auditors' Board, as far back as 1951:

"To my mind a most important aspect of this legislation is parliament's recognition of the principle that an auditor owes a duty not only to his client but also to the public. For many years auditors have been in doubt as to their responsibility to the public. Parliament has now given a clear and unequivocal answer." 4)

Marvin Stone, a protagonist of required continuing education, has pointed out that the Certified Public Accountant is licensed to protect the public who rely on the former because of his knowledge and independence.⁵⁾ He further points out that the practising accountant has a monopoly, (which is also the case in South Africa), and it is reasonable to expect that heavy responsibilities must accompany the granting of such an exclusive licence.⁶⁾

It has been pointed out,

"that the C.A. designation is not comparable to a university degree, which indicates that an individual has met specific levels of knowledge at a particular time. The CA designation is a 'current qualification' signifying membership in a professional group. It indicates - or should indicate - that each member possesses a good awareness of the current technical knowledge by professional colleagues in the course of providing their services." 7)

In other words, the use of the designation Chartered Accountant (S.A.) is not automatic, but requires annual registration with a provincial society, and if one wants to practise as a public accountant and auditor, annual registration with the Public Accountants' and Auditors' Board is required. To be entitled to the use of the Chartered Accountant (S.A.) designation it is reasonable to expect a certain level of technical competence. On the other hand it may be argued

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- 4) *Statement A1*, of The National Council of Chartered Accountants (S.A.), "Auditing Principles and Standards", April 1964, par.4.p.3.
- 5) Stone, Marvin, *Op. Cit.*, p.58.
- 6) *Loc. Cit.*
- 7) Canadian Institute of Chartered Accountants, *Special Committee on Required Professional Development - Summary Report*, Toronto, August 1975, p.1.

that specialisation is becoming a very important aspect and practitioner's interests in public practice become so narrow that it is unreasonable to expect a chartered accountant to maintain his general technical competence. It may further be observed that it is fallacious to state that all chartered accountants are equally competent.

Public expectations of the accountancy profession are great and it is a truism that these expectations will become greater in the future. Another justification for required continuing education is that the profession is going through a difficult period and is being severely criticised and sued. This may be more applicable to our colleagues overseas, but the possibility cannot be excluded that this situation may occur in South Africa at greater frequencies.

15.3 Arguments Against Required Continuing Education

A visit to the State of California with its successful implementation of required continuing education possibly makes one a protagonist for required continuing education. On the other hand a visit to the State of New York causes second thoughts as to whether continuing education should be made mandatory by legislation.

An examination of the *Report of Committee on Mandatory Continuing Education* of the New York State Society of Certified Public Accountants details many arguments against continuing education⁸⁾

The arguments cited are: that the expression, "explosion of knowledge", is a modern day cliché and that it does not apply to the fields of accounting and auditing; that other professions with great responsibilities do not have a mandatory continuing education requirement; that the image of the profession would suffer further because of such a requirement and that it would be degrading; that continuing education will not necessarily imply improved competence; that the requirement for mandatory continuing education is to ensure that a minority within the profession maintain their competence, thus placing

8) See note 1. *Op. Cit.*, p.11.

an unfair burden on the majority. It is felt that the professional societies themselves, and not the State Legislature, should prescribe the educational requirement of members. Attendance at classes will not necessarily improve competence as a member could be dreaming instead of concentrating on the lecture. There are not sufficient courses to cater for all members. It is further argued that quality control of courses could be problematical. Further arguments against continuing education are that the cost of the courses is too high and the loss of chargeable time makes it an expensive exercise. It is further contended that a voluntary programme could be just as effective and the market place will determine who is competent and who is incompetent. Study at home, it is contended, could be just as effective. Should the specialist be exposed to courses that will be of no use to him? Should the small practitioner be exposed to courses which have no relevance to his practice?

Opponents of required continuing education argue that a system of practice review would be more effective in improving competence than a required continuing education programme. They further contend that the in-house programmes cannot be recognised, because they are difficult to supervise and have the affect of isolating practitioners with no interchange of ideas between practitioners of different practices.

Many of the law suits in the United States of America are against firms which do have in-house programmes. It is argued that the cause of a law suit is not lack of education, but lack of integrity, ethics or judgement.

Other arguments against required continuing education are that it will result in the creation of two classes of chartered accountants because those not in public practice will be exempt from the requirements; that it is more important to concentrate on the quality of the new entrant to the profession, because if this could be ensured, required continuing education would not be necessary.

No doubt, many arguments could be formulated, but the validity of these and some of those outlined above is suspect. The so-called "explosion of knowledge" is possibly a misnomer, but the body of knowledge expected of the practising accountant has increased substantially during the last decade or two. The fact that another organisation does, or does not, do something cannot be used as a motivation for or against a certain case. An examination of what other professions are doing can be made and endeavour to learn from their experience, but the fact that X profession does not require continuing education as such, cannot be used as justification for the accountancy profession not requiring it. The circumstances within professions differ so substantially that it should be examined on merit.

The argument that the image of the profession would suffer as a result of mandatory continuing education does not hold water. On the contrary, it is believed that the image of the profession would be enhanced in the eyes of the public, because public interest has been taken into account and the profession is being seen to be technically competent.

Some of the objections to required continuing education should be challenges rather than objections. Insufficient courses to cater for the needs of practising chartered accountants and difficulties of quality control are challenges to be met. The quality of courses could be monitored in advance and the market place will no doubt determine the quality of a course.

It must be borne in mind that a profession is only as strong as its weakest member. If the accountancy profession does not make continuing education a requirement of reregistration, it cannot ensure that the weak links maintain their knowledge.

Can the profession afford the "market-place argument" to determine who is competent and who is incompetent? This market-place assessment is an event after the performance of a service and the image of the profession may suffer as a result.

Another argument mentioned against required continuing

education is that people can attend courses and be entirely oblivious of the happenings around them. They could concentrate on many of their problems at the office. This argument could be countered by the fact that a person will try to benefit from his attendance because of the cost factor as well as the loss of chargeable time.

15.4 Required Continuing Education in the United States of America

It may be appropriate to quote the resolution on continuing education passed by the Council of the American Institute of Certified Public Accountants on 12 May 1971:

"Whereas, the explosion of knowledge and the increasing complexity of practice make it essential that certified public accountants continue to develop their competence, and

Whereas, the public interest requires that certified public accountants provide competent service in all areas of their practice, and

Whereas, formal programs of continuing education provide certified public accountants with the opportunity to maintain and improve their competence.

Therefore be it resolved that the Council of the American Institute of Certified Public Accountants urges each of the several states to institute a requirement, by legislation or regulation as may be appropriate, that certified public accountants demonstrate that they are continuing their professional education as a condition precedent to the reregistration renewal of permit to practice, or other validation of a CPA's designation.

Further be it resolved that the National Association of State Boards of Accountancy be asked to consider this resolution with a view to lending its support.

Further be it resolved that in the interest of uniformity the Council urges each of the several states to adopt the guidelines attached to the report of the committee on continuing education." 9)

9) American Institute of Certified Public Accountants, *Continuing Professional Education Catalog*, New York, 1975-1976, p.7.

The American Institute gives the following guidelines:

- i) 120 hours or 15 days of acceptable continuing education must be completed by the applicant in the three-year period prior to reregistration;
- ii) a fifty minute lecture equals one hour;
- iii) preparation time is not to be taken into account in complying with the three-yearly requirement;
- iv) service as a lecturer or discussion leader will be included if it contributes to his professional competence, and provided that repetitious presentations are not taken into account.

The guidelines then indicated that the regulations would become effective three years after adoption, and that the State Boards of Accountancy should have authority to make exceptions for reasons of health, military service, foreign residency and retirement.¹⁰⁾

The requirements for courses to qualify for credits are that they should be formal programmes of learning which contribute directly to the professional competence of an individual in public practice.¹¹⁾ Formal programmes requiring class attendance will qualify only if an outline is prepared in advance and preserved. The programme lasts at least one hour and must be conducted by a qualified instructor. A record of registration or attendance must be maintained. The guidelines then detail actual courses which are acceptable if the abovementioned requirements have been met. These courses are: professional development programmes of the American Institute of Certified Public Accountants and state societies; technical sessions at meetings of American Institutes of Certified Public Accountants and state societies; university or college courses for credit and non-credit purposes; formal organised in-firm educational programmes, and programmes of other accounting, industrial and professional organisations.

10) *Loc. Cit.*

11) *Loc. Cit.*

The guidelines also provide for the recognition of formal correspondence or other individual study programmes if evidence is given of satisfactory completion. The credits for these courses are to be determined by the Board of Accountancy.¹²⁾

Every three years a report, signed by the applicant and indicating the title and/or description of courses he has attended, the sponsoring organisation, location or courses, dates attended and hours claimed, is to be submitted.¹³⁾

15.5 Firm Quality Review Programmes

The American Institute of Certified Public Accountants has a *Local Firm Quality Review Program* which is regarded as being complementary to the formal continuing education programme, and is designed to enhance the standards of reporting, workpaper presentation, audit performance, and accounting services, by means of a confidential review which highlights deficiencies and weaknesses in the techniques employed by specific firms.¹⁴⁾

The *Quality Review Program* operates in the following manner: Two qualified practising accountants are selected in consultation and concurrence with the reviewee firm. They are from out of state and care is taken to ensure that they do not practise in the same geographic area as the reviewee. The reviewers spend two days at a firm, spending one and a half days reviewing selected engagements by the firm. It is endeavoured to determine whether the reports on individual audited and unaudited engagements, together with supporting working papers and documentation, have been prepared in a technically competent manner. An important aspect of the review programme is determining whether, in the opinion of the reviewers, the financial statements are

12) *Loc. Cit.*

13) *Loc. Cit.*

14) *Ibid.*, p.9.

compiled in conformity with generally accepted accounting principles, and that fairness of presentation has been achieved.

The reviewers are assisted by a kit of materials which includes a forty-five page review checklist covering all phases of engagements selected for review.¹⁵⁾

During the afternoon of the second day the reviewers comment orally to the partners of the firm on their findings. Members of staff may be invited to sit in on the discussions. Any weaknesses are detailed on a checklist, which is left with the reviewee. All programme materials remain on the reviewee firm's premises. This ensures confidentiality and enables the reviewee to refer to them in future so as to rectify weaknesses observed by the reviewer. It is also recommended that a partner of the reviewed firm participate in the review of another firm. This also has educational value as the partner is also exposed to different approaches.

The Institute has a bank of reviewers, numbering over two hundred Certified Public Accountants, to assist with reviews. National firms' audit partners and staff members involved with firm quality review programmes also volunteer to be members of the review bank.¹⁶⁾ The benefits of the *Local Firm Quality Review Program* are briefly detailed as follows: Weaknesses are diagnosed and pointed out to the firm; technical performance is improved as a result of advice offered by experts with extensive experience in the profession; a structured continuing professional education programme can be designed for a firm on request, depending on the deficiencies detected during the review. An added benefit accrues if a partner of the reviewed firm assists with future review programmes.¹⁷⁾

Opponents of required continuing education have maintained that a quality review programme would be more effective in

15) Bruschi, William C., "The Institute's Peer Review Programs", a paper delivered at The American Accounting Convention (copy of paper furnished by the American Institute of Certified Public Accountants) pp.1/2.

16) *Ibid.*, p.2.

17) *Ibid.*, p.3.

improving standards than a required continuing education programme.¹⁸⁾

The extent to which the American Institute's quality review programme has been successful is analysed by W.W. Ecton, of the University of Kentucky.¹⁹⁾ His initial reaction on ascertaining that in 1974 only 125 firms had participated in the programme was one of disappointment, but after completing his investigation and determining how the system operates, he finds the response impressive indeed.²⁰⁾ Confidentiality by the American Institute of Certified Public Accountants ensures the confidence of the participants.

In his investigation Ecton tried to determine why participants used the quality review programme, by asking: "*What prompted you to participate in the program?*"²¹⁾ The answers revealed the need for confirmation that what the firm thought it was doing, was a professional and competent job.²²⁾ Firms that experienced rapid growth through increased clientele, wanted to satisfy themselves that their personnel was coping with the situation. Another example he quotes reflects concern whether a firm was complying with the requirements of the Securities and Exchange Commission.²³⁾ Another firm was perturbed by the high cost of liability insurance, which is passed on to the clients and he wanted to give his clients better service. After his firm had been reviewed he was satisfied that he was giving them good service.²⁴⁾ The general reaction of all participants was satisfaction with the results of the programme and its cost was regarded as of minor importance.²⁵⁾

The reviewers have generally experienced the same problems as the reviewee firms and the former are only too pleased to pass

18) *Report of the Committee on Mandatory Continuing Education, Op. Cit.*, p.11.

19) Ecton, W.W., "The AICPA Quality Review Program - Its Record and Prospects", *Journal of Accountancy*, October 1975, pp.106/108.

20) *Ibid.*, p.106.

21) *Ibid.*, p.107.

22) *Loc. Cit.*

23) *Loc. Cit.*

24) *Loc. Cit.*

25) *Loc. Cit.*

on the benefits of their own experience. The benefits of participating in the local review programme are summarised by Ecton as: the benefit of the general knowledge of the reviewers; the knowledge of their own clients that the reviewers pass on to the reviewees; the opportunity offered to the reviewee firm to have a representative assisting as a reviewer in another quality review programme.²⁶⁾ The latter benefit ensures greater cross-fertilisation of ideas owing to double exposure to techniques of other firms. The comments quoted in Ecton's analysis reveal great satisfaction by the reviewee firms, who enthusiastically recommend participation in the review programme. To ensure success of such a programme, the selection of the reviewers is of the utmost importance. Ecton observes that the needs of firms seeking assistance, as well as their size and nature of clientele are major factors in selecting the reviewers.²⁷⁾

In his conclusion, Ecton indicates that:

"Too broad a generalization as to the reception the quality review program has experienced could be subject to dispute, given the relatively small number of firms included in this survey. However if those firms contacted are representative of all those which have participated in the program, then its value can be stated in the most glowing terms;" ²⁸⁾

An earlier analysis of the quality review programme was done after it had been operational for two years.²⁹⁾ The main benefit they illustrate is the cross-fertilisation of ideas between practitioners who have similar problems. Their discussions served as the necessary catalyst for managers to implement changes that they knew were necessary, but they lacked the motivation to rectify the shortcoming.³⁰⁾ In their conclusion the authors express the opinion that the programme appears to have been a success, but the real value

26) *Loc. Cit.*

27) *Ibid.*, p.108.

28) *Loc. Cit.*

29) Minkus, Harold B., and Peters, Phyllis E., "Two Years of Quality Review", *The Journal of Accountancy*, September 1974, pp.104/106.

30) *Ibid.*, p.104.

will only be determined by measuring its impact on raising the level of competence throughout the profession.³¹⁾

The importance of peer or quality review has been recognised by the Securities and Exchange Commission in the United States of America. The Chief Accountant of the Securities and Exchange Committee, John C. Burton, was quoted as saying that peer review is in the public interest and that it will serve as a prod to the accounting profession to improve its standards.³²⁾ These comments were made after a federal judge had approved a judgement against Laventhol, Krekstein, Horwath and Horwath, one of America's twelve largest accounting firms. One of the big eight firms, Peat, Marwick and Mitchell, also agreed to have their procedures reviewed by another big eight firm, Arthur Young and Company. The results of the review were published recently and generally speaking, the procedures of Peat, Marwick and Mitchell were approved by Arthur Young, subject to a few exceptions. This review was also as a result of pressure from the Securities and Exchange Commission after some major cases against Peat, Marwick and Mitchell. The expenses in both cases were borne by the reviewee firms.

Harvey Kapnick, chairman of the firm Arthur Andersen and Company, takes issue with the validity of the quality review programme.³³⁾ He states that the accounting profession must assure the public that the quality of work being performed is satisfactory. He believes that the quality review programme is not a successful solution to restoring the public's faith in the quality of the work being rendered by the profession.³⁴⁾ He submits that if it fails because *"it provides no standards against which the quality of practice*

31) *Ibid.*, p.105.

32) *The Wall Street Journal*, Thursday, May 24, 1973 in *Perspectives in Auditing*, by D.R. Carmichael and John J. Willingham, 2nd Edition, McGraw Hill Book Company, New York, 1975, pp.130/131.

33) Kapnick, Harvey, "Accountants - Accountable to Whom?", an address to the Central Chapter, Illinois Society of Certified Public Accountants, Decatur, Illinois, February 10, 1974, published in: *Auditing and Financial Reporting in the Public Interest*", by Harvey Kapnick - Volume I, pp.50/51.

34) *Ibid.*, p.50.

and controls over practice can be measured, and because it results in an invasion of the rights of clients to have information about them maintained in confidence." ³⁵⁾

Kapnick believes that a loss of confidentiality by clients in the profession will lead to less reliable financial statements because clients will withhold important information. He continues:

"Accountants would be placed in an impossible position if clients declined to provide information on the basis that assurance could not be provided as to its confidentiality. This is more than a matter involving ethical rules, since the basic integrity of the accounting profession is at stake. The public would not be well served by such a requirement imposed by the Securities and Exchange Commission or imposed unilaterally by the profession." ³⁶⁾

He feels the solution would be for accounting firms to report their organisational and operating structure publicly. He suggests that information be given about practice controls, training programmes, resource and research materials, personnel evaluation concepts and the like. This, he maintains, will enable the public to judge for itself whether a firm has the ability to control its own practice. ³⁷⁾

A further suggestion is that accounting firms establish a Public Review Board composed of independent parties, some of whom will be from outside the profession, to review the organisational structure and operating procedures of a firm, ³⁸⁾ and to comment on basic issues involved in litigation proceedings related to that accounting firm. Harvey Kapnick stresses with great emphasis the interest of the public at large by stating that:

"Accountants must recognise in the final analysis they are accountable to the public at large. ... Therefore it is in the interest of all who wish to uphold our free enterprise system and improve business decision-making for the good of society that the accounting profession retain its credibility and carry out its public interest responsibility." ³⁹⁾

35) *Loc. Cit.*

36) *Ibid.*, p.51.

37) *Loc. Cit.*

38) *Loc. Cit.*

39) *Loc. Cit.*

It is difficult to counter the argument about the loss of confidentiality resulting from the quality review programme, but it must be borne in mind that the reviewers are accepting a professional assignment and have to maintain the highest standards of professional ethics. As pointed out above, the reviewers are from a different geographical area.

Would it be detrimental to the reviewee firm to obtain the consent of the six to eight clients whose working paper files would be open to the review? It is believed that it would not be detrimental if it is pointed out that by having this review, the firm is endeavouring to improve its service to its clients, and the quality review programme is, in fact, endorsed by the controlling bodies of the profession. It is believed that the cross-fertilisation of ideas within the profession can ultimately be beneficial to the profession as a whole. The improved competence resulting from this will serve the interests of the public more effectively.

15.6 Quality Control Registration Programme

Another development presently being discussed is the American Institute of Certified Public Accountants' Firm Quality Control registration. This plan will allow the registration of accounting firms complying with certain audit practice quality control standards, and this would be part of a voluntary programme.⁴⁰⁾ The features of the programme are that all partners of the firm shall be members of the American Institute of Certified Public Accountants,⁴¹⁾ and the firm would submit documentation indicating its quality control practice, which would be reviewed by a quality control committee, for consistency with specified standards.⁴²⁾ If the standards are not acceptable to the committee, the firm will be afforded the opportunity to conform with the committee's requirements.⁴³⁾ A firm will have to submit

40) Reported by Sprague, W.D., in *The CPA*, July 1975, p.9.

41) Bruschi, William C., *Op. Cit.*, p.6.

42) *Loc. Cit.*

43) *Loc. Cit.*

an annual report reflecting any changes in quality control policies, and details of what internal reviews were made to ensure compliance with the firm's quality control programme. These reports are also to be reviewed by the committee.⁴⁴⁾ The documentation submitted would be available to the public for inspection, and firms would agree to undergo field tests, with or without advance notice. These tests are to be conducted by reviewers supplied under the direction of a committee.⁴⁵⁾ If the field tests reveal deficiencies, the firm will be given a reasonable time to correct them. Failure to rectify such deficiencies would result in deregistration, which would be published in the *CPA Letter* and *The Journal of Accountancy*, and a copy of the letter would be placed in the Institute's public file.⁴⁶⁾

A firm may advise its clients of its registration, indicate such registration on its letterhead and also be entitled to registration in the Institute's directory, *Accounting Firms and Practitioner*.⁴⁷⁾

It was felt that there is a need for this programme as self-regulation of the profession has always been directed at the individual and not the firm.⁴⁸⁾

15.7.1 Required Continuing Education in the State of California

An examination of the continuing education rules of the State Board of Accountancy for the State of California reveals that they are very similar to the guidelines of the American Institute of Certified Public Accountants. These regulations indicate that eighty hours of required continuing education are required every two years.⁴⁹⁾ The regulations also permit credits for published articles and books. A Continuing Education Committee would be responsible for awarding credits.⁵⁰⁾

44) *Loc. Cit.*

45) *Loc. Cit.*

46) *Loc. Cit.*

47) *Loc. Cit.*

48) Spague, W.D., (see Note 40) p.10.

49) State Board of Accountancy, State of California, Bulletin - Spring 1973, Vol. XIII No.1. pp.3/5.

50) *Ibid.*, p.4. Rule 88(f)

An applicant wishing to renew his licence must sign a statement under penalty of perjury, disclosing how he has complied with the eighty-hour education requirements. These reports may be verified on a test basis by the Continuing Education Committee.⁵¹⁾

The Continuing Education Committee consists of five members and the functions of the Committee are: to act in an advisory capacity on the working of the programme to the State Board of Accountancy; to make policy recommendations to the Board; to review specific programmes; to determine their acceptability; to verify information submitted by applicants on a test basis; to consider and evaluate requests for exceptions and to perform such functions delegated by the Board.⁵²⁾

The Continuing Education Committee has indicated that any licensee performing duties for compensation, normally performed by public accountants, including the preparation of tax returns, is subject to the continuing education rules.⁵³⁾ The Continuing Education Committee has also given an indication of acceptable subject matter, as long as they contribute to the professional competence of a practitioner:

Accounting and Auditing
 Taxation
 Management Services
 Communication Arts
 Mathematics, Statistics, Probability and Quantitative
 Applications in Business,

51) *Ibid.*, p.4., Rule 89.

52) *Ibid.*, p.1.

53) *Ibid.*, p.1. Clause 1(a)

Economics

Business Law

Functional Fields of Business - Finance, Production,
Marketing, Personnel Relations, Business Management
and Organisation

Social Environment of Business

Specialised areas of Industry, e.g. Film Industry,
Real Estate, Farming etc.

Administrative Practice, e.g. Engagement Letters,
Fees Structures, Personnel etc.⁵⁴⁾ <

The State Board of Accountancy may approve purveyors of continuing education. It is not a prerequisite that courses be approved in advance, because the onus rests on the licensee to prove that this course has contributed to his professional competence.⁵⁵⁾ In practice however, most organisations do file a sponsor's agreement with the State Board of Accountancy to attain a seal of approval for a course. In their interpretations of the Continuing Education Rules, the Continuing Education Committee has indicated that approval of non-credit programmes as well as the organisations presenting these programmes will be given in advance. The organisations presenting these programmes will be permitted to advise prospective participants of this approval as well as the number of hours of credit allowable for each programme. Such approval may be revoked if the rules are not complied with or the standard of the presentation is lacking.⁵⁶⁾

54) *Ibid.*, p.2., Clause 2.

55) *Ibid.*, p.2., Clause 5.

56) *Ibid.*, p.2., Clause 4.

Discussions at dinner, luncheon or breakfast meetings of recognised accounting organisations may qualify if they comply with the basic requirements for approval of courses.⁵⁷⁾ Firm meetings for staff or management groups may also qualify if they meet the requirements for approval of programmes, and cover the approved subject matter as indicated above.⁵⁸⁾

The Continuing Education Committee determines the credit to be allowed for correspondence and individual study courses. This is based on the equivalent credit for a comparable seminar presentation. The licencees claiming credit for such courses must submit satisfactory evidence from the sponsoring organisation that they have completed the course.⁵⁹⁾

Instructors at presentations are allowed two hours credit for each hour of presentation at an approved programme, provided that a maximum credit for such preparation and teaching will not exceed 50% of the basic continuing education requirement.⁶⁰⁾

57) *Ibid.*, p.3., Clause 6.

58) *Ibid.*, p.3., Clause 7.

59) *Ibid.*, p.3., Clause 8.

60) *Ibid.*, p.3., Clause 9.

Authors of published articles and books are entitled to a credit, provided they contribute to the professional competence of the licensee. These credits may not exceed 25% of the basic requirement and it is given on the self-evaluation of the author. A greater credit may be claimed in exceptional circumstances, if the licensee applies for such credit by submitting the articles or books to the Committee with an explanation of the circumstances that justify a greater credit.⁶¹⁾ The Continuing Education Rules do provide for a practising accountant from industry to re-enter if certain courses are attended.⁶²⁾ If a licence has expired, it may be renewed within a period of five years after its expiration. The necessary forms must be completed and fees paid. The number of hours of continuing education required varies from forty to eighty hours depending on when the application is made.⁶³⁾

15.7.2 California Certified Public Accountant Foundation for Education and Research

The California CPA Foundation has built up a sound reputation for its presentations and a visit to the Foundation in Palo Alto backs up this reputation. Other State Societies have high regard for the California CPA Foundation for Education and Research.

The California CPA Foundation with assistance from volunteers, was founded in 1966. Course registration fees financed operations. Presently many courses are presented by the California CPA Foundation in many states, namely Alaska, Arizona, California, Colorado, Hawaii, Idaho, Montana, Nevada, New Mexico, Oregon, Utah, Washington and Wyoming.

The facilities at the California CPA Foundation for Education and Research at Palo Alto and Los Angeles are very modern indeed. The equipment consists of audio tape deck, rearscreen projection for overhead, 35mm. filmstrip and 16mm. projectors. The lecture rooms can accomodate 45 on a schoolroom basis or

61) *Ibid.*, p.3. Clause 10.

62) *Ibid.*, p.4. Clause 91.

63) *Ibid.*, p.5. Clause 92.

30 on a seminar basis.

The Executive Director of the California CPA Foundation, Mr. John Bickle, indicated that the most popular course presentations are taxation. These courses are presented live in the larger centres. One of the live presentations in Los Angeles was videotaped and this is used for presentations in smaller centres. The Foundation does not employ full-time lecturers, but it endeavours to get experts who are remunerated on a daily basis to do the presentations. University lecturers also assist with the presentations. Lecturers are expected to attend seminar leadership workshops where they are instructed on how to approach their lectures and how to motivate the participants.

The Foundation intends employing two full-time research officers to review the quality of presentations, to revise and update present material and to review material that has been submitted to the Foundation for future courses.

The courses consist mainly of case studies. Participants complete evaluation statements at the end of a course. The instructor also evaluates the material. The appraisals of the participants are analysed and a summary evaluation is prepared to determine what is wrong with a presentation. If there is a major deficiency in a programme it will be withdrawn.

The programmes offered by the California CPA Foundation are divided into six categories:

- (a) Conferences consisting of lectures and panel discussions by authorities on specific subjects. Question and answer sessions follow the lectures. Small group discussions are also encouraged. These conferences range from one to three days and are designed to serve large groups.
- (b) Seminars under the guidance of an experienced discussion leader for groups of twenty-five participants who review cases and solve problems.

- (c) Lecture courses utilising lectures, demonstration and problem solving to provide in-depth instruction and training in specialised subjects, which cannot be presented in seminar form. These courses are of one or two days duration.
- (d) Workshops provide hands on training in techniques and procedures.
- (e) Training programmes of two to five days provide staff members of accounting firms with intensive practical training. The longer presentations may be residence presentations to encourage full involvement of participants.
- (f) Individual self-study materials consist of programmed self-study courses designed for use in home or office.⁶⁴⁾

The courses presented are of a very diverse nature and include accounting, auditing, taxation, management advisory services, practice management and courses for specific industries. A perusal of the catalogue indicates that there are forty-one courses under the heading "Accounting and Auditing", four staff training programmes at different levels, twelve courses under the heading, "General Profession", ten courses under the heading, "Management Advisory Services", nineteen courses under the heading, "Practice Management", Nineteen under the heading "Specific Industries", forty-eight under the headings "Taxation" and "Advanced Taxation", fourteen under the heading, "Estate Taxation". There are five self-study courses and they are: "Ethics for Certified Public Accountants", "Secretarial Orientation to Public Accounting", "Tax Training for Auditors", "Written Communication Skills" and "Practical Applications of APB Opinion 21". Cost of courses vary from fifteen dollars for self-study courses, to four hundred dollars for specialised electronic data processing courses.

64) California CPA Foundation for Education and Research, *Continuing Professional Education Catalog*, April 1975 to March 1976, p.3.

15.7.3 Statistics of the First Licence Renewal under
Mandatory Continuing Professional Education in California

In a report by the chairman of the Committee on Continuing Professional Education, Dr. Alan P. Johnson, submitted to the National Association of State Boards of Accountancy in California, it is stated that the profession in California has taken the programme very seriously and has complied with the regulations more fully than had been anticipated.⁶⁵⁾ Problems anticipated by the programme administrators during the formative period did not materialise. Dr. Johnson states:

"One major question frequently asked at the inception of the program was, 'What will be the impact on the total number of licensees as a result of the additional requirement?' Some thought that a relatively large number would surrender their permits to practice rather than comply with the CPE legislation. This has not proven to be the case." ⁶⁶⁾

An analysis of the statistics in the abovementioned report reveals that 87% of those licensed on 31 December 1974 had received their licences by 22 April 1975. An analysis of the 3597 licensed at 31 December 1974, who had not renewed their licences by 22 April 1975 showed that 1025 were due to undelivered mail, which is regarded as normal for the renewal period. The remaining 2572, it appears, have allowed their licences to lapse. If the total of 3597 is compared to 3202 licences not renewed after 31 December 1972, the difference of 395 represents a real loss of 1,6% of total licences as a result of the inauguration of continuing professional education.⁶⁷⁾

The report also refers to the quality of programmes attended by licencees. A random sample indicated that the quality of programmes attended was high, thus dispelling the fears of the sceptics who expressed the view that low quality courses would be attended so as to comply with the requirements in the easiest manner. The report indicates that the Californian

65) Johnson, Alan P., *Report on the Results of the First Licence Renewal under Mandatory Continuing Education in California*, p.1., unpublished report, dated 22 April 1975.

66) *Loc. Cit.*

67) *Ibid.*, pp.1/2.

Committee has also felt that it is dealing with professional people, to whom time is important and they will seek their money's worth. The time reported by many licencees was well in excess of the required sixty hours for the first registration period. The mean reported hours was eighty-eight and this figure may be less than the actual hours attended as many licencees discontinued listing the hours attained after they had achieved the required sixty hours.⁶⁸⁾ A random sample of the returns indicated the manner in which the required hours were attained. The sample yielded the following distribution of activities:

<u>Programmes</u>	<u>Percent</u>
National and State Accounting Organisation courses	36
University and College courses	21
In-house programmes	17
CPA Society Chapter programmes	4
Other	14
Correspondence and self-study courses	3
Service as an instructor	4,5
Publications	<u>0,5</u>
	<u>100,0%</u> 69)

Certain reporting problems were experienced and an audit revealed that 4% were being questioned.⁷⁰⁾ A closer scrutiny of the 4% revealed that more than half were for non-substantive reasons, such as inadequate information being furnished, and the claiming of unusual courses, which proved to be acceptable. Thus less than an effective 2% were suspect because of substantive problems such as courses being duplicated, informal self-study, courses taken prior to the commencement period and hours claimed which were disallowed as being in excess of that approved in the regulations.⁷¹⁾ The Continuing Professional Education Committee can indeed feel very satisfied with the first reregistration effort since the introduction of required continuing education in California.

68) *Ibid.*, pp.2/3.

69) *Ibid.*, p.3.

70) *Ibid.*, p.4.

71) *Ibid.*, p.5.

15.8 Review of Continuing Educational Requirements in the Rest of America

Many states have voluntary continuing educational programmes and have come out very strongly against mandatory continuing education. It is admitted however that a mandatory programme may ultimately have to be enforced if the voluntary programme is unsuccessful. The New York State Society of Certified Public Accountants favours a voluntary programme, but accepts the fact that if it is not successful, a mandatory programme will have to be adopted as a last resort.⁷²⁾ It is intended for the present time and for the foreseeable future that New York State will follow a voluntary rather than a mandatory continuing education programme.⁷³⁾

The voluntary programme known as, "Certificate Program of the New York Society of Certified Public Accountants", becomes effective for the two years ended 31 December 1975 and certificates are valid for the two years ending 31 December 1977. The primary objectives of the *Certificate Program* are:

*"... to raise the professional practice of Certified Public Accountancy by giving special recognition to those CPAs who enhance their professional competence by engaging in advanced educational activities in the field of accountancy and related disciplines as sponsored. ..."*⁷⁴⁾

Eighty hours of continuing education are required to qualify for the certificate and at least twenty percent of a candidate's credits must be earned in courses under the sponsorship or co-sponsorship of the New York State Society of Certified Public Accountants and/or its Foundation for Accounting Education Inc.⁷⁵⁾ Candidates are expected to submit a formal record of courses completed. Due to the diversity of regulations appertaining to continuing education in the various states, the formal record of participation will facilitate a candidate's transfer to other states.

72) Report of Committee on Mandatory Continuing Education
Op. Cit., p.2.

73) Foundation for Accounting Education, Inc., New York, Letter dated 19 February 1976, from the Director of Education, Richard C. Fahringer.

74) New York State Society of Certified Public Accountants, *Continuing Professional Education Certificate Program of the New York State Society of Certified Public Accountants*, announcement brochure.

75) *Loc. Cit.*

It is intended to publicise the programme and a member who has completed the programme will receive a letter to that effect. Copies of the letter may be distributed by members in an ethical manner to any person or organisation in terms of the Society's Rules of Professional Conduct.⁷⁶⁾ A strange form of publicity will be given to candidates who complete the programme as

"... A press release ... will be sent to a local newspaper or other local publication designated by the recipient." ⁷⁷⁾

It is wondered whether the course is really so voluntary under the circumstances.

The State of Florida has a different approach to the relevant legislation. The legislation gives the practitioner the option of writing a professional examination in public accounting, or completing the prescribed number of hours in continuing education programmes.⁷⁸⁾ The legislation provides for the examination to cover accounting, auditing and related subjects and current developments as well as rules of professional conduct of the State Board of Accountancy, with the discretion of the Board, it may be an open-book examination. The examination shall be held at least twice per year and a candidate who fails the examination may sit for the examination again subsequently.

Legislation in some states requires members in public practice only to comply with the required continuing professional education.⁷⁹⁾ The State Society in Arizona requires all members to comply voluntarily with required continuing education, but no hours are specified.

The subjects that qualify for the required continuing education vary from state to state. The State of Florida specifies that at least 25% of the prescribed time, (varies from 90 to 120 hours), must be in accounting related and auditing related subjects. Other subjects are accepted if they contribute directly to the professional competence of a

76) *Loc. Cit.*

77) *Loc. Cit.*

78) State Board of Accountancy, State of Florida, *Laws and Rules, September 1975*, Gainesville - 1975, p.10.

79) *State Continuing Education Rules and Regulations*, Furnished by Price Waterhouse, New York.

licencee who wishes to practise public accounting. The States of Alabama and Florida indicate accounting, auditing, taxes and management accounting as acceptable subjects. Related areas relevant to public practice are also allowed. The states of Kansas, Montana, New Hampshire and North Dakota, Texas, Washington and Wisconsin indicate no specific subjects, but accept any formal programme of learning which contributes directly to the competence of a licensee who wishes to practise public accounting. Some states have indicated as many as eighteen subjects which qualify for the continuing education requirements.

The reporting requirements differ from state to state. Most require annual reporting, one state expects a report on a course by course basis, another bi-annually, and another requires a report tri-annually. Besides the State of California, statistics are available for the states of Colorado and Nevada, which respectively indicate a compliance of 99% and 96%.⁸⁰⁾ The eighteen states that have a mandatory continuing education requirement are: Alabama, California, Colorado, Florida, Hawaii, Iowa, Kansas, Nebraska, North Dakota, Nevada, New Mexico, Ohio, Oregon, South Carolina, South Dakota, Vermont, Washington and Wyoming.⁸¹⁾

It is difficult to generalise about the continuing professional education of the various states, and to date eighteen states have programmes either because of legislation or because Board regulations require them. Much has been written about continuing education in the United States of America, but the majority of states have not yet committed themselves to this concept. By far the greatest number of Certified Public Accountants are concentrated in the states of California, Illinois, New York and Texas and it is only the State of California which has mandatory continuing professional education requirements. The Californians have proved that it can work quite successfully, but their colleagues in the State of New York have not yet been convinced that it is practically feasible.

80) American Institute of Certified Public Accountants, Letter from Robert N. Sempier, Director International Practice, dated 20 January 1976.

81) *Loc. Cit.*

15.9 Rules Review, and Legality of a Continuing Education Requirement

The National Association of State Boards of Accountancy sponsored a conference on Continuing Education Requirements, which was held in Colorado during May 1975. The purpose of the conference was to provide a forum for discussion and exchange of information among state board members and others involved in the promulgation and administration of continuing education requirements for public accountancy licensure.⁸²⁾ Various problems and their solutions were discussed at the conference.

Quality control of courses was problematical as well as the diversity of rules applicable in the various states. The hope was expressed that one set of regulations would ultimately be accepted.

Another aspect discussed was the action to be taken in the event of non-compliance by a member of the continuing professional education regulations. It was stated that procedures should be established whereby fairness would be ensured. Formal hearings should be provided for and disciplinary action be taken when warnings and grace periods have been ignored.⁸³⁾

The legality of continuing education requirements was also discussed by Robert W. Hill. As far back as 1889 a decision was handed down by Justice Field, in the case of Dent -v- West Virginia, upholding West Virginia's physician licencing laws:

"The same reasons which control in imposing conditions, upon compliance with which the physician is allowed to practice in the first instance, may call for further conditions as new modes of treating disease are discovered. ... It would not be deemed

82) National Association of State Boards of Accountancy, "Special Report on the Conference on Continuing Education Requirements", *NASBA News*, July 1975, pp.1/2

83) *Ibid.*, p.9.

a matter for serious discussion that a knowledge of the new acquisitions of the profession, as it from time to time advances in its attainments for the relief of the sick and suffering, should be required for continuance in its practice. ..." ⁸⁴⁾

The Supreme Court of Wisconsin stated in *Week -v- State Board of Examiners* :

"The fact that a person is once licensed does not create a vested property right in the licensee, as advancements in the trade or profession may require additional conditions to be complied with if the general welfare of the public is to be protected. ... Respondents argue the legislature has the right to decide whether advancements in their profession require those engaged in its practice to attend educational programs in order to continue practicing. To this we agree." ⁸⁵⁾

In a recent case, *Lichtman -v- Ohio State Board of Pharmacy*, Professor Hill reported that the Supreme Court of Ohio upheld the ruling of the Ohio State Board of Pharmacy. Public interest was seen to be of utmost importance and the ruling states:

"The purpose of this section is to protect and guarantee health, safety and welfare of the citizens of Ohio by requiring that those persons performing services in the area of drugs and medication have the necessary expertise by keeping abreast of new developments in the pharmaceutical area." ⁸⁶⁾

In a few instances continuing education statutes have been held invalid, mainly because they delegated authority to professional societies.⁸⁷⁾ The exposition of the above legal requirements has been given to indicate that members of various societies may challenge the legislation enforcing continuing educational requirements. This must be seen in the light of Americans' obsession for litigation and it is submitted that such litigation is detrimental to the image of a profession. It is acknowledged that the findings of an American Court of Law may not necessarily be accepted by South African Courts.

84) *Loc. Cit.*

85) *Loc. Cit.*

86) *Ibid.*, p.10.

87) *Loc. Cit.*

15.10 A Canadian Approach - Views of Special Committee
on Required Professional Development

During August 1975 a Summary Report of the "Special Committee on Required Professional Development" was published by The Canadian Institute of Chartered Accountants. The main recommendation of this committee is:

"All (emphasis added) Chartered Accountants must demonstrate that they are continuing their professional education as a condition of renewing membership in a provincial institute." ⁸⁸⁾

Note that all members are subjected to the requirement, but although the committee acknowledges that this is desirable and the ultimate goal, an exemption is recommended for members not engaged in public accounting. The reason for exempting chartered accountants not in public practice is that the public interest is not as important for members in industry, government and education. An onerous bridging back requirement for those desiring to return to public practice from industry, should encourage exempt members to comply with the recommended requirements. ⁸⁹⁾

The Committee utilised a questionnaire to determine the opinions of the members, and over half the respondents indicated that there should be a required professional development programme for all or some members. Two-fifths indicated a preference for an optional programme for all members and only five percent were in favour of the status quo. Re-examination as an alternative to required professional development was rejected by a small majority, although a few provinces did favour this means. Mandatory re-examination as a sole requirement was favoured by very few members. ⁹⁰⁾

The major objectives of a professional development programme should be to maintain a level of technical knowledge and to demonstrate concern for public interest. ⁹¹⁾

88) Canadian Institute of Chartered Accountants, *Summary Report of the Special Committee on Required Professional Development*, Toronto, August 1975, introductory page.

89) *Ibid.*, pp.9/10.

90) *Ibid.*, p.3.

91) *Loc. Cit.*

The recommendations of the Special Committee may be summarised as follows:

- (a) That the basic requirement be the accumulation of 200 units of credit in every three-year period by members in public practice. Members not in public practice are exempt and there are also certain exemptions for age, as well as discretionary exemptions on grounds of illness, foreign residence, partial retirement or other special circumstances.
- (b) That the two hundred units of credit be made up as follows:
 - (i) a minimum of one hundred units of credit in core area of accounting which encompasses financial accounting and reporting, managerial accounting and control, finance and computers and data processing (excluding computer auditing)
 - (ii) an additional one hundred units of credit at the option of the members in accredited non-core subject areas
 - (iii) that one hundred units of credit in the core areas of auditing and taxation in addition to the basic requirement be accumulated by members in public accounting. This is subject to a minimum of twenty units of credit in each area. The core area of auditing encompasses auditing and professional practice as well as computer auditing, and taxation includes federal and provincial taxation.
- (c) A voluntary programme of professional development complying with the basic requirements as set out above be undertaken by members who are exempt.
- (d) There are bridging provisions for a person desiring to return to public accounting. These specify that within twelve months of changing to his new status, he be required to make up units of credit for a member engaged in public accounting for a six-year period before his change of status to public accounting. Public accounting includes members involved in related

functions (through a firm affiliated with a firm in public practice) such as management consulting, bankruptcy and data processing.

- (e) That the first measurement period is to commence with effect from 1 January 1978, and members are to submit necessary evidence of satisfactory completion by 31 December 1980, and renewal of membership is to be contingent on this evidence.⁹²⁾

Certain definitions need to be examined. Units of credit, the Special Committee feels, is a more appropriate unit of measurement than simply using course days or course hours. The reason is that it permits easier accreditation of non-classroom learning activity, and courses can be accredited by taking quality into account rather than just simply duration. It was suggested that a one-day course be equated with twenty units of credit.⁹³⁾

The core areas of knowledge accepted by the Committee are accounting, auditing and taxation. It is suggested that non-core areas of knowledge should be restricted to areas directly contributing to a member's technical knowledge.

Formal and informal learning will be recognised, the latter being limited to those courses which can readily be measured. Activities such as writing of text books and technical articles which appear in recognised professional journals, attendance at technical sessions of conferences of recognised professional organisations will also qualify. The maximum credit for these activities is limited to 20% of the three-year requirement. Formal learning activities, organised by professional institutes or other bodies which contribute directly to updating of members' technical knowledge, will qualify.

Credits will also be granted for developing teaching or revising accredited courses. Members serving on the

92) *Ibid.*, pp.5/7.

93) *Ibid.*, pp.6/7.

Canadian or provincial institutes' technical committees will also be given credits.

It is suggested that the programme be adopted uniformly throughout Canada to ensure membership reciprocity between provincial institutes. The observation is made that the lack of uniformity in the United States of America has created many administrative problems as a result of lack of reciprocity between State Boards of Accountancy.⁹⁴⁾

It is suggested that members report annually to their provincial institutes what courses they have attended during that year.⁹⁵⁾ If a member does not qualify, he must make up the shortfall in order for his membership to be renewed. Records will also be kept for those members who comply on a voluntary basis.

In an analysis justifying a required rather than a voluntary programme the following observations are made, that

- (a) the public interest has been taken into account by reassurances that the profession is endeavouring, as far as possible, to ensure that members are keeping up-to-date;
- (b) it rejects the market-place argument that supposedly ensures that members will keep up-to-date with the latest developments. Incompetence or inadequate service is normally only discovered after the damage has been done. A voluntary programme will not effectively ensure that the member who requires updating most, participates in the programme.⁹⁶⁾

The Canadian Institute of Chartered Accountants has discussed the recommendation of the Special Committee and it appears that the recommendations will not be implemented on the schedule outlined in the report.⁹⁷⁾ A review of recent

94) *Ibid.*, p.7.

95) *Ibid.*, p.8.

96) *Loc. Cit.*

97) Canadian Institute of Chartered Accountants, letter from E.J. Reynolds, Director of Professional Development, dated 16 February 1976.

Canadian accountancy literature indicates that the Canadian Chartered Accountant is anticipating some form of mandatory required professional education.⁹⁸⁾ The implementation of the recommendations is now a decision which rests with the provincial institutes.

15.11 Conclusion and Recommendations

It has been stated that professional competence is an insidious and creeping mental paralysis affecting all age groups and classes of accountants - even the newly qualified accountant.⁹⁹⁾ There can be no doubt that there will be an explosion of knowledge as well as an explosion of expectations in the next decade or so. Bearing public interest in mind, it is important for the practitioner to be seen to be maintaining his competence. For a practical-experience requirement to be meaningful, it is important that the principal be kept up to date with latest developments, so that a major problem in the practical-experience requirement, namely the trainee's progress is limited to the knowledge and competence of his principal, may be obviated. From the abovementioned reservations and anticipated growth of knowledge, there can be no doubt that some form of mandatory requirement may become necessary.

It is therefore suggested that a quality review programme, similar to the Peer Review Programme of the American Institute of Certified Public Accountants, be instituted so that the smaller and medium-sized firms may be afforded the opportunity of improving work standards. Development in the proposed Quality Control Registration Programme of the American Institute of Certified Public Accountants should be observed with close interest. (De Facto Quality Control of Stockbrokers' audits exist anyway in South Africa).

It is further recommended that the Public Accountants' and Auditors' Act be amended to provide for practising accountants

98) Sayers, John G., "Getting the Most out of RPD", *CA Magazine*, November 1975, p.39.

99) Editorial in *Accountancy*, "A duty to remain professionally competent", January 1974, p.2.

to submit annual returns of their attendance at defined continuing education programmes.

It is further recommended that universities endeavour to develop specialist courses in co-operation with chartered accountants who may have the necessary expertise to assist with such presentations.

A mandatory programme is not recommended at this point in time, as the facilities available may be insufficient to meet the necessary demands to comply with a mandatory requirement. This should not be a deterrent in the long term, but should rather be seen as a challenge. In the meantime practitioners should be encouraged to attend approved courses on their own accord. The profession cannot afford a loss of image because of ignorance of new developments by a minority of its members.

The long-term goal must be to develop courses, so that mandatory continuing education will be the alternative to obsolescence.