

ETHICS EDUCATION IN U. S. ACCOUNTING PRACTICE – A STATUS REPORT

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ABSTRACT

The primary purpose of this descriptive article is to examine the current state of ethics education and training of U. S. accounting practitioners. Accounting ethics requirements for U. S. accounting practitioners with the designations of Certified Public Accountant (CPA), Certified Internal Auditor (CIA), or Certified Management Accountant (CMA) were examined in four different ways. First, the ethics education requirements necessary to take each of the examinations were examined. Second, an examination was made of the required ethics content on the qualifying examinations for these designations. Next, the ethics requirements necessary for certification after successfully completing the examinations were determined. Finally, the Continuing Professional Education (CPE) (Continuing Professional Development (CPD)) requirements necessary to maintain the certifications were examined. The results indicate that there is little emphasis on ethics in the qualifications, testing, and continuing education of certified accountants in the United States.

INTRODUCTION

Accounting problems with U. S. companies Enron, WorldCom, Tyco, Xerox, HealthSouth, Merck, Adelphia Communications, and the dismantling of Arthur Andersen resulted in an increased discussion of accounting ethics in the United States and the enactment of the Sarbanes-Oxley Act of 2002. Recently, there has been an escalation in the level of debate with regards to "ethics" education in the accounting profession. With the well-publicized corporate scandals and legislative actions affecting the profession, both academic and practitioner publications have had many articles calling for increased ethical training for both accounting students and professionals. Several U. S. professional bodies, such as the American Institute of CPA's (AICPA), the American Accounting Association (AAA), and the National Association of State Boards of Accountancy (NASBA) have increased their emphasis on accounting ethics in practice and in education.

A dominant factor in determining the level, type, and composition of education received by U. S. accounting professionals is the educational requirements necessary to attain and maintain professional certifications. In this study, the authors examined the three major certifications popular among U. S. accountants -CPA, CMA, and CIA - to determine the amount and timing of ethics education and training for these accounting professionals. The empirical portion of this study is

composed of four parts. First, what is the ethics education required to qualify to take each of the three professional examinations? What is the ethics coverage testing on each of the examinations? What ethics training is required of examination candidates in order for them to become certified after successfully completing the examination? And finally, what ongoing continuing ethics education is required to maintain these certifications?

Background

Guidance and discussion related to ethical values are not new to the U. S. accounting profession. The inclusion of morality in practice dates back to the inception of the AICPA (American Institute of Certified Public Accountants) Code of Professional Conduct in 1909 (see a comprehensive historical perspective in (Moriarty, 2000)). The Bedford Committee (American Accounting Association, 1986) recommended that ethics be a significant component of U. S. accounting education. In 1987, the National Commission on Fraudulent Financial Reporting (Treadway Commission) suggested that ethical values should be included in accounting curricula as part of the skills set needed by those entering the profession (Arthur Andersen & Co., 1987). The discussion began to significantly surface in the accounting academic community when Albrecht (1992) presented a model of ten universal values that define a starting point for research in the field of ethics for accounting educators and researchers.

Albrecht's research (1992) did not result in an increase in published ethics research in major accounting journals. Recently, Bean & Bernardi (2005) found that in the leading American Accounting Association journal, *The Accounting Review*, less than 2% of the published articles over the last 25 years were related to the subject of ethics. Consequently, despite vocal cries for additional research in the area, only 168 of 6,200 accounting faculty indicate that ethics is an area of interest to them (Bean & Bernardi, 2005).

The past public record exploring the issue of accounting ethics, and the need to increase coverage at all levels, shows some important trends. Regulatory bodies appear to be reluctant to increase ethics coverage requirements for accountants prior to, in the midst of, or after certification as practitioners. Well-respected accounting research journals provide little incentive for faculty to research in this area, and the number of faculty doing so is woefully low. Finally, while the practitioner community is replete with calls for greater ethics emphasis in the profession (see for instance the PriceWaterhouseCoopers (2003) report admonishing the profession for its lack of ethical education opportunities), few actual changes have been implemented.

METHODOLOGY

The primary purpose of this study is to examine the present ethics coverage required of U. S. accountants that are professionally certified (CPA, CIA, CMA). The CPA designation is given by states to individuals who have successfully satisfied the requirements in the particular state in which they are certified. The CIA designation is given by the Institute of Internal Auditors and reflects competence in the principles and practices of internal auditing. The CMA credential is a professional designation for management accountants and financial managers and is awarded by the Institute of Management Accountants. All three certifications have educational requirements, examination requirements, and CPE requirements.

RESULTS

Certification Examination Content Specifications

CPA Examination

According to the AICPA website (www.aicpa.org), the CPA examination is a four-section, two-day, 14-hour (840 minute) examination. Each of the four sections is tested separately. The AICPA provides very detailed examination content specifications for the CPA examination. The most recent version was updated October 19, 2005 and identifies the technical content to be tested on each of the four sections of the examination. Based upon the content specifications identified by the AICPA, the proportions of each of the four examinations that were comprised of required ethics questions were computed. Ethics is only tested in the three-hour Regulation section. The ethics content comprises 15%-20% of the total Regulation Section. Therefore, at most, 36 minutes (or 20% of 180 minutes) of the three-hour Regulation section is devoted to testing on accounting ethics. This 36 minutes comprises 4.3% of the total examination time on the uniform CPA examination.

CIA Examination

According to the Institute of Internal Auditors website (www.theiia.org), the CIA examination is a two-day examination comprised of four 3.5 hour parts (14 total hours or 840 total minutes), with each part consisting of 125 multiple-choice questions. Accounting ethics is covered modestly in two sections of Part I of the examination. The total test time for accounting ethics on the 14-hour CIA exam is computed to be between 3.9 and 11.8 minutes. The maximum coverage, therefore, would be 1.4% (11.8 of 840 total minutes) of the total examination time.

CMA Examination

The CMA examination is a two-day 13-hour examination comprised of four parts. (www.imanet.org). Accounting ethics is tested in Part 4 – Business Applications. The CMA Content Specification Outline states, "There will be at least one question that will be devoted to an ethical situation presented in a business-oriented context." Part 4 includes all the content topics from parts 1,2, and 3 as well as four additional special topics "Ethical considerations" is section 4. of Additional Part 4 Topics. Therefore, at the absolute maximum, accounting ethics would comprise one-fourth of the three-hour Part 4 or 45 minutes. Forty-five minutes out of a total examination time of 13 hours (780 minutes) would be 5.8% of the total examination time.

The maximum accounting ethics coverage on the three major professional examinations in accounting are: CPA – 4.3% of total examination time; CIA - 1.4% of total examination time; CMA – 5.8% of total examination time.

Educational Requirements Needed to Sit for Professional Accounting Examinations

CPA Examination

Since the CPA designation is awarded by individual U. S. states or other governmental entity, the requirements to qualify to take the examination vary for each entity. An examination of the education requirements by each of the fifty U. S. states revealed that only four states required the completion of an ethics course or the coverage of professional ethics as a prerequisite for sitting for the CPA examination. Those four states are Maryland, Nebraska, Ohio, and Texas.

CMA Examination

The educational requirements to sit for the CMA examination are either:

- ◆ holding a bachelors degree, in any area, from an accredited college or university
- ◆ passing the U.S. CPA examination or hold a comparable professional qualification
- ◆ achieve a score in the 50th percentile or higher on either the GMAT (the Graduate Management Admission Test is an entrance examination commonly used for admission to graduate business programs) or the GRE (the Graduate Records Examination is an entrance test commonly used for admission to graduate study in liberal arts programs)

There is no specific educational requirement in accounting ethics.

CIA Examination

In order to be eligible to sit for the CIA examination, candidates must hold a bachelor's degree or its equivalent from an accredited college-level institution. There is no specific accounting ethics educational requirement.

Ethics Requirements after Successfully Completing Examination and Prior to Licensure

After successfully completing the CPA examination, 24 U. S. states require applicants to complete an ethics course prior to certification. This requirement is shown in Table 2. Twenty-one states require that the AICPA Professional Ethics Course (Ramos, 2006) be taken while three state boards (California, Texas and Wisconsin) prepare their own ethics examination. The AICPA course was revised in 2006 and is available as a text or on a CD-Rom. In order to complete the course, candidates must take and pass an open-book, 50 multiple choice examination. A passing score is 90 or above (www.aicpa.org). After successfully completing the CIA or CMA examination, no additional ethics testing is required.

CONCLUSIONS AND RECOMMENDATIONS

Minimal emphasis the U. S. accounting profession places on ethics knowledge and ethics study both before and after certification. The coverage of ethics on the three most common U. S. professional exams is minor ranging from 1.4% on the CIA examination to 4.3% on the CPA examination to 5.8% on the CMA examination. Each of the professional examinations is structured in such a way that a candidate can successfully pass the examinations with little or no knowledge of accounting ethics.

It is surprising that only four of the fifty U. S. states require CPA candidates to study ethics prior to sitting for the examination. Of the four states, only two require a traditional three-hour course. Approximately one-half of all states require CPA candidates to successfully complete an ethics course after passing the examination but prior to certification. The vast majority of these states require the professional ethics course prepared by the AICPA. This course, Professional Ethics: The AICPA's Comprehensive Course, focuses on the AICPA Code of Professional Conduct and the objectives of independence. Neither the CIA nor the CMA certifications require any ethics training prior to certification.

One of the major findings of this study is the relative lack of ethics training required by CPA's as part of their regular CPE requirements. The maximum training is four hours per year and thirteen states require no ethics CPE. It would appear that requiring additional ethics CPE would be a relatively simple step for most state boards of accountancy. For CIA's and CMA's, it would appear that increasing the ethics requirements would be even less difficult to mandate since the CPE requirements come from a single professional organization.

Over five years have passed since the enactment of the Sarbanes-Oxley Act of 2002. It is time for the U. S. accounting profession to take the lead in promoting additional ethics training for all current accounting professionals and all accounting professionals in training.

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