

CHAPTER TWO: LITERATURE REVIEW

2.1. INTRODUCTION

From the overview of the research in Chapter 1, we now seek to identify existing literature bearing relevance to the subject being researched. A comprehensive review of related published works and their major findings or shortcomings will be useful in justifying and explaining this research and this shall be analysed under the broad categories of accounting education, education for graduates and the training of chartered accountants.

2.2 ACCOUNTING EDUCATION

The rapidly changing environment necessitates the accounting profession to respond to the challenges brought about by these changes or lose credibility. These changes are a consequence of globalisation of the business scene and included the emergence of strategic economic and trade alliances and the rapid improvements in communication and information technology. (Ahmad Mustapha Ghazali, 1999). "Accountants must now deal with accounting standards that transcend political boundaries, and assume a responsibility beyond that of merely financial reporting". In meeting these challenges, Ahmad Mustapha Ghazali, (1999) described the attributes of today's accountant to include entrepreneurial skills, financial analysis, skilled salesperson, a good communicator and negotiator, public relations skills and a strategist.

The need for changes has arisen because accounting programmes have not kept pace with the dynamic, complex, expanding and constantly changing

profession for which students are being educated. (Accounting Education Change Commission, 1990).

Patten & Williams (1990) opine that the fundamental flaw of accounting education is that while it has tended to remain static, the profession has been changing. The accounting profession is entering into a new era, with new functions to be performed within the organisations, and within the society and with new expectations of those who enter.

Although accounting graduates generally are well-prepared in their technical knowledge, they are becoming increasingly ill-equipped to face the challenges of the profession they will be entering. (Patten & Williams, 1990).

The International Federation of Accountants (IFAC) has its own education committee whose mission is the worldwide development and enhancement of an accountancy profession with harmonized standards and being able to provide services of consistently high quality in the public interest. It was formed to develop standards, guidelines, discussion papers and other information documents on both prequalification education and the training of accountants and on continuing professional education for members of the accountancy profession. (Education Committee, IFAC, 1998). The standards establish essential methods and techniques, which have the potential for international

recognition, acceptance and application. Although they cannot override authoritative local pronouncements, they are essentially prescriptive in nature.

IFAC (International Education Guideline 9, 1996) sets forth recommendations as to the education and experience needed by prospective professional accountants to become qualified and to exercise their profession effectively and responsibly. The recommendations are directed toward establishing:

- ☼ the goal of accounting education and experience; its components of knowledge, skills and professional values; and the elements on which education and experience for all professional accountants should be founded;
- ☼ the minimum benchmarks of professional education and experience that professional accountants should meet in order to obtain membership in their professional body and to exercise their profession; and
- ☼ the criteria for the assessment of professional competence

IFAC states that the goal of accounting education and experience must be to produce competent professional accountants capable of making a positive contribution over their lifetimes to the profession and the society in which they work. The maintenance of professional competence in the face of the increasing changes they encounter, make it imperative that accountants develop and maintain an attitude of learning to learn. The education and experience of professional accountants must provide a foundation of knowledge, skills and professional values that enables them to continue to

learn and adapt to changes throughout their professional lives. (International Education Guideline 9, 1996).

The guideline states that all cultures exist in an environment of significant change. Increasingly, today's professional accountants, in addition to acquiring accounting skills and knowledge, must have skills to enable them to be entrepreneurs, financial analysts, excellent sales person, good communicators, capable negotiators and public relations specialists, as well as good managers. A programme of accounting education and experience must go beyond the traditional approach to accounting education, which has emphasized "transfer of knowledge" with learning defined and measured strictly in terms of knowledge of principles, standards, concepts, facts and procedures at a point in time. Emphasis must be placed on a set of knowledge, skills and professional values broad enough to enable adaptation to change. Individuals to become professional accountants should be characterised by a constant striving to learn and apply what is new.

A study conducted by Tho and Ho (1992) shows that professionals, educators and undergraduates alike recognized the need to develop leadership qualities, interpersonal, ethical-reasoning and analytical decision making skills as an integral part of professional education. In short, while an undergraduate has to be grounded in the technicalities of accountancy, he must at the same time be

exposed to a broad-based education to prepare him for career advancement up the management hierarchy.

Their findings revealed that respondents agree to some extent that the state of Malaysian accounting education programme at the universities is inadequate to meet the needs of an expanding profession. All respondents did not differ in their views as regards allocating a greater portion of curriculum content to Business Computing / Information Technology, Management, Human Relations and Communications. Also their study shows that the importance of compulsory vacation training and its assessment as part of the curriculum is strongly supported. However, since this study was done, in 1992, the business environment has changed tremendously thus necessitating the conduct of a new study involving the empirical testing of opinions and views of accountants at large.

F. Simyar (1996) writes

"the future of the education is shaped by the changes in technology and the society. Today's employers are often interested in a broad education rather than narrow and highly specialized graduates. This is more valid in the case of undergraduate education than the graduate work. The recruiters are not only interested in more broad education but they are also interested in the skills, attitudes, integrity, independence of thought process, imagination and curiosity of the graduates from the universities."

The focus of accounting education must change from mere knowledge acquisition and accumulation to one based on "learning to learn approach" This method involves developing skills, knowledge and professional orientation that help the student to learn more effectively and to be able to use this learning strategies to continue to learn throughout their professional lifetime as new knowledge and skills are developed and required, and, as old ones lose relevance.(F. Simyar 1996)

The first chapter of the Accounting Education Series Volume 16, discusses "why accounting education may not survive in the future." It states that in the USA, accounting education today is plagued with many serious problems and if these problems are not seriously addressed and overcome, they will lead to the demise of accounting education. Three facts arose from their studies namely:

- ☞ the number and quality of students electing to study accounting is decreasing rapidly.
- ☞ Both practicing accountants and accounting educators, most of whom have accounting degrees, would not major in accounting if pursuing their education over again.
- ☞ Accounting leaders and practicing accountants are telling us that accounting education, as currently structured, is outdated, broken and needs to be modified significantly.

Corporate and public accounting firms are working hard to transform themselves into finance professionals and professional services firms. It is now accounting education's turn to transform itself. Failure to do so could be fatal. Seizing the moment to make needed changes could increase our relevance and open new opportunities for accounting education (Albrecht and Sack, 2000)

Though no studies have been undertaken, in Malaysia there still seems to be an increasing demand for accounting courses, both academic and professional. However the realisation that there is a need for a revamp of the accounting education has dawned amongst the academia. The self examination process began earnestly when the Ministry of Education (MOE), directed the public universities offering accounting programmes to review the curriculum and a report known as the Halatuju Report was submitted to the Ministry of Education on 10 November 2000. (Susela, 2001).

Susela reiterates that one cannot be a good teacher if one is ignorant of recent developments in one's field and noted that the responsibility for accounting education does not rest solely on the accounting academics. They need to work with the profession if they are to meet the challenges of the new millennium. The relationship between academia and the profession must change from "benign neglect" to "systematic dialogue and follow-up" (Susela, 2001).

Due recognition was also given to the fact that pure accounting knowledge would not fully equip an accounting graduate to face the realities of the contemporary world. Skills in communication, entrepreneurship, strategising and interacting with people are essential to ensure the continued existence in the profession.

Previous empirical research (Estes, 1979; Ingram and Frazier, 1980; Stanga and Ladd, 1990), indicates that oral communication ability is extremely important for practising accountants. The quoted Kryzstofik and Fein (1988, p.86), who found that oral communication ability was the most important factor that influences CPA firm recruiters to invite candidates for office interviews

There is a need to teach students to think analytically and globally and to communicate effectively. This includes developing their "people skills" such as teamwork, sensitivity training (especially in other cultures) and leadership. They need to have a stronger grounding in economics, finance and quantitative analysis. (Susela, 2001). However, this has not been empirically tested and proven, thus providing further support for the conduct of this current study, which attempts to gather the perception of accountants as to whether these features are important to an accountant practicing in today's world.

Directives were received from the MOE in May, 2001 for incorporating courses in business ethics and Professional Moral and Creative Thinking and

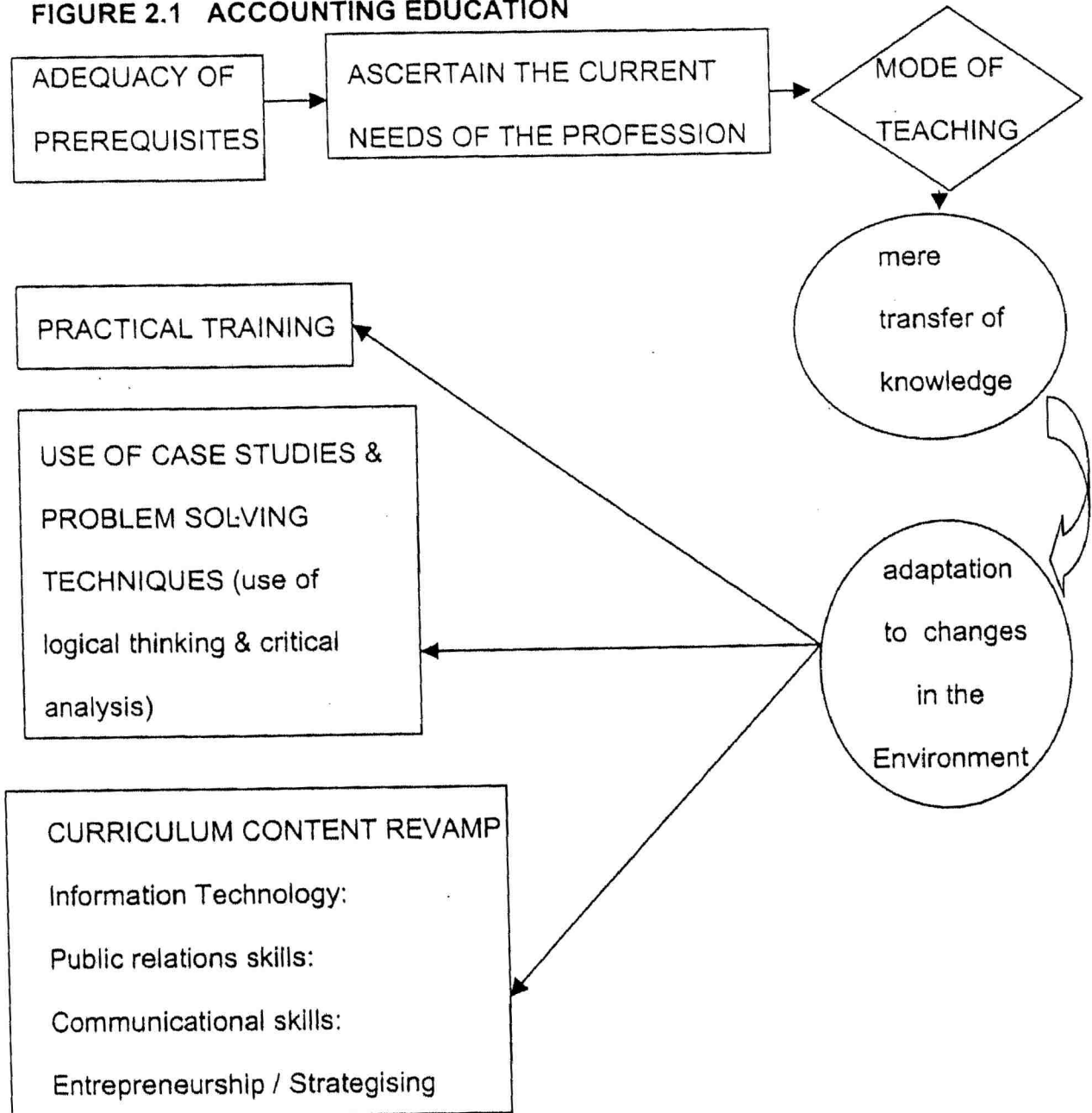
Communication Skills as compulsory courses in all undergraduate programmes. (Susela, 2001). The fact remains however, that the necessity for these skills has no empirical support thus further justifying the current study being undertaken.

Clearly, the above literature on accounting education, both overseas and in Malaysia, supports the view that teaching accounting the traditional way will produce accountants who will not be able to meet the expectations of the contemporary business world. The analysis of the literature discussed can be summarised as in Figure 2.1.

To achieve a transformation in accounting education; one has to start with the entry prerequisites into universities and colleges. The final years of secondary education should prepare students to detach themselves from a system of spoon-feeding knowledge to one where they would be required to think critically with an open mind and form logical assessments and express intelligent opinions. The mode of teaching and the accounting programme itself must be tailored to suit the current needs of the profession in terms of technical knowledge and also prepare the students adept creditably to a position in the accounting profession by incorporating non technical course skills in information technology, communication, public relations and entrepreneurship / strategising. Assurance of practical exposure can be achieved through the use

of real life case studies and problem solving techniques culminating in practical training through industrial attachment.

FIGURE 2.1 ACCOUNTING EDUCATION



2.3. EDUCATION FOR GRADUATES

To attain and maintain the status of a professional, an accountant requires continuing learning. Accounting graduates should identify with the profession and be concerned with developing the knowledge, skills and values of its members. They should know and understand the ethics of the profession and be able to make value-based judgments. They should be prepared to address issues with integrity, objectivity, competence, and concern for the public interest. (Accounting Education Change Commission, 1990).

Accounting education is undergoing a fundamental challenge to its traditional academic organisational culture, flowing from significant changes in the environment in which higher education is not operating. Two primary forces radically altering the business scene is globalisation and information technology. (Susela, 2001).

Business organisational structures are changing, globalisation of economy touches every business, the scope of services of public accounting firms is expanding and the emphasis of all organisations is shifting to issues of quality and value. If accounting graduates continue to be ill prepared to function effectively in this new order of organisational competitiveness, employers will have no choice but to turn to graduates in other disciplines to fill their needs. (Patten & Williams, 1990).

The business environment is evolving rapidly and the role of the accountant has to keep pace with the evolution to avoid being redundant. The intellectual skills needed by today's accountant include "the means to solve complex problems using creative techniques, and the skills of delegating responsibility. Interpersonal skills should also not be neglected i.e. "the need to recognize the human needs of understanding, sympathy, empathy, compassion and respect." (Ahmad Mustapha Ghazali, 1999). In outlining the specific knowledge needed by today's accountants, he emphasized the need for an understanding of group dynamics in business. A strong fundamental understanding of business and auditing alone was not enough in that national and international business forces must be understood. He further explained the need for the modern accountants to have knowledge of organisational practice and the advantage of information technology.

Tho and Ho (1992), state that continuing professional education keeps an accountant abreast with changes in the environment, and is an integral part of his / her career development.

IFAC (International Education Guideline 2, 1998) sets forth the objectives of a Continuing Professional Education (CPE):

- ☞ maintain and improve the technical knowledge and professional skills possessed by their members;
- ☞ assist members of the profession to apply new techniques, to understand economic developments and evaluate their impact on their clients or employers

and on their own work and to meet changing responsibilities and expectations;
and

☞ provide reasonable assurance to the society at large that members of the profession have the technical knowledge and professional skills required to perform the services they undertake to provide

It emphasizes, that in today's changing and increasingly complex environment, accountants cannot possess the knowledge required to render professional services of a high quality if they do not recognize the need for, and obtain, CPD appropriate to their circumstances. These include changes in accounting and auditing standards, new legislations and regulation affecting the profession and the people and the organizations it serves, increasingly complex tax systems and rules, and the on-going development and greater use of sophisticated financial instruments. The widespread use of new tools such as personal computers and related electronic communications systems, the resources on the Internet and the everyday use of quantitative methods have accompanied these changes.

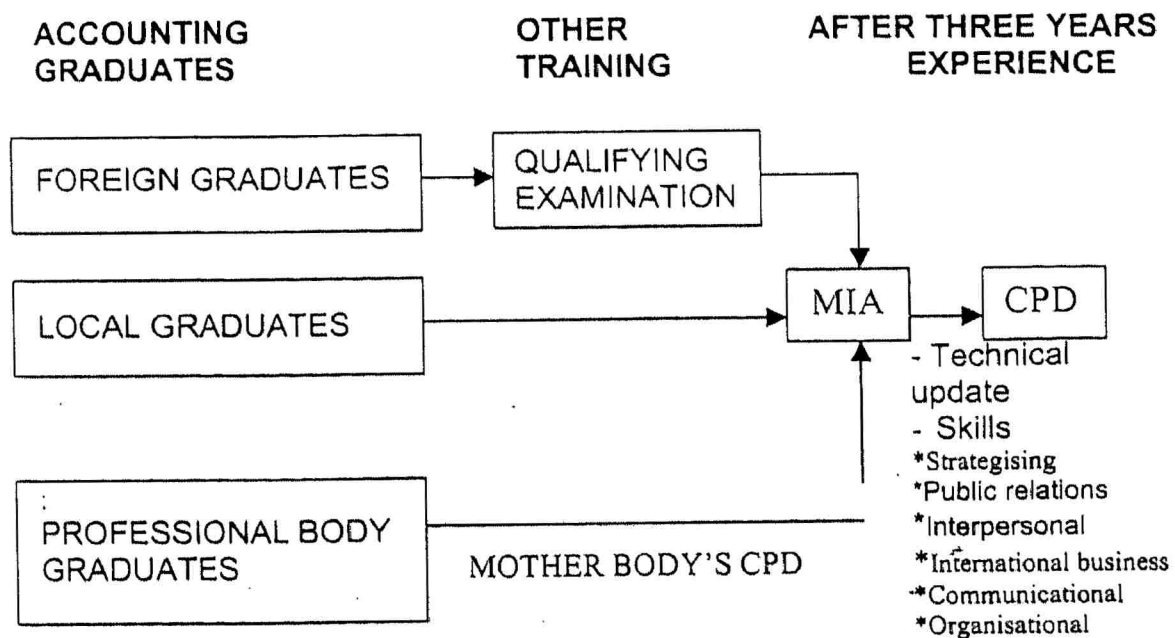
In reacting to changes by accounting associations and professionals, the Big 5 firms, more than any other group, have transformed themselves into completely different kind of entities. No longer driven by audit and tax services, they have expanded the type of services they offer, the type of students and experienced hires they recruit, and no longer even refer to themselves as public accounting

firms. (The Accounting Education Series Volume 16, (2000).The Institute of Management Accountants has changed the name of its journal from *Management Accounting* to *Strategic Finance*. Its members are no longer referred to as “management accountants” but instead as “finance professional”. Finance professional (accountants) working inside companies have transformed themselves from scorekeepers working in isolated departments to trusted business professionals making decisions together with management.

Accounting education is viewed in a holistic manner as the overall education of accountants. In this regard, the professional bodies play a role in ensuring members of the profession are continuously updated on current developments by providing Continuing Professional Development (CPD) programmes. Worker education will be revolutionized. Short-term training will be replaced by lifelong learning. In this respect, every firm will begin to resemble a university. While technical skills will continue to be important, the more pressing requirement will be for every worker to be able to think and create. (Susela, 2001).

In summary, the literature supports the need for continuous learning amongst accountants. Failure to keep abreast with recent developments in their profession and adapting to the metamorphosis experienced by the business environment will make them a defunct tool with obsolete values. Figure 2.2 attempts to illustrate this continuous learning process.

Figure 2.2 EDUCATION FOR ACCOUNTING GRADUATES



Firstly, accounting graduates include graduates from professional bodies both foreign and the Malaysian Association of Certified Public Accountants. Usually their professional bodies offer a series of CPD programmes. They are eligible for membership with the Malaysian Institute of Accountants (MIA) i.e. hold the designation of Chartered accountant, after three years of accounting work experience, with the exception of members of professional bodies not included in the First Schedule of Part I of the Accountants Act 1967, who have to sit for a qualifying examination. Secondly, it includes graduates from both local and foreign universities. The former qualifies for MIA membership after three years of accounting work experience but the latter also have to sit for a qualifying examination. Prior to admission to MIA, the graduates will have to attend

selected training programmes to ensure that they keep abreast with the current developments in the profession.

2.4. TRAINING OF CHARTERED ACCOUNTANTS

The prerequisites for qualifying as a chartered accountant in other countries provides valuable input to this study. A comparative study through references from their respective websites, enables us to ascertain what should be the essential pre-qualifications needed before a person is designated as a chartered accountant in Malaysia.

To be eligible to train with Institute of Chartered Accountants, Scotland (ICAS) you must hold a UK degree or overseas equivalent. To ensure that chartered accountant trainees have a sound understanding of chartered accountancy, ICAS training incorporates both theory and practical experience. To this end all trainees must secure a training contract with a firm which has been authorised to train students - in other words the firm has agreed to certain terms and conditions with regard to your training and is able to offer the breadth of experience required in order to qualify at the end of your training contract.

Similarly the Institute of Chartered Accountants of England and Wales (ICAEW) and the Institute of Chartered Accountants of Ireland (ICAI) requires potential candidates to possess an university degree or a professional qualification before they can train to be a chartered accountant with one of the institute-

authorised training offices. However consideration is also given to those with a partial qualification.

The Institute of Chartered Accountants of India requires persons desirous of joining the chartered accountancy course to hold a degree (preferably in Commerce or Mathematics) or register himself as an articled clerk for practical training for a period of three years or as an audit clerk for a period of four years, with a chartered accountant in practice entitled to engage and train articled clerks.

The process for becoming a chartered accountant in Canada varies somewhat from province to province. However, in general, all chartered accountants must complete a rigorous and unique educational program, combining academic study, professional education and practical working experience. This program ensures that students develop the superior analytical, financial, accounting, communication and leadership skills demanded by today's marketplace. Candidates ultimately must pass the Uniform Final Exam or UFE before they can become a Chartered Accountant. This comprehensive examination is frequently cited as among the most rigorous of professional examinations.

The Chinese Institute of Certified Public Accountants (CICPA), the national organization of certified public accountants in China, regulates the public accountancy profession across the country. All those who have passed the

National CPA Examination of all the required subjects and their membership applications have been approved or those who were qualified through the former evaluation procedures, shall become individual members of the Institute.

In Australia, a chartered accountant is a member of the Institute of Chartered Accountants of Australia (ICAA). To become a chartered accountant you must complete:

1. An accredited business degree with an accounting major (or a non-business degree and an accredited conversion course)
2. The ICAA postgraduate program
3. Three years approved practical experience, mentored by a chartered accountant in an accredited organisation.

CPA Australia maintains strict standards in admitting an applicant as a member. In order to qualify, they must:

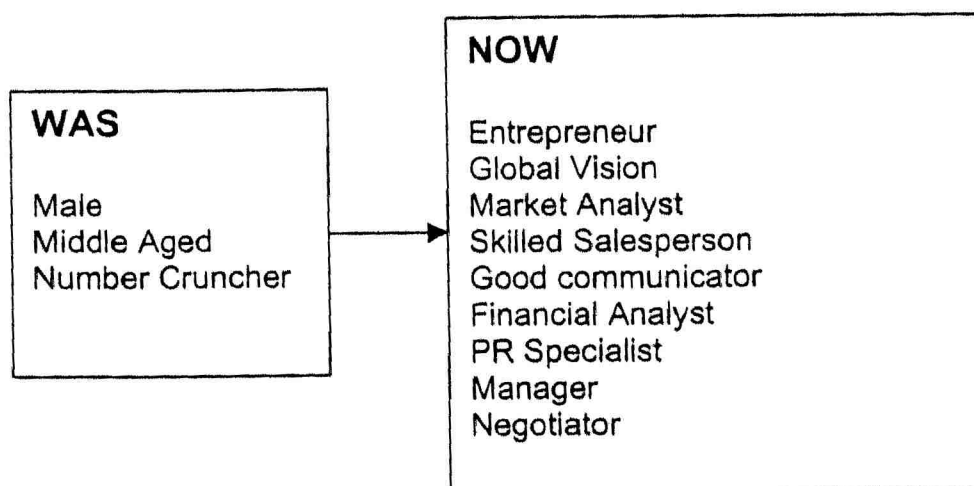
- ☞ hold an undergraduate degree accredited by CPA Australia;
- ☞ have completed the CPA Program, a comprehensive postgraduate professional study program;
- ☞ complete a minimum of three years supervised or five years unsupervised accounting or finance experience;
- ☞ undertake Continuing Professional Development each year.

The Institute of Chartered Accountants of New Zealand (ICANZ) admission requirements include four years equivalent full-time study at an approved

tertiary institution, including completion of a degree programme. The candidate then registers as a provisional member of the Institute after which he has to undergo a period of practical experience and sit for a professional competence examination.

Initially, New Zealand had a relaxed entry qualification requiring candidates to have completed a 3-year degree program and 3 years of post qualifying experience. However, the need to revise these non-rigorous entry requirements was imperative when there was a threat of non-recognition by the professional bodies in the UK and Australia. They realized that the image of an accountant had changed as illustrated below in Figure 2.3.

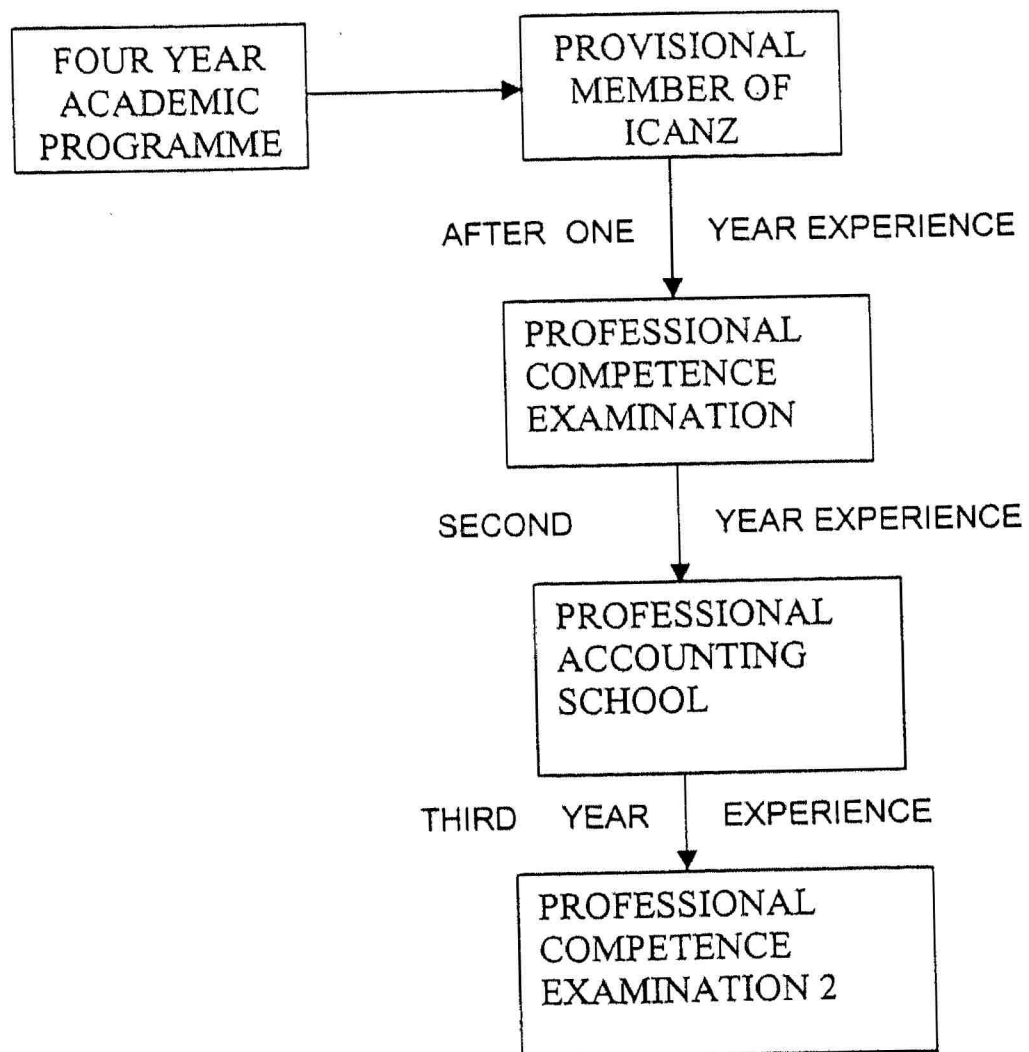
FIGURE 2.3: THE CHANGING IMAGE OF AN ACCOUNTANT



An interview with Philip Keeling the vice president of Advanced Business Education Limited (ABEL), was useful in understanding the move made by the ICANZ. ABEL is the wholly owned subsidiary of ICANZ, to whom is contracted the responsibility for the development and assessment of professional

competence for the College of Chartered Accountants of New Zealand for ICANZ. They commenced by introducing a Final Qualifying Exam, which was highly criticized due to its wide coverage and inability to test the competency of the candidate. However, it served in the interim to quell the threats of the overseas institutes. A coherent analysis of what was needed led to the creation of a total package approach, with three distinct components. This is illustrated in Figure 2.4

FIGURE 2.4: PROFESSIONAL COMPETENCY EXAMINATION OF ICANZ



1. Academic – a four-year academic programme. This could be a four year degree programme or a three year degree programme with an additional year for honours, or a post graduate diploma or a double major

2. Professional Competence Examination 1 (PCE 1)

The aim of the examination is to assess a provisional member's understanding and appreciation of their role as a professional within the Institute. Assessment of the candidates awareness, knowledge and skill in these topics is to be undertaken by a mix of a 4 - hour Ethics workshop (25%) and a 2 - hour written examination (75%). The 4 assessment components are:

☞ Ethics Workshop

☞ Written Examination

- Ethics
- Structure of the Accounting Profession
- Current Issues

3. Professional Accounting School (PAS)

To develop candidates' ability to form professional accounting judgments across a range of business contexts. It is an integrated programme focusing on developing and assessing competencies and enhancing candidates' ability to:-

- ☞ identify and solve business problems
- ☞ research, analyse and synthesize information
- ☞ integrate knowledge
- ☞ communicate effectively

- ☞ demonstrate ethical awareness
- ☞ work in a team
- ☞ work with other business disciplines

In summary, Institutes of Chartered Accountants around the world seem to have some form of *professional competency reflecting prerequisites*, usually through professional examinations during or after the three/four years compulsory work experience with approved mentors firms. This has been summarised in Figure 2.5.

However, in Malaysia, the route to becoming a chartered accountant has no professional competency examinations. Graduates with three years experience, and where relevant, passing a qualifying examination, can apply to join MIA and be a chartered accountant. (Abdul Samad Haji Alias, 2001). Therefore the question is should there be some form of assessment conducted to ensure that these accountants have the required competence and proficiency to practice?

FIGURE 2.5: Route To Becoming A Chartered Accountant

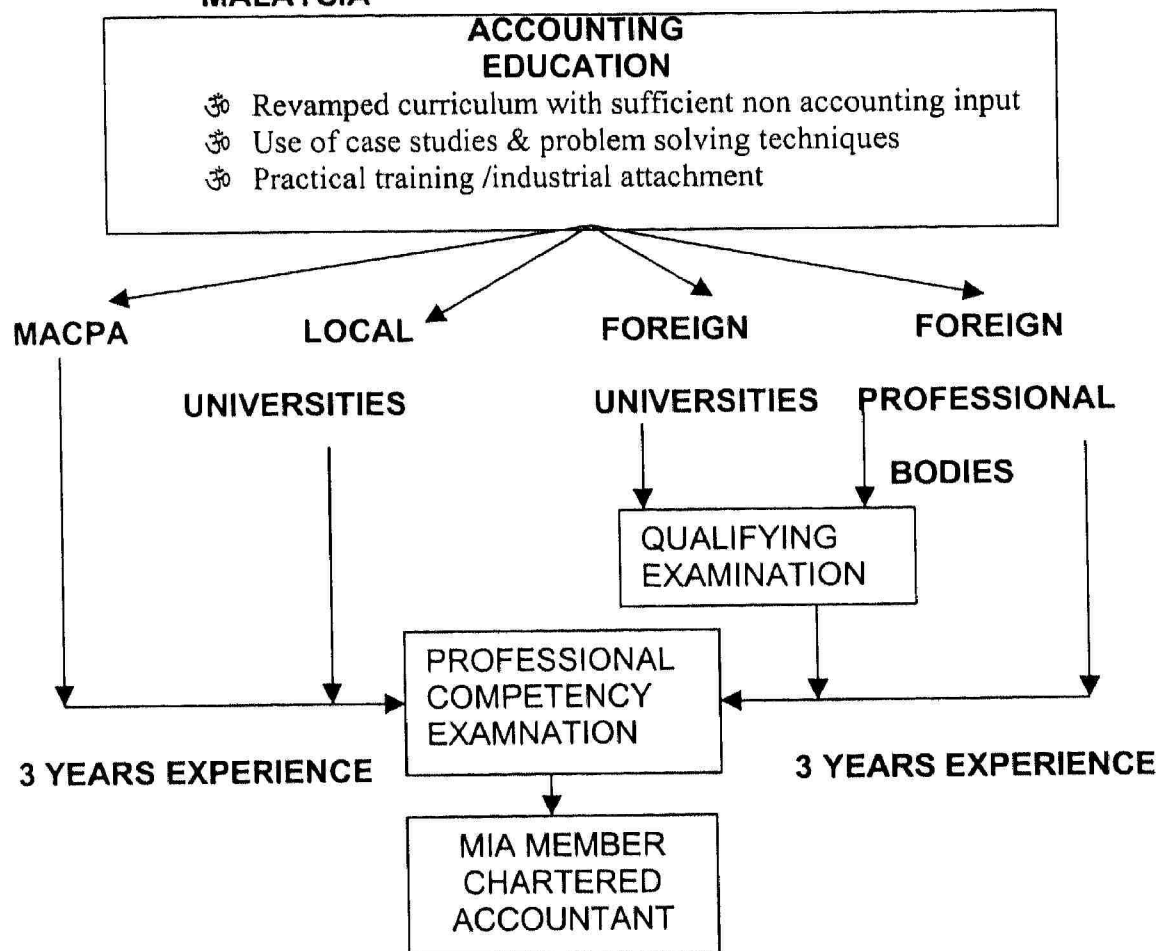
	England & Wales, Ireland, Scotland, New Zealand, Australia, Canada, India and China	Singapore & Hong Kong
Pre requisites	Degree or recognized equivalent qualification	Degree or recognized equivalent qualification
Years of experience	3 years training with a recognized member firm (professional) *	3 years training with a recognized member firm (professional)*
Professional examination	Competency examination at the end of the training period	Not applicable
Designation	CA	CPA

* Years of experience differ for India (4 years), Ireland (3 to 4 years depending on entry qualifications) and Hong Kong (3 to 5 years depending on entry qualifications).

2.5. CONCLUSION

Having seen the relevant literature on the matter under study, a comprehensive model is proposed, which reflects what the current state of affairs should be and asks the question of "what course of action should be taken to achieve it?" This is shown in Figure 2.6.

FIGURE 2.6: MODEL FOR TRAINING CHARTERED ACCOUNTANTS IN MALAYSIA



Equipped with model we now able to proceed on to discuss the different methods to be used as well as the methodology to be employed in obtaining relevant data and empirically testing the validity of this model.