

for discussion

The Influence of a State Board of Public Accountancy on Ethics Education

By Neal R. VanZante, and
Allen Francis Ketcham

Editor's Note: In the May 2005 CPA Journal ("Improving Professional Ethics," page 9), Neal VanZante discussed the Texas State Board of Public Accountancy (TSBPA) rules about required CPE courses in ethics. The article's conclusion referred to a new TSBPA ethics education rule for future Texas CPAs. A sidebar referred to a recent National Association of State Board of Accountancy (NASBA) exposure draft that would revise the Uniform Accountancy Act to require six credit hours of ethics courses, or its equivalent, before individuals are allowed to take the CPA examination.

Effective July 1, 2005, Texas State Board of Public Accountancy (TSBPA) Rule 511.58 requires that individuals who initially apply to take the CPA examination must have completed three semester hours of ethics education. The course must be taken at a recognized educational institution and must include ethical reasoning, integrity, objectivity, independence, and other core values. In addition, the course content and instructor must be preapproved by the TSBPA. Texas is the first state to establish such a requirement. As such, the TSBPA deserves praise for trying to emphasize ethics to potential CPAs.

Praiseworthy Rules

TSBPA ethics rules, including Rule 511.58, serve as a strong signal that the board desires to go beyond its past interpretation of its obligation to protect the public interest. Whereas past ethics rules have focused on ensuring that CPAs were familiar with the state's Rules of Professional conduct and the penalties for failing to follow them, Rule 511.58 attempts to ensure that CPAs are, in fact, ethical individuals.

Rule 511.58 requires a stand-alone ethics course approach, in contrast to accrediting bodies' recent preference for the "ethics across the business curriculum" method, where each professor is responsible for teaching ethics in each class. That method distributes the responsibility for teaching ethics throughout the business curricula. Furthermore, business textbooks sometimes insert undemanding and even erroneous information about ethical systems, if they cover ethics at all. According to Mary A. Boose and Peter Dean ("A Proposition for Effective Integration of Ethics Across the Business Curriculum," *International Business & Economics Journal*, 2002), "[A]ny approach that attempts to satisfy the ethics component for accrediting bodies by distributing responsibility for teaching ethics throughout the business curricula trivializes ethics." Most business-faculty members are not trained in ethical theory and, therefore, cannot be considered prepared to teach ethics. Expecting business faculty to somehow be ethics "experts" is unfair, and akin to asking every member of the business faculty to teach political theory or categorical logic. The board's decision to go against the popular trend is praiseworthy.

TSBPA Procedures

In November 2002, the TSBPA amended Rule 511.58 to provide for the new ethics course requirements without seeking guidance or input directly from Texas educational institutions. The board then allowed comments for a two-month period and responded to input. Based on comments from educators (particularly those at public universities) regarding how long it takes to develop a new course, the board extended the original 2004 implementation date to 2005. At an October 2003 meeting of the Texas Society of CPAs' Relations with Educational Institutions Committee, many participants were still unaware of the new rule. Thus, on April 20, 2004, the TSBPA sent a letter to the presidents of all Texas universities explaining the ethics course requirements and the approval process. Because offering a new course requires revisions of curricula as well as approval by the TSBPA and the Texas Higher Education

Board (which can take up to 18 months), many Texas universities have been forced to rush their ethics course offerings. In addition, decisions must be made quickly on whether to require an additional three credit hours for students pursuing a CPA, to eliminate another course from the accounting curriculum requirements, or to require students to use the ethics course as an elective.

The TSBPA has muddied the waters by inconsistent approval criteria, by conflicting information to universities seeking course approval, and through incompatible scrutiny of course syllabi. The course approvals thus far reflect the inconsistency. For example, while some courses have been approved with little discussion, others have apparently been closely examined; some have been rejected because of the specific textbooks and course materials used. While some "philosophy approach" courses were rejected with a recommendation that a "business course approach" be resubmitted, other such courses have had little difficulty gaining approval.

Additionally, the board's criteria for acceptable course material vary. Material found acceptable at one meeting was not necessarily accepted at another, but later became acceptable again. At one point, the board's qualifications committee required a matrix showing ethics coverage, but later dropped that requirement. Although these apparent inconsistencies are understandable because the approval criteria have evolved over time, they have added confusion about what the board is attempting to accomplish at a time when universities have been rushing to satisfy the requirements. In addition, while any change of instructors requires new board approval, there is no evidence that instructors' specific qualifications have been reviewed.

An example of inconsistent information being provided is the aforementioned letter to the presidents of all Texas universities from TSBPA Executive Director William Treacy. The letter states that any "upper-division" ethics course offered through the business or liberal arts department could be presented to the board for consideration. Based on that statement,

many universities developed upper-division courses. The list of approved courses as of February 2005, however, includes freshman- and sophomore-level courses as well. Inspection of individual course syllabi adds little evidence of consistency, with the possible exception of the appearance of the key words suggested by the rule itself.

The Rule's Content Requirements

The TSBPA rules are very specific. If the requirements are specific concerning what is to be taught, then those requirements must be logically coherent, and the topics must not set up internal contradictions. If ethics education is limited to a familiarity with the rules of conduct and penalties associated with deviating from the rules, there really are no logic problems. Nonetheless, any governing body directing that specific ethical notions be taught must first understand the foundations and logic of what they are requiring.

Ethics has underlying assumptions that inform any particular ethical system. Each ethical system is built on its own foundational assumptions, referred to as "groundings." Authors of models for ethical decision-making frequently group ethical systems (such as those of Bentham, Kant, and Aristotle) into a hybrid or merged unit that they refer to as "synthetic," "integrated," or "blended," thereby attempting to manufacture one generic decision-making method. They see this as a way to organize different ethical systems into one simple, usable entity. The authors of these hybrids assert that the problems introduced by grouping systems are insignificant, but in many cases they are not. Although well intended, such synthesizing efforts do damage to ethical judgments by adding confusion and error. If the originating fundamental assumptions in which each system is grounded are contradictory, then the ethical systems cannot be merged.

The new ethics requirement for Texas accounting students is a good example of confusion in the ethics component in curricula. Board Rule 511.58(10)(c) states that "The course must be taken at a recognized educa-

tional institution and should include ethical reasoning, integrity, objectivity, independence and other core values."

Ethical reasoning. According to law, the Texas-mandated course in ethics includes "ethical reasoning." This dilutes the Texas law into a tautology. Tautological definitions are common errors, akin to requesting a flower arrangement that includes flowers. It presupposes that one already knows what ethics means.

This problem is best analyzed by a series of questions. First, does the term "ethical reasoning" mean all ethical reasoning, or just some subset? If the answer is all, then a foundational moral philosophy course would be most appropriate. If the answer is some, then a simpler survey course in accounting ethics could suffice. But this raises a second question—"Which ethical reasoning?"—which leads to seven additional questions that need to be answered:

- Is the ethical reasoning teleological, as in the Aristotelian ethical system?
- Is the ethical reasoning causal rather than purposeful, as contemporary determinists such as B.F. Skinner argue?
- Is the ethical reasoning consequentialistic, as utilitarian ethicists argue?
- Is the ethical reasoning nonconsequentialistic, as duty ethicists such as Kant contend?
- Is the ethical reasoning relativistic, as cultural relativist ethicists maintain?
- Is the ethical reasoning objective, as in Plato's ethics?
- Is the ethical reasoning based on moral sentiment, as the Humeians have long insisted?

Only after it is understood exactly what the law requires from the new course can universities then adequately follow what is legally being required of them. The TSBPA must be clear as to what reasoning they require in the new law.

Integrity. Integrity is related to character and is further associated with the self, preservation of identity, strong positions of attitudes, and moral obligations. Modern moral theories, the most representative of which are utilitarianism and Kantian moral theory, do not concern themselves directly with virtue and character. For example, utilitarianism is completely impartial and

neutral as to personal moral commitments, and therefore does not allow for integrity. Both utilitarianism and Kantian moral theory are about "what to do," and virtue ethics is about "how to live." Integrity, a how-to-live trait, is a concern of virtue ethics, so this requirement implies a rejection of utilitarianism and Kantian moral theory, and approval of virtue ethics.

Objectivity. Objectivity implies a rejection of moral subjectivity. For Kant, all subjective rules are reflections of our inclinations, and therefore are either amoral or immoral. Subjective inclinations vary from person to person, and any moral rule that varies in such a manner is relative and merely a person's desire. Kant posited that moral laws must be objective in that they do not vary from person to person. Objective moral rules are established universally by all rational beings, and rational beings will agree to them. The TSBPA requirement implies a bias toward the Kantian moral theory.

Independence. Kant saw independence or autonomy in opposition to heteronomy (i.e., lack of moral freedom or self-determination). An independent or autonomous person is self-determined, whereas the heteronomous person's will is determined by something outside of the person. Is the autonomous person what the TSBPA really wants?

The heteronomous person is outside of the moral realm. Anyone with moral sources outside of oneself is never obliged to follow those moral sources. But following the rules is exactly what the heteronomous person does. The heteronomous accountant would not bend the accounting rules and therefore would not generate a situation such as the accounting irregularities that led to the suffering of so many innocent investors and employees of Enron. So, the TSBPA seems to support the Kantian moral system by asking for moral independence, but probably is actually asking for the opposite.

Core values. An interesting observation about the inclusion of "other core values" in Rule 511.58 is the inconsistency with Rule 523.131, which describes the requirements of continuing education ethics courses. Rule 523.131 identifies the core values of the profession as integrity, objec-

tivity, and independence. It is not clear what other core values are intended by Rule 511.58. In apparent recognition of the difficulty of defining “other core values,” the TSBPA’s Qualifications Committee adopted the following statement of purpose for board-required ethics courses:

Given the unethical practices frequently observed in businesses it is prudent for the Board to require individuals aspiring to enter the accounting profession to have knowledge of core values including ethical reasoning, integrity, objectivity, and independence. By requiring a Board approved 3-semester hour college ethics course that contains specific components, the Board has some assurance that universities are providing a course that meets government, business and public concerns.

Thus, it appears that the statement of purpose (which probably should have preceded adoption of the rules) skirts the issue of other core values by not attempting to identify them. In general, the concept of core values conflates the logically distinct utilitarian and virtue moral systems. Core values imply a deep commitment to a few strongly held values. But values are simply the summation of some set of preferred pleasures. Bentham’s theory quantifies pleasures and pains with his utilitarian calculus of felicity to see if some outcome is valued or not. Bentham valued pleasing and painful consequences according to seven criteria: intensity of pleasure; duration of pleasure; certainty of pleasure; immediacy of pleasure; fecundity (i.e., leading to similar pleasures); purity (i.e., whether pleasure is mixed with pain); and extent (i.e., number of people affected).

What then is “core” in ethics? Only virtues. Virtue ethics is organized around a core of traits, or virtues, that make up an individual’s lifetime character. Virtue ethics is the only ethical system where “character”—meaning “traits written on the soul”—is a meaningful concept. So, one’s virtues become one’s character. Aristotle described 11 virtues as compared to their associated vices. Because here the TSBPA is referring so clearly to values, it implies a bias toward utilitarianism.

This analysis of Rule 511.58(10)(c) leads to the table shown in the *Exhibit*,

which shows the different biases that the board holds for the four ideas they want taught. In the first case, the board embraces virtue ethics at the expense of utilitarianism and Kantian ethics, while in the second and third cases it adopts Kantian ethics at the expense of utilitarianism and virtue ethics. In the fourth case, on the other hand, it embraces utilitarianism at the expense of Kantian ethics and virtue ethics.

The rule ignores the inherent conflict between competing ethical theories. As examined above, accepting and merging different ethical systems generates logical contradictions. Because it is the law, it must be taught. But it can be taught only in a foundations or systems ethics course. In any other type of ethics course, it would serve only to confuse students.

Recommendations

While many educators may support the steps taken by the TSBPA to promote professional ethics, they may also have legitimate concerns that the TSBPA has gone too far in dictating specific ethics educational requirements for CPAs. Although the board deserves praise for its intentions and actions, those actions have created a general skepticism on the part of many Texas accounting educators. The TSBPA should now take appropriate steps toward clarifying and achieving its goals.

The following recommendations would also apply to other state boards that may be considering similar actions:

- The TSBPA should work more freely and cooperatively with Texas accounting faculty and other interested parties. The board recently took the positive step of allowing a member of the TSCPA’s Relations with Educational Institutions

Committee to become a member of the TSBPA’s Qualifications Committee. While this TSCPA committee could have been of invaluable assistance earlier, this is a step in the right direction. Educators currently teaching the approved courses would be another source of useful input to the Qualifications Committee.

- The TSBPA should be sensitive to the requirement that universities must gain approval for new courses from the Texas Higher Education Coordinating Board, and recognize that curriculum revisions cannot happen quickly. Allowing more time for changes to occur is necessary and will lead to better solutions.

- The board might wish to consider encouraging colleges of business administration to relinquish a course to liberal arts (as a prerequisite for an additional “business/accounting ethics” course or thorough integration of ethics in business/accounting courses), because the subject of ethics goes well beyond sound business practices and business-dilemma ethics. Ethics touches every facet of life and should be taught as an “authentic” subject, and be under the auspices of philosophy faculty. Without demanding training, students are ill served in ethics, and flounder around within business administration’s loosely defined quandary ethics. In this regard, the board might seek guidance from philosophy faculty, who would be well prepared to provide input.

- Perhaps most important, the TSBPA should immediately seek input from and begin working closely with the American Accounting Association’s (AAA) Professionalism and Ethics Committee. The mission of this important committee is to encourage and support accounting-ethics education and scholarship in uni-

EXHIBIT
Board Rule 511.58(10)(c) Implied ethical theories

	Virtue Ethics	Utilitarianism	Kantian Ethics
Integrity	Accept	Reject	Reject
Objectivity	Reject	Reject	Accept
Independence	Reject	Reject	Accept
Core Values	Reject	Accept	Reject

versities and, more broadly, to set a tone for instilling a greater sense of professionalism and ethical conduct in the practice and teaching of accounting. A recent example of the efforts of this committee can be seen in the February 2004 *Issues in Accounting Education*, which was devoted to incorporating ethics in university accounting programs. At a time when discussion and experimentation about how to best incorporate professional ethics in accounting programs should be encouraged, the TSBPA should work with such groups to get more accounting faculty involved in ethics education.

■ At least for now, the TSBPA should provide universities latitude in offering and

experimenting with the required ethics course. One answer might be a requirement that accounting students take the equivalent of six hours of ethics. This would be consistent with the similar requirement that future ethics instructors for Texas' CPE ethics courses have earned credit for six hours of ethics, as well as with recently announced proposed changes in the Uniform Accountancy Act.

Education Is Not Everything

Regardless of the future of TSBPA ethics requirements, it must be understood that just because individuals take ethics courses does not necessarily mean that the individuals will act ethically. The fact that ethics courses do not create ethi-

cal people should not be overlooked. The public should appreciate that what ethics courses accomplish is to make clear to students the intricacies of the many competing ethics systems. With this powerful information, the future accountant, manager, CFO, or CEO will be able to rationally "manage" ethical conflict—an ability to be highly valued. □

Neal R. VanZante, PhD, CPA, CMA, CFM, is a professor of accounting, and Allen Francis Ketcham, PhD, is a professor of management and marketing and director of the Manning Center for Professional Ethics, both at Texas A&M University—Kingsville.

personal viewpoint

Can Proposed Audit Adjustments Challenge Auditor Independence?

By Peter M. Drexler

The Sarbanes-Oxley Act of 2002 (SOA) has added importance to proposed adjusting entries to financial statements. The Public Company Accounting Oversight Board (PCAOB), authorized by the SOA to set auditing standards for registered companies, requires auditors to issue opinions on registered company internal controls as well as on their financial statements. The PCAOB briefing paper dated July 10, 2003, states that "a material weakness in internal control was defined as a reportable condition in which the design or operation of a component(s) of internal control does not reduce to a relatively low level the risk that a material misstatement may be contained in the issuer's financial statements." In other words, had the auditor not discovered the misstatement, the company might have issued financial statements that would have been materially misleading. In the pub-

lic company audits of internal controls mandated by the PCAOB, the material weakness would "preclude an unqualified opinion that internal control is effective."

This raises independence issues for audits of both publicly owned and private entities. When the auditor discovers material misstatements during the course of an audit, one of the following may occur:

■ The auditor notifies the client of the error, and the client's accounting staff investigates the circumstances, then makes the appropriate adjustments; or

■ The auditor prepares the appropriate accounting entry and furnishes a copy to the client's accountant, who would understand the entry, verify the correctness of the entry, and accept responsibility for it in the representation letter; or

■ The client's accountant is not familiar with the entry's necessity and validity but accepts responsibility for the entry without understanding or necessarily agreeing with it.

In the last case, could the auditor's independence be adversely affected? Can a conflict arise when an auditor prepares material proposed audit adjustments for such a client?

Interpretation 101-3 and Independence

On June 24, 2003, the AICPA Professional Ethics Executive Committee (PEEC) issued

Code of Professional Conduct Interpretation 101-3, "Performance of Nonattest Services." This interpretive guidance clarifies, and in some cases places additional restrictions on, already existing guidance related to whether independence is considered to be impaired when performing nonattest services for an attest client. Interpretation 101-3 applies to audit, review, or compilation services. In circumstances where independence has been impaired, an audit or review cannot continue. Compilations may be conducted, but the resulting reports must be modified to clearly stipulate the lack of independence.

According to Bisk Education's *Monthly Accounting & Auditing Report*, the substantive provisions of Interpretation 101-3 became effective December 31, 2003. PEEC, however, delayed until December 31, 2004, the requirement to document, in writing, the understanding of the nonattest services with the client. Certain general requirements must be considered and complied with in order to maintain independence when performing nonattest services for an attest client. The Interpretation 101-3 requirements are as follows:

■ The CPA should not perform management functions or make management decisions for the attest client. The CPA may provide advice, research materials, and