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## Service-Learning as a Practical Approach to Teaching Auditing

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<b>The Impact of Leader Power on Employee Outcomes: An Empirical Study of Information Technology Professionals in Turkey</b> <i>Tuna Cenkci</i>	<b>1</b>
<b>Putting it in Writing: Examining the Link between Higher Education Institution Performance Rankings, Best Places to Work, and Emphasis on Human Resources in Mission Statements</b> <i>John Fazio, William "Rick" Crandall, &amp; Christopher Ziemnowicz</i>	<b>15</b>
<b>Service-Learning as a Practical Approach to Teaching Auditing</b> <i>Andrew G. Bashore &amp; Matthew A. Phillips</i>	<b>26</b>
<b>Managing Risky Behavior: How Organizations Manage Workplace Violence</b> <i>Carolyn Wiley</i>	<b>40</b>
<b>Web-based Accountability: An Integration of Extant Knowledge, Research Gaps and Future Directions</b> <i>Brandi N. Guidry Hollier &amp; Lisa Anne D. Slatten</i>	<b>56</b>
<b>The Use and Usefulness of Social-Network-Site Recruiting</b> <i>Allison Tharp &amp; David Boggs</i>	<b>67</b>
<b>Performance Evaluation and Promotion Criteria: Perceptions of Faculty Evaluation in Promotion Decisions</b> <i>Valerie Wallingford, Gyongyi Konyu-Fogel &amp; Mary B. Dubois</i>	<b>74</b>
<b>Publishing Guidelines</b>	<b>87</b>

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## Service-Learning as a Practical Approach to Teaching Auditing

Andrew G. Bashore, Arend, Laukhuf & Stoller, Inc.  
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*Business pedagogy can be more effective for students and business through a hands-on, practical approach rather than traditional lectures. The Pathways Commission of the AICPA and AAA recommended we “develop curriculum models, engaging learning resources, and mechanisms for easily sharing them as well as enhancing faculty development opportunities in support of sustaining a robust curriculum” (American Accounting Association 2012 p. 12; Hawawini 2005). In this article, we present a method to teach auditing. We identify a few articles integrating service-learning opportunities into a business school environment (Tonge and Willett 2012; Govekar and Rishi 2007). Our student teams performed agreed-upon procedures at three small churches. Qualitative data from both students and church personnel support this pedagogy. We develop practical implications for upper-level undergraduate business courses.*

### INTRODUCTION

"The educational preparation of accountants should rest on a comprehensive and well-articulated vision of the role of accounting in the wider society" (American Accounting Association 2012 p. 21). The teaching of auditing is not unlike several disciplines where foundational material is taught. The subject matter, while critical, can be tedious and uninteresting. Educating (and therein, learning) in this environment is at best, challenging, and at worst, short-term rote memorization. With the latter, students leave the experience wanting more and lacking the passion to pursue the subject further.

This is the dilemma our project attempts to solve: how to combine a real world, hands-on experience with service-learning to a subject that, traditionally, does not lend itself to applied learning techniques. Critics may argue that this issue can be mitigated to an extent with internships. Internships allow students to gain certain practical experience while surrounded by specialists in their field, performing similar tasks as a full-time professional.

We find, however, several drawbacks to the internship process. Specifically, it may be difficult for students to relate classroom material to an applied setting. Also, internships generally occur when the student is away from the classroom / university, and the supervisor may not be able to make the necessary connections between the classroom and the work experience. Indeed, as noted by Black, “the classroom experience is diminished by the distance between pedagogical content and practice reality” (Black 2013 p. 21). If while on an internship assignment after a gap in the appropriate subject matter, the student may find the experience lacking due to a lack of frequent pedagogical reinforcement or the feeling that they are not in a safe environment that welcomes numerous questions or academic curiosity.

Service-learning is "a balanced pedagogy anchored in reciprocity: the service-learning experience benefits students and community" (Govekar and Rishi 2007 p. 4). The project we implemented is a good way to fill the full breadth of experiences left out during an internship opportunity. During a service-learning project, students have the opportunity to go out in the field with professionals and bring the experience back to the classroom for discussion and analysis on how to apply the coursework to the experience in the field. The hands-on experience along with an interactive dialog allows students to complete a circle of knowledge and fully understand the material covered in class. Also, the service-learning experience, as opposed to the internship, helps the community and churches, while gaining practical knowledge for students.

Since it can be very ineffective to teach business topics with traditional lecture style classes, we integrated a service-learning project into our undergraduate Auditing II class. In this service-learning project, student teams audited small churches as volunteers. This project is in response to the Pathways Commission Report issued by the American Accounting Association (AAA) and the American Institute of Certified Public Accountants (AICPA). Auditing a small church will enhance the financial auditing education and interpersonal communication skills of accounting students by improving the quality of the overall learning experience through a hands-on, practical approach.

But while our paper focuses on a project used in an auditing class, we recommend consideration of service-learning as an addition to any upper level business course. Indeed, Govekar and Rishi provide examples of the success of service-learning experiences in both an economics course on money and banking as well as a non-profit management course. For the economics course, "89% of the class reported that their experience at an adult and teen learning center had enhanced personal understanding of general economics" (Govekar and Rishi 2007 p. 5). The management course demonstrated similar results while students recognized "the value of real-life experience in doing something that made a difference in the community" (Govekar and Rishi 2007 p. 5).

For our paper, we first present a review of literature supporting the lack of effectiveness in auditing pedagogy and churches' need for financial assistance. We then present our method of research and the steps we took in implementing our service-learning project, followed by evidence and reflections from participants including the authors.

## LITERATURE REVIEW

It has become increasingly apparent over the past few years that accounting education has been doing a less than superior job of preparing accounting students to become accounting professionals (ASEC AAA 2003; Albrecht and Sack 2000; Dickens and Reisch 2009). The AAA along with the AICPA has taken steps to restructure accounting pedagogy to move the accounting profession forward in a changing world. The Pathways Commission Report was released in July 2012 by the AAA and the AICPA to, among other things, lay the foundation of restructuring accounting education. One of the recommendations in the Pathways Commission Report is to "develop curriculum models, engaging learning resources, and mechanisms for easily sharing them as well as enhancing faculty development opportunities in support of sustaining a robust curriculum" (American Accounting Association 2012 p. 12). It is this recommendation to which this paper endorses a hands-on, practical pedagogy.

The accounting profession has earned much criticism with the scandals at Arthur Andersen, Health South, Tyco, Enron, and WorldCom in the early part of the century. The Sarbanes-Oxley Act of 2002 is an example of a regulatory measure that has been taken to bring the profession back to a positive light. Amerinic and Craig (2004) have explored ways of "reforming accounting education in the post-Enron era." Historical casework increases awareness of what has happened in the history of accounting so that measures can be taken to ensure that the profession can move out of the shadows and bring forth the proper knowledge to conduct responsible business.

Auditing, along with many upper-level business courses, can be a challenging subject to teach within the confines of business pedagogy. One student described her initial auditing course as "boring and tedious when memorizing the huge amount of material" (Student 1 comments, December 2011). The majority of an introductory auditing course is foundational; examples include: defining what an audit is, what it is used for, and why it is important in the business world. The course progresses into the practice of how to actually perform an audit starting with engagement meetings, audit planning, testing, and finally issuing an audit report. All of this information in a formal classroom setting can be very dry and may not get the attention of the students.

A second student stated, "[after an entire course of Auditing I,] I am still unclear what actually happens in an audit" (Student 2 comments, December 2011). Many curricula have focused auditing education on casework to provide students a practical approach to complement the theory taught in class (Kranacher, et al. 2008; ASEC AAA 2003; Drake 2011; Tonge and Willett 2012; Albrecht and Sack 2000; Amernic and Craig 2004). These same criticisms can be applied to other areas of business pedagogy such as management, marketing, and economics. Most courses that cover primary business disciplines begin by presenting a vast amount of information that is difficult to consume without application.

Many universities have integrated service-learning in accounting curriculums as a tool for enhancing learning and student performance in the classroom by addressing the call for accounting education to move beyond 'number crunching' to critical analysis and problem solving (Still and Clayton 2004). It is important for students to be interested in what is being taught in business classes so they can take the knowledge, skills, and abilities (KSAs) into the accounting profession (Tonge and Willett 2012; Dickins and Reisch 2009; McCoskey and Warren 2003; Weisz and Smith 2005; Kolb 1984; McClam, et al. 2007; Drueth and Drueth-Fewell 2005; Govekar and Rishi 2007).

Auditing skills are not, however, the only KSAs necessary to be successful in the accounting profession. "Recruiters believe that the specific discipline is often not as important as all-round abilities and attributes such as interpersonal and relational skills" (Weisz 2000 p. 33). In addition, "teaching methods must also provide opportunities for students to experience the kinds of work patterns that they will encounter in the public accounting profession. As most practice requires working in groups, the curriculum should encourage the use of a team approach" (Black 2013 p. 21). Since it is increasingly apparent that companies are actively looking for students with demonstrated interpersonal, communication, and teamwork skills, service-learning programs have included these attributes with exceptional results (Still and Slayton 2004; Dickins and Reisch 2009; McCoskey and Warren 2003; Weisz and Smith 2005; Govekar and Rishi 2007; Montano, et al. 2001; Weisz 2000; Cates and Langford 1999).

As a part of service-learning opportunities, it is important that each party in the project benefits from the project experience (Still and Slayton 2004; McCoskey and Warren 2003). Religious organizations as a whole have been facing an integrity crisis. In a religious organization, internal control is viewed as a worldly activity that is not necessary in a Christian environment (Enofe and Amaria 2011). Since the financial position of many churches is precarious, an annual audit of churches can be beneficial to both the church and the students as a service-learning opportunity (Enfoe and Amaria 2011; Capin 2001).

## RESEARCH METHOD

Churches have been facing integrity issues for some time and have taken it upon themselves to find a solution to the problem (Capin 2001). Conducting church audits in the second auditing class for undergraduate students came as an idea from the churches themselves. Also, as noted earlier, auditing can be a difficult subject to teach within the struggling accounting pedagogy. The Pathways Commission Report is aimed at improving the overall teaching of accounting. Classes that integrate service-learning opportunities in subject matters that are generally taught via theory and lecture style have generated success in students' ability to learn and attain the purpose and process of the material. For example, Govekar and Rishi noted that Economics students "thought creatively about otherwise possibly dull financial topics" when service-learning became part of the coursework (Govekar and Rishi 2007 p. 7).

Student auditing teams were randomly assigned. Had time permitted, it may have been beneficial to incorporate Learning Style Inventory (LSI) as a method to group students. LSI has been used in higher education as a way to show different learning styles that are associated with different approaches to

learning (Kolb and Kolb 2005). After the groups were assigned, each was given information about their respective church. Each group then met to take care of necessary housekeeping items such as when the group could gather for meetings and designating team member roles. Each group was required to have an audit manager, quality reviewer, and staff auditors (reference Figure 1: Audit Steps).

After getting acquainted with the background of each church, the groups met with the financial leader of their church for an engagement meeting. In this meeting, groups discussed particulars of the church and were presented with the current year financial statements, prior year audit report, and the current year budget as well as any necessary financial software used by the church for testing purposes. In addition, each group was given the Local Church Audit Guide generally accepted by their church's denomination. Each church was looking for slightly different information, which made each audit its own agreed-upon procedures engagement.

Figure 1: Audit Steps

Pre Work	Value Proposition	Client Engagement / Management	Implementation	Client Feedback / Student Feedback
<ul style="list-style-type: none"> <li>• Team organization</li> <li>• Establishing protocols</li> <li>• Articulating the problem</li> </ul>	<ul style="list-style-type: none"> <li>• What is the benefit to the client</li> <li>• What talents will the client have access to</li> <li>• How will this promote learning at the deepest level for students</li> </ul>	<ul style="list-style-type: none"> <li>• Understanding the client's needs and environment</li> <li>• Understanding the technical requirements of auditing including assessing risks</li> <li>• Communication skills</li> <li>• Project management skills</li> </ul>	<ul style="list-style-type: none"> <li>• Execution of the audit program</li> <li>• Leveraging team skills</li> <li>• Maximizing the benefits to the students and the clients</li> <li>• Delivering on the audit and final report</li> </ul>	<ul style="list-style-type: none"> <li>• Debriefing</li> <li>• Next steps</li> <li>• Client satisfaction</li> <li>• Student learning outcomes</li> </ul>

Following the initial meeting with the client and gathering all required documents, each team met to develop a time budget for their audit, determine a materiality threshold, outline risk assessment procedures for their church client, and settle on items needed from the church personnel when it was time to conduct fieldwork. With the initial planning completed, the audit manager of each group drafted an engagement letter that was then sent to and accepted by their client.

With the introduction and planning phases of the audits complete, the audit managers drafted audit programs for the entire audit and determined with the team and financial leaders of their church, the timing of field testing for each. Each team then began fieldwork, which consisted of compliance and substantive testing. This process was different for each team based on the church and the experience of the students within each group. None of the audit teams had any prior year audit work papers; the project was simulated as though the groups were in a client takeover situation. In this situation, each team had to create new audit work papers to perform their tests from scratch. Testing varied based on the agreed-upon procedures with each church.

It should be noted that the churches, while from different denominations, were all similar in that they were small and did not typically have a professional audit performed annually. In years preceding our student-led audits, engagements varied widely from walkthroughs and reviews to agreed-upon procedures

performed by internal church personnel that were not independent. In addition, documentation of procedures performed prior to our student-led teams was not always complete.

Upon completion of all the fieldwork testing, audit managers, along with assisting staff auditors, tested the financial statements to complete the spreadsheet found in the Local Church Audit Guide, Addendum II (Appendix B). This spreadsheet records the balance of each fund at the beginning of the year, funds received, funds disbursed, and transfers between funds to arrive at the balance at the end of the year; this balance should match the amount recorded in the financial statements. Once each of the audit teams had assured that the financial statements were free of material misstatement, the audit managers drafted the independent auditor's report for each of the three audits.

The audit work papers along with the draft audit reports were then emailed to the detail / quality reviewer of all three audits as well as the general reviewer (the Auditing II professor). After all review questions were appropriately cleared, a draft of the audit report, along with suggestions for improvement, was sent to each respective client. These reports were then presented to each of the clients at a closing meeting. The audit closing meetings included the financial leaders of each church as well as another member of the church leadership council. In addition, a different faculty member from the university attended each meeting along with the student audit team. Discussion at the closing meetings primarily centered on the improvement suggestions for each church. Final revisions were made to the report after the closing meetings, and the audit reports were signed and issued as final.

Given that each of the three groups was working with a different church for the service-learning project, each group had slightly dissimilar experiences. Initially, only one student had a significant auditing experience prior to the service-learning project. This allowed that group's audit to run smoother and be more organized than the other teams' audits. This same group was required to travel to the church to audit on-site for their substantive and controls testing. The other two groups were given paper and electronic documents that were then tested on-site at the university.

Working with the electronic documents proved to be difficult at some points in the audit due to software failures and the groups' inability to access certain documents. The result, however, gave the group the opportunity to communicate with the financial leader of the church to fix the issues and therefore, enhance critical interpersonal communication skills. The group that worked at the church also had a chance to hone these skills as they worked directly with the client while at the site. Studies have shown that higher interpersonal communication skills are an imperative attribute in the business community (Dickins and Reisch 2009; Kolb 1984; Rogers 1969).

Each team struggled to some extent with team members who did not want to put in the effort to participate in the audit process. As abundant academic research on peer evaluations and other interventions demonstrate, this is a challenge for any team or professor in the academy (Carnaghan and Webb 2007; Gammie and Matson 2007; Wagar and Carroll 2012; Elizaga and Markman 2008; Vik 2001). Dealing with issues such as these allowed the students, especially the managers of the groups, to address the issues and encourage these individuals to pull their own weight. One group had to go so far as to have a meeting with another student that would result in the student's termination from the team if improvements were not made. Naturally, situations such as these are unpleasant but unavoidable in real-world business situations and give students a practical experience beyond the business pedagogy.

## **EVIDENCE**

Given that the idea of a church audit, service-learning project was integrated into the Auditing II class after the semester had already begun, there was no time to gather empirical data from students or church personnel as baseline data. We gathered qualitative data for the church audits consisting of confidential

surveys from both students involved in the service-learning project and the financial leaders of the churches involved.

The purpose of implementing service-learning opportunities into accounting pedagogy is to create a hands-on experience to supplement the lecture style learning requested by the Pathways Commission Report (American Accounting Association 2012). One student stated, "The church audits solidified what we were learning in class. In some instances, they taught us what we were supposed to learn [in class]. Sometimes it is difficult to learn concepts without being hands-on. The church audits gave us that valuable hands-on experience" (Student 3 comments, November 2012). Another student said, "It was my first experience with any auditing testing and the ability to have this portion was amazing to do in a class. The firsthand experience is priceless and it helped me understand the ideas we discussed during the first semester of [auditing] class" (Student 4 comments, November 2012). Students need to have confidence that they can and will succeed when they leave the academy and enter the business world. Their confidence was solidified by having this practical learning opportunity in not only being able to perform an audit, but also to manage projects for any field of business. "Within the project, we set internal deadlines to reach our goals in a reasonable amount of time. Having a 'real world' project helped me take project management seriously" (Student 5 comments, November 2012). This student, as well as many others, will be able to take experiences from this auditing class and implement them in many aspects of their business careers.

While it is important to understand the foundational principles of a business discipline, one must also have the interpersonal skills necessary to interact with others in the business community. As noted earlier, "recruiters believe that the specific discipline is often not as important as all-round abilities and attributes such as interpersonal and relational skills" (Weisz 2000 p. 33). One student said, "By working in teams, I learned how to effectively communicate and work with other individuals. Auditors [and business professionals] often work in teams so I found this assignment very practical in that sense" (Student 6 comments, November 2012). Another stated, "We needed to use written communication to communicate with the financial leader of the church via email and oral communication when talking to the treasurer and secretary at the church during field testing. These different ways of communicating along with working as a team helped strengthen our interpersonal skills" (Student 7 comments, November 2012).

The church audit process is beneficial for the students involved while preparing to enter the business world but a service-learning project will benefit the community as well (McCoskey and Warren 2003). Since churches have been struggling with financial situations, a service-learning project with churches is a way to help them in the community as well as helping the students. One of the financial leaders of the churches said, "The student audit provided a more in-depth and independent review than our previous in-house audits. The student audits triggered us to think more about small changes we could make to improve controls" (Church Leader A, November 2012). Another financial leader said that some years the audit "simply did not get done" if they could not find anyone within the church to do it (Church Leader B, November 2012). Several of the churches have also implemented new policies or internal controls as a result of suggestions from the student audit teams.

## REFLECTION

The business academy has an opportunity to re-structure accounting and business pedagogies as a whole. The AAA and the AICPA have stated through the Pathways Commission Report that accounting faculty should strive for new methods when it comes to teaching accounting. An ancient Chinese proverb, as noted by McCoskey and Warren (2003), says it best by suggesting:

What I hear, I forget.

What I see, I remember.

What I do, I understand.

Students learn better through hands-on approaches to teaching business topics; based on our research, they also prefer this strategy of active learning (Paisey and Paisey 2003; 2005). This type of learning better prepares students for the experiences they will have in the business world by not only teaching the principles that must be known but also mastering them through practical applications of the foundational information presented in the classroom (reference Figure 2: Reflections).

Figure 2: Reflections

Key Reflections	Source *	Related Business Pedagogy	Related Service-Learning Tenet	Key Program Learning Outcome
Interpersonal Communication	S	Working as a team to create the best possible environment for the highest quality product.	Relying on others to combine efforts to assure project success rather than several individual pieces put together.	Teamwork, Trustworthiness, Cooperation, Support
Establishing Protocols	P	Establishing the necessary procedures to conduct a thorough agreed-upon procedures engagement or audit.	Students learn the necessary procedures for a simple audit that can be applied to concepts in the classroom as well as in future careers. Churches receive the benefit of a quality audit and assurance that the financial and internal control aspects of the church are in order.	Sequential work, Client satisfaction, Real-life application
Articulating Problems	S	Communication Skills and Project Management Skills	Students gain experience working as a team and putting in the effort expected so that the team is successful rather than individual success. Students see how there is not always a clearcut answer to real life situations as is the norm in textbooks.	Communication, Collaboration, Relationship

\* Student (S) or Professor (P)

Some students expressed dissatisfaction from time to time during the project. Multiple teams complained that some teammates were not pulling their weight as much as others. Students generally know that this may be an issue going into projects in which they work in teams. This, however, is the very reason why working in teams benefits the students in this service-learning project. Business professionals often-times work in teams very similar to the ones we structured for this project. Not all team members contribute equally and students will likely face a similar challenge in the business world. Dealing with this issue hones interpersonal skills by encouraging a dialog with teammates on how to deal with the issue and communicating on what needs to be done to resolve the issue. This strengthens teamwork skills and overall interpersonal communication.

In addition, because this project involved churches that were not located at the university, some teams had more work to do in the audit than other teams. Again, as is the case in the real world, some people

will have bigger clients than others and in turn more work. Having this experience in school is a way to become even more acclimated with practical auditing.

The overall feedback we received from this project was very positive. Students enjoyed the active learning aspect of the project and the business professionals saw desirable qualities from the students that they seek from potential employees. The churches involved in the service-learning project were very impressed with the quality of work from the students and have requested that future classes repeat the project. We have plans to repeat the service-learning project in the future with more Auditing II classes.

As the audit manager of one of the audit teams, Author 1 personally enhanced his interpersonal communication skills through the church audit. As with the rest of the teams, none of the students wanted to take control of the audit so the job ended up with him. Since Author 1 was the manager of the audit, he ran the process as he did with any other project. He was also the only student with any prior auditing experience so he was able to delegate different jobs to the staff auditors and do a significant amount of testing himself.

As the rest of the team began to finish the field testing for the audit, Author 1 began testing the financial statements for the church. For this process, he picked one of his teammates to help him with the financial statement testing and together they finished the audit without additional help from the rest of the team. At the end of the audit, Author 1 personally drafted the final audit report and simply told the rest of the team their final audit opinion of the church. At the closing meeting, he planned to be the one to do most of the talking and simply filter specific questions to his teammates for the testing they performed.

Less than a week before the closing meeting for the church audit, Author 1 took ill and was hospitalized for a week. Due to this, he was not able to be with his group during the closing meeting. To Author 1, this was not critical because the audit was complete so he did not believe that the rest of the team would have any problem stepping in to take his place. It was not until sometime after the semester had ended that Author 1 realized he had kept most of his team in the dark about their audit throughout the entire process to the point where he alone knew every aspect of the audit. This was an important lesson for Author 1 and his teammates: that unexpected things happen in life all the time. Communication is a key element to interpersonal skills and business that would have prevented any problems that came from his illness. Hands-on situations such as these are skills that students simply cannot pick up with a textbook in a classroom setting and has benefited the entire team as they take what they have learned into the business world.

As a Professor new to the academy and stung by first semester reviews requesting more hands-on application of auditing concepts, Author 2 wrestled to find a successful mix of lecture and experiential learning. Further, as a former Chief Audit Executive of a publically traded company, he very much wanted his students to graduate with practical auditing skills. As such, Author 2 jumped at the chance to audit a local church's financial records when presented with the opportunity.

However, Author 2 initially struggled with several issues including how to fit this into a completed syllabus as well as how to accommodate an Auditing II class of 15 students with one audit. The former was quickly resolved with the insertion of the church audits in place of two case studies. The latter issue of having enough audit work for three audit teams of five students was not resolved until one month into the semester; three churches eventually agreed to the idea of student audit teams and the class was off and running.

Author 2 has left the details of the church audit process to Appendix A and invites you to review the steps that were followed if you plan on implementing a similar process. However, this service-learning opportunity should not be considered as a prospect solely for an accounting or auditing class. Indeed, as his student co-author noted above, the hands-on auditing experience was only one benefit, albeit a strong

one. As Author 2 reflects on the experience, the students also benefited from developing teamwork, leadership, project management, client service, work paper preparation and review, time budgeting, and problem resolution skills. Several students later commented that a future job offer came as a direct result of the experience and the KSAs that they refined on the audits.

The experience also provided a wonderful opportunity for the college of business and university to give back to the community. The church financial leaders were extremely complimentary of the efforts of the students and found that having an external audit of their financials was very beneficial to their church's overall internal control environment. Further, the volunteerism enhanced the standing of the college with a significant local employer in the region for whom the three church financial leaders happened to all work. It also helped several students eventually secure regular full-time positions with this employer as the financial leaders could view the students' excellent KSAs first-hand. Finally, as a new professor, it allowed Author 2 access to three local accomplished financial leaders very early in his academic career. In one case, the connection has been invaluable not only for the church audits but also for subsequent mentorship and speaking opportunities with the college.

## **CONCLUSION**

Business pedagogy can be more effective for students and business through a hands-on, practical approach supplementing traditional lectures. We have found this to be true for not only business curriculum, but also for auditing as through the church audits. As stated in the introduction, the subject matter of auditing, while critical, can be tedious and uninteresting. Therefore, the aim of auditing for students and educators should be the same: the demonstration of practical methods and tools to complement the foundational auditing curriculum. Combined with the service-learning and teamwork aspects of the project, the church audits can be a worthwhile experience for students to assimilate as they progress into the business world. Further, the project correlates well for use in the context of the Pathways Commission Report relative to enhancing pedagogy.

## **APPENDIX A**

### **Class in a box**

There are several steps that one must go through in order to start a service-learning project such as the church audit. The following is one suggested approach that worked for our class and situation. You may find a better combination of steps but regardless, we encourage you to begin a service-learning engagement with your next class.

A preliminary step that we suggest you follow is to confirm with your institution's administration that students will be allowed to participate in a service-learning project such as this. This is critical to assure that the students, professor, college, and/or university cannot be held liable for the service-learning project. For our proposed audits, we contacted our administration and eventually worked with legal advisors. Our legal team determined that a state statute allowed the students as well as their professor to participate as volunteers on such an engagement with little to no liability concerns.

Once legal and potential liability issues are addressed, the first step then is finding churches that are willing to work with students on an audit project. We have determined that many churches are in need of financial help if not audit assistance. Due to this, it is likely that most colleges or universities will be able to find a church or other not-for-profit organization that will be willing to help students and therein, help their organization, through a service-learning opportunity.

After negotiating the terms of the audit engagement with the church and agreeing to let the students perform the audit for the service-learning project, information and documents about the church will need to be exchanged between church personnel and the professor before the students contact the church personnel directly. Such documents should include but are not limited to the following:

- financial statements
- financial budget
- organization chart and/or committee organization
- prior-year audit, if available, and
- Local Church Audit Guide generally accepted by churches in the denomination

Once these documents have been exchanged, a meeting between the church personnel, professor, and the students should be arranged. The purpose of this meeting is to discuss the church including:

- items of importance regarding the church being audited
- audit scope
- key issues
- understanding of internal control
- areas of focus with the audit
- expected source document review and audit process
- discuss timing of the audit fieldwork and timing of the final audit report

- exchange contact information for both the church personnel as well as the students involved in the audit

After the audit team has successfully met and discussed the church audit with the church personnel, the students should meet as a team to discuss roles within the team and form a plan for the audit. Such roles should include:

- who will act as the audit manager and lead the team
- who will act as an independent reviewer for the team, and
- who will perform the detailed testing and original work

Plans should include:

- when the students can meet for team planning and review meetings, and
- when, if necessary, students would be available to perform audit testing, by either:
  - traveling to the church
  - performing testing on site at the college or university

Following all of the preliminary meetings and discussions, the audit manager will need to prepare an engagement letter for the audit. The letter should include any and all agreed-upon procedures, if there are any scope limitations or exclusions, work to be completed by the church's staff (i.e. client-prepared documents), and the output of the examination (i.e. an audit report or church-designated document). This letter will need to be sent to the financial leader (or audit committee, as appropriate) of the church, and signed by both the student audit team and church financial leader.

The audit team (or at a minimum, the audit manager) should then meet to assess risks of material misstatement, design audit procedures, and set a materiality threshold. Once this is completed, the team should determine the audit tests to be performed and the documents necessary for these tests. If the team has already received these documents from the church, they can begin testing. If not, the audit manager will need to contact church personnel and either arrange to receive the documents or set up a time when the audit team can travel to the church to perform substantive and controls testing. If contacting church personnel directly, make sure the team has a list of everything they will need for testing and prepare to be flexible as the church may not be able to meet the students in a timely fashion.

When the audit team has received all necessary documents, substantive and controls testing can be performed. This will take the majority of the time since most students will likely be unfamiliar with the audit process. It is important for the professor to keep somewhat of a distance from the students during this process as this is how they will learn by doing. Timely guidance without explicit instruction should be the approach.

Upon completion of the audit testing, the audit manager along with the staff auditors, can begin verifying the financial statements of the church. Hopefully there will be few audit issues after substantive and controls testing such that the financial statements will tie out to supporting documents. If any problems occur, the professor may need to step in and make sure the students are performing the tests correctly and taking the necessary actions (should a less than unqualified opinion be necessary, for example).

After all the testing has been completed, the audit team can determine the appropriate audit opinion and draft the audit report for the church. In addition, a report of suggested internal control and process improvements (may be called a supplemental report) should be prepared. When the audit and any supplemental reports have been drafted and reviewed by the professor, the audit manager can then send the reports to the financial leader (or audit committee, as appropriate) of the church for review before the closing meeting. This is a critical step to not only simulate the real world, but also to prevent surprises at the audit closing meeting.

At the end of the audit, the student audit team should again meet with the financial leader and / or audit committee of the church for a closing meeting to present:

- the audited financial statements
- the final audit and any supplemental reports
- an explanation of the process followed

Any questions can be answered at this time and the reports can be revised, if needed.

To finish the service-learning project, the audit and supplemental reports should be revised based on the comments and suggestions made during the closing meeting. After a review by the professor, the revision(s) should be sent to the client and the copy kept for the records of the professor, college, and/or university. Finally, consider surveying the students that participated in the service-learning project as well as the church personnel to evaluate the effectiveness of the project.

## APPENDIX B

### Church Audit Guide United Methodist Congregations

[http://www.umcsc.org/PDF/forms/local\\_church\\_auditguide1.pdf](http://www.umcsc.org/PDF/forms/local_church_auditguide1.pdf)

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## **AUTHORS' NOTE**

The church engagements were certain procedures agreed-upon with each of the church financial leaders. The student teams followed AICPA guidelines as well as the Local Church Audit Guide for the specific denomination. For ease of understanding in this paper, particularly for non-practitioners, the authors will use the word **audit** to describe the agreed-upon procedures engagement for each church.

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