

# **ETHICS CURRICULUM COMMITTEE**

## **REPORT ON THE DEVELOPMENT OF AND GUIDELINES FOR THE 10 UNITS OF ETHICS STUDY**

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# Ethics Curriculum Committee

## Report on the Development of and Guidelines for the 10 Units Ethics Study

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### *Attachments*

- Attachment 1 – [Ethics Curriculum Committee Roster](#)
- Attachment 2 – [Minutes of September 2010 ECC Meeting](#)
- Attachment 3 – [Minutes of January 2011 ECC Meeting](#)
- Attachment 4 – [Minutes of April 2011 ECC Meeting](#)
- Attachment 5 – [Minutes of May 2011 ECC Meeting](#)
- Attachment 6 – [Minutes of June 2011 AEC/ECC Meeting](#)

All attachments are available on the calendar page of the CBA Web site at <http://www.dca.ca.gov/cba/calendar.shtml>.

## INTRODUCTION

The California Board of Accountancy (CBA) presently maintains two pathways to licensure – Pathway 1, established in Business and Professions (B&P) Code Section 5092, and Pathway 2, established in B&P Code Section 5093. Applicants for either pathway must pass the Uniform CPA Examination and complete pathway-specific education and experience requirements.

Senate Bill (SB) 819 (Chapter 308, Statutes of 2009) establishes a sunset date of January 1, 2014 for Pathway 1, while at the same time requiring refinement of the requirements that comprise Pathway 2. Specifically, beginning January 2014, SB 819 will require that an additional 30 of the 150 units be further defined, with 10 units of ethics study and 20 units of accounting study. In the bill, the Legislature outlined the purpose of defining an additional 30 units by stating, “that if California is to require an additional 30 units of education of its accountancy students as a substitute for one year of accountancy experience,...the education must be relevant to the practice of accountancy and must include ethical education for the protection of consumers.” Therefore, the purpose of the new educational requirements is to offset the loss of Pathway 1 and its two-year experience requirement.

Passage of SB 819 clearly indicated that the Legislature believed a need existed to define the additional 30 units. Furthermore, the Legislature developed a two-prong approach to defining the additional 30 units – 20 units allocated to accounting study and 10 units allocated to ethics study.

To assist in the development of the 10 units of ethics study, the California Legislature established, under the jurisdiction of the CBA the Advisory Committee on Accounting Ethics Curriculum – now being referred to as the Ethics Curriculum Committee (ECC). The 11-member committee was appointed by the Governor, CBA, CalPERS, Regents of the University of California, California State University Board of Trustees, Board of Governors of the Community Colleges, Senate Committee on Rules, and Speaker of the Assembly. The roster of ECC members is provided in [Attachment 1](#).

This report focuses on the development of the 10 units of ethics study, which the Legislature defined as a program of learning that provides students with a framework of ethical reasoning, professional values, and attitudes for exercising professional skepticism and other behavior that is in the best interest of the investing and consuming public and the profession. At a minimum this includes academic work or independent study and shall include a foundation for ethical reasoning and the core values of integrity, objectivity, and independence consistent with the International Education Standards-4 of the International Accountants Education Standards Board, the International Federation of Accountants Code of Ethics, and the American Institute of Certified Public Accountants Code of Professional Conduct.

The report is comprised of four sections including the introduction, directives and goals, deliberations of accounting study guidelines, and a conclusion. The purpose of the report and its attachments is to provide the CBA with the progression of the activities and issues undertaken by the ECC. Also included in the attachments are summaries of oral public comments received at ECC meetings and copies of written comments received at the CBA office. The CBA is now responsible for adopting the ECC's recommended proposal without any substantive changes.

Throughout this process the ECC focused on the intent of the Legislature by placing an emphasis on a dedicated accounting ethics requirement, and providing flexibility in selecting courses and areas which provide a framework of ethical reasoning, professional values, and attitudes for exercising professional skepticism.

## **ECC DIRECTIVES AND GOALS**

SB 819 established the ECC under the jurisdiction of the CBA for the sole purpose of developing guidelines for the 10 units of ethics study. This section of the report outlines directives for the ECC as determined by the CBA and a set of goals developed by staff to help guide the work of the ECC.

### **CBA Directives for the ECC**

The ECC was established with the express intent to recommend to the CBA ethics study guidelines for the new 10 units of ethics study that will be required for licensure beginning January 2014. At the November 2009 CBA meeting, the CBA laid out specific directives regarding how the ECC would work towards the development of the new 10 units of ethics study. Specifically, the CBA provided the below directives:

- The ECC would meet a minimum of four times per year.
- The ECC would determine the appropriateness and feasibility for obtaining 10 units of ethics study.
- The ECC, in consultation with the Accounting Education Committee, would ensure the 10 units of ethics study could not be double counted and applied to the 20 units of accounting study.

### **Goals of the ECC**

The primary goal of the ECC, as outlined in SB 819, is to provide the CBA with guidelines on the new 10 units of ethics study required for licensure. As defined in SB 819, these units must come from a program of learning that provides students with a framework of ethical reasoning, professional values, and attitudes for exercising professional skepticism and other behavior that is in the best interest of the investing and consuming public.

With this legislative charge, as well as the remaining requirements of SB 819 and the CBA's directives in mind, staff identified the below five goals for the ECC to accomplish:

1. Develop a calendar for meetings and the topics for discussion at each meeting
2. Establish an ECC purpose statement
3. Develop and submit the ethics study guidelines to the CBA
4. Issue a report during the public comment period
5. Issue an opinion as to whether the regulations adopted by the CBA will implement the ECC recommendations

## **ECC DELIBERATIONS OF ETHICS STUDY GUIDELINES**

This section of the report provides insight as to how the committee developed the recommended proposal for the 10 units of ethics study. This is accomplished through summaries of pertinent areas of discussion at each of the ECC's five meetings. The meeting summaries also highlight aspects of the final proposal that were the topic of much debate, such as the mandated accounting ethics requirement and courses taken from the discipline category.

### ***September 2010 ECC Meeting***

The ECC held its inaugural meeting on September 21, 2010, in Sacramento, CA. Items on the agenda for this meeting included an overview of the present licensure requirements; ECC directives, goals, and staffing; various administrative issues; and a discussion regarding the composition of the 10 units of ethics study. The minutes of the September 2010 meeting are provided in [Attachment 2](#).

The ECC's initial discussions centered on the CBA directive to determine the appropriateness and feasibility of obtaining 10 units of ethics study, and whether this implied that the final recommendation could be less than 10 units of ethics study. When determining the appropriateness and feasibility, the ECC considered whether 10 units of ethics study currently exists, and if sufficient courses did not exist, was it reasonable to expect colleges and universities to develop additional courses prior to the January 1, 2014 effective date. Members were informed that at the November 2009 CBA meeting discussions were held that should the ECC come to the conclusion 10 units were not feasible, the CBA could go to the Legislature to pursue a legislative change.

When the ECC began deliberations on the composition of the 10 units of ethics study, discussions focused on all aspects of SB 819 including the broad definition provided for ethics study and the ability to allow for a portion of a course to qualify for ethics study.

Other topics of consideration included whether to identify the level (lower or upper division or graduate) at which ethics courses must be completed and should a specific number of units be completed in a specific area of study.

To advance the ECC's work, the Chair requested that members research their colleges/universities to find where ethics was embedded in courses, the level the course was currently being taught, in what department and who taught the course. It was also requested that members provide information from the industry standpoint.

### ***January 2011 ECC Meeting***

The ECC held its second meeting on January 26, 2011 in Irvine, CA. Items on the agenda for this meeting included information on applicants with out-of-state education, ethics education requirements for other state boards of accountancy, research materials provided by ECC members, the impact of recommending less than 10 units of ethics study, and topics for consideration to assist in establishing a framework for ethics study. The minutes of the January 26, 2011 meeting are provided in [Attachment 3](#).

Members were provided the results of a six-week study conducted by staff tracking where licensees completed their education. The study showed that approximately 41 percent of approved applicants completed all or some of their education outside of California, validating prior discussions regarding the need to disseminate the recommendations of the ECC and Accounting Education Committee (AEC) nationally. Members also considered the information from the Texas State Board of Public Accountancy regarding its experience in implementing a three unit board-approved ethics requirement.

The core of members' discussion focused on reviewing the research materials provided by various members on where ethics was embedded in courses. Members also reviewed background information on the origins of SB 819 submitted by the California Society of Certified Public Accountants and the Center for Public Interest Law, the impact of recommending less than 10 units of ethics study, and the next steps in recommending ethics guidelines to the CBA.

As the ECC focused on the beginning framework for the 10 units of ethics study, members discussed requiring a dedicated course in accounting ethics as part of the 10 units, and the possible need to provide flexibility by allowing applicants to complete courses outside the accounting department. Discussions revealed that embedded ethics courses would be difficult to identify on college transcripts and determining the allocation of units could potentially prove problematic.

During the meeting, the committee heard from several members of the public expressing concerns over the implementation timeline for a mandated accounting ethics course, the impact to institutions regarding budget constraints, and the impact to students. These sentiments were also expressed in several letters, received just prior to the meeting, from various colleges and universities addressed to the ECC Chair.

After considerable discussion on the initial ideas of a framework for the 10 units of ethics study, a subcommittee, consisting of Mr. Gary McBride and Mr. Robert Yetman, was established to draft a framework for the ethics study guidelines. The ECC instructed the subcommittee to meet with staff and present its proposal at the next meeting.

### ***April 2011 ECC Meeting***

The ECC held its third meeting on April 6, 2011 in Sacramento, CA. The items on the agenda included an update on the AEC activities, additional letters received from stakeholders regarding the composition of the 10 units of ethics study, and the subcommittee's proposal for the 10 units of ethics study. The minutes of the April 6, 2011 meeting are provided in [Attachment 4](#).

The subcommittee informed the ECC it had met on February 22, 2011, to begin drafting framework for the ethics study guidelines. As part of its discussion, the subcommittee considered the following:

- Intent of legislation as communicated in SB 819
- Reliance on transcripts to verify educational requirements
- Embedded ethics content
- Applying the same units to meet multiple educational requirements

These four areas provided the foundation for the subcommittee's proposal. Additionally, throughout the deliberative process, two key components continued to permeate discussions: (1) flexibility to applicants and colleges/universities and (2) providing succinct and accurate information to applicants and feasibility of implementation for the CBA (including staff) for drafting the new requirements.

At this meeting, the subcommittee recommended that the guidelines for the 10 units of ethics study include:

- Three semester units or four quarter units in an upper division course or courses solely devoted to accounting ethics, accounting fraud, or accountants' professional responsibilities. (Applicants must meet this requirement beginning January 1, 2016. Until that time, applicants can meet this requirement by completing courses in the Un-Capped and Capped areas.)
- No more than seven semester units in a combination of either Un-Capped or Capped (Disciplines) courses.

#### Capped Courses

- Business Law
- Corporate Governance

- Ethics, Morals, or Fraud
- Human Resources Management
- Business, Government & Society
- Professional Responsibilities (non-accounting)
- Organizational Behavior
- Management of Organizations
- Business Leadership

### Un-Capped Courses

The subcommittee recommended that no more than three semester units be applied from one of the listed disciplines.

- Philosophy
- Sociology
- Cultural, Ethnic, or Diversity Studies
- Religion
- Psychology
- No more than one semester unit be applied to the 10 semester unit ethics requirement for courses devoted solely to financial statement auditing.

Several letters and emails were received from various stakeholders regarding the potential impact the new ethics study requirement may have on both students and colleges and universities. Many of these letters echoed the same sentiment questioning the practicality of requiring that 10 of 30 “newly-defined” units required by SB 819 be in ethics.

Members deliberated on the subcommittee’s proposal and weighed the suggestions made by stakeholders. Members came to a general consensus supporting the subcommittee’s framework. The most significant comments focused on the mandated accounting ethics course and the Capped courses taken from the five specified disciplines. Based on the comments received from members and stakeholders, the subcommittee was asked to meet again to further address the proposal.

### ***May 2011 ECC Meeting***

The ECC held its fourth meeting on May 18, 2011 in Burlingame, CA. The items on the agenda included the subcommittee’s revised proposal for the 10 units of ethics study and a timeline for ECC activities. The minutes of the May 18, 2011 meeting are provided in [Attachment 5](#).

The subcommittee presented a revised proposal for ethics study guidelines for the committee’s consideration (Attachment #3 to the minutes of this meeting). The revised proposal consisted of the following four areas:

- Mandated Accounting Ethics
- Un-Capped Courses
- Capped Courses
- Financial Statement Auditing Course

The subcommittee outlined the differences from the first proposal, including removing accounting fraud from the mandated ethics requirement and extending the date to comply with this requirement from January 1, 2016 to January 1, 2017. Also, the subcommittee added an additional course to the Un-Capped category, while adding two new disciplines and qualifying words and terms for various course titles in the Capped category. Following extensive discussion of the proposal, members approved the proposal, which included several technical changes emphasizing increased clarity.

### ***June 2011 JOINT AEC/ECC Meeting***

The AEC and ECC held a joint meeting on June 7, 2011 in Sacramento, CA. The purpose of the joint meeting was to allow all stakeholders to hear both committees' proposals and staff's initial plans regarding implementation and outreach. The meeting was widely publicized through e-mail, press releases, the CBA's social media sites, flyers, and formal invitations. The minutes of the joint meeting are provided in [Attachment 6](#).

The meeting represented only one of many steps the CBA will take to get the message out regarding the new educational requirements and provided several opportunities for stakeholders to offer testimony on the new changes and ask questions of committee members regarding the development of the proposals. The second half of the meeting was dedicated to the business items of approving previous committee meeting minutes and discussing any modifications to the proposals.

Comments were received and extensive discussions were held regarding the mandated three units of accounting ethics. Specifically, concerns were raised regarding the types of courses that applicants could complete during the three-year phase-in of the mandated accounting ethics requirement. After considerable discussions, the ECC decided to narrowly define those courses that could be completed during the phase-in period – specifically only courses from Recommendation #2 in the final proposal.

Additional concerns were raised regarding applicants possibly completing a full 70 percent of any remaining units from the discipline category outlined in Recommendation #3 of the final proposal. After discussion, the committee agreed to limit a maximum of three semester units or four quarter units be taken from the discipline category.

Finally, the ECC recognized that when setting limits in certain areas, applicants from quarter system schools were inadvertently adversely impacted. To offset this oversight, the ECC modified the proposal to include a breakdown of the requirements in both semester and quarter units.

## **CONCLUSION**

It is the ECC's belief the guidelines set forth meet the Legislature's intent, which is to provide students with a framework of ethical reasoning, professional values, and attitudes for exercising professional skepticism and other behavior that is in the best interest of the investing and consuming public. The ECC also believes that the

guidelines provide the needed flexibility to applicants and colleges/universities for allowing applicants to meet the 10 units of ethics study.

The ECC has until June 1, 2012 to submit the ethics study guidelines to the CBA and the CBA has until January 31, 2013 to adopt, via regulation. The ECC recognized early in its deliberations that the sooner its work was completed; the sooner information could be disseminated to applicants, students, and colleges and universities. Further, the ECC recognized that the forthcoming changes directly impact students already enrolled at various colleges and universities. The ECC believed it necessary to complete its work quickly in order to allow ample time for students and colleges and universities to comply with the requirements for the 10 units of ethics study

The ECC's final guidelines for the 10 units of ethics study is provided below.

### ***FINAL RECOMMENDATION***

## **ETHICS CURRICULUM COMMITTEE PROPOSAL FOR THE 10 UNITS OF ETHICS STUDY**

### **RECOMMENDATION #1**

- A minimum of four quarter units or three semester units shall be completed in an upper division or higher course or courses devoted to accounting ethics or accountants' professional responsibilities.
- Applicants must meet this requirement beginning January 1, 2017. Until that time applicants can meet this requirement using the courses in Recommendation #2.

### **RECOMMENDATION #2**

- A maximum of 11 quarter units or seven semester units may be completed from courses containing any of the following terms in the course title:

Business Law	Corporate Governance
Ethics	Morals
Fraud	Organizational Behavior
Human Resources Management	Management of Organizations
Business Government & Society	Leadership
Legal Environment of Business	Professional Responsibilities (non-
Corporate Social Responsibility	Accounting)

### **RECOMMENDATION #3**

- A maximum of four quarter units or three semester units may be completed from courses taken in the following disciplines:

Philosophy	Cultural Studies
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Ethnic Studies  
Sociology  
Psychology  
Economics

Diversity Studies  
Religion  
Theology  
Political Science

- The course title must contain one of the following words or terms, or the sole name in the course title is the name of the discipline.

Introductory  
Introduction  
Principles of  
Survey of

General  
Fundamentals of  
Foundation of

#### **RECOMMENDATION #4**

- A maximum of one semester unit may be completed in a course devoted solely to financial statement auditing.