



Feature

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Ethics Education for CPAs in Texas: Is it Working?



In 2003, the Texas State Board of Public Accountancy (TSBPA) amended its rules for licensure to require a three-semester-hour ethics class of all persons sitting for the CPA examination in Texas starting in 2005. TSBPA also implemented a four-hour biennial mandatory ethics update for all licensees in Texas starting that same year. Since that time, other states have added ethics education requirements for CPA exam candidacy. As a result, educational institutions all across America have allocated millions of dollars in resources to accommodate TSBPA's formal ethics education mandate. In addition, Texas licensees have spent between 500,000 and 750,000 person-hours taking the mandated ethics update, and have spent millions of dollars in continuing education fees to comply.¹ Clearly, because of these mandates and those of other states, both formal and continuing education in ethics for CPAs have become big business.

Rule 511.58 under Title 22, Part 22 of the Texas Administrative Code defines educational requirements for candidates for the CPA examination. Under Subparagraph (c) of that rule, "related business subjects" includes a required three-semester-hour course in ethics. The stated purpose of the required ethics course 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 public and profession."² After five years of implementation experience, it is logical to ask whether there exists any evidence that the efforts of colleges, universities and CPE providers to educate CPAs in ethics are achieving the stated purpose of the requirement.

The February 2010 Texas State Board Report of TSBPA shows that the rate of ethics disciplinary actions taken against CPA licensees in Texas declined 43 percent in 2006 compared to 2005, and that the rate of such actions by the Board has remained significantly lower on average from 2006 to 2009, compared to the four preceding years.

The executive director of TSBPA attributes the decline at least partly to ethics training.³ Although confounding factors, such as increased mandatory peer review, make it impossible to attribute exclusive cause and effect, the fact that mandatory ethics education for CPAs in Texas has existed for exactly the same period certainly makes the impact of ethics education on CPA behavior appear more than coincidental. To address the issue more directly, the authors surveyed Texas CPAs licensed between 2005 and 2010 to determine their perceptions of the effectiveness of the mandatory ethics education they received, both as formal and as continuing education requirements. The results of the survey are described in sections that follow.

THE SURVEY

The authors obtained permission from TSBPA to survey the entire population of 9,532 individuals licensed between 2005 and 2010. The Board agreed to send out an e-mail request to these individuals with a link to our

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Figure 1. Demographic Statistics

| A. Year Licensed | | | | | | | |
|---|------|-----------|-------------|--------------|------------|-----------|--------|
| | 2010 | 2009 | 2008 | 2007 | 2006 | 2005 | Total* |
| Response | 674 | 659 | 512 | 441 | 292 | 255 | 2,833 |
| Percentage | 24% | 23% | 18% | 16% | 10% | 9% | 100% |
| B. Gender | | | | | | | |
| | | | Male | Female | Total* | | |
| Response | | | 1,179 | 1,487 | 2,666 | | |
| Percentage | | | 44% | 56% | 100% | | |
| C. Ethnicity | | | | | | | |
| | AA | Caucasian | Hispanic | Asian | PI | Other | Total* |
| Response | 104 | 1,906 | 217 | 379 | 7 | 80 | 2,693 |
| Percentage | 4% | 71% | 8% | 14% | 0% | 3% | 100% |
| D. Age Group | | | | | | | |
| | | <25 | 25-29 | 30-34 | 34-39 | 40> | Total* |
| Response | | 89 | 1,061 | 605 | 338 | 583 | 2,676 |
| Percentage | | 3% | 40% | 23% | 13% | 22% | 100% |
| E. Current Professional Responsibilities | | | | | | | |
| | | Public | Industry FP | Industry NFP | Government | Education | Total* |
| Response | | 1,142 | 1,100 | 76 | 152 | 47 | 2,517 |
| Percentage | | 45% | 44% | 3% | 6% | 2% | 100% |
| F. Master's Degree? | | | | | | | |
| | | | Yes | No | Total* | | |
| Response | | | 1,798 | 877 | 2,675 | | |
| Percentage | | | 67% | 33% | 100% | | |

* Non-responses omitted

survey attached (www.surveymonkey.com/s/CPAethics).

There were 2,696 individuals who completed the entire questionnaire, for a response rate of 28.3 percent. Not all respondents answered all questions, so the response totals for each question vary slightly. Figure 1 presents the demographic information of respondents. Over 90 percent of the respondents were licensed between 2006 and 2010. Their gender proportions are 44 percent male and 56 percent female; ethnicity is distributed 4 percent, 71 percent, 8 percent, 14 percent, and 3 percent, to African-American, Caucasian, Hispanic, Asian, and Other categories, respectively. Ninety-seven percent of respondents are age 25 or older, and 67 percent of them have earned a masters' degree. The authors discussed these statistics with officials of the licensing division of TSBPA, who confirmed that they are reasonably representative of the demographic

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**Figure 2. Location of Course
Panel A. Type of Institution**

| Type of Institution | Response Count | Percentage |
|-------------------------------------|----------------|------------|
| Public, part of degree program | 915 | 33 |
| Private, part of degree program | 267 | 10 |
| Community college, supplemental | 152 | 5 |
| Online approved course | 1,149 | 42 |
| Public, not part of degree program | 237 | 9 |
| Private, not part of degree program | 35 | 1 |
| Total usable responses | 2,755 | 100 |

Panel B. Host Department Within Institution

| Department | Response Count | Percentage |
|---------------------------------|----------------|------------|
| Accounting | 1,655 | 78 |
| Business, outside of accounting | 402 | 19 |
| University, outside business | 72 | 3 |
| Total usable responses | 2,129 | 100 |

Figure 3. Perceived Impact of Required Ethics Course vs. Biennial Ethics Update (11 point scale; 0=strongly disagree, 11=strongly agree)

| Response | Panel A. Required 3-hour College Course | | | Panel B. Biennial Ethics Update | | |
|--|---|-----------------|-------|---------------------------------|--------------------------------------|-------|
| | Rating Average | Modal Response | Count | Rating Average | Modal Response | Count |
| As a result of taking the required ethics class ... | | | | | | |
| My ability to recognize ethical issues has increased. | 7.27 | 9 (Agree) 29.7% | 2,867 | 6.54 | 6 (Neither Agree nor Disagree) 33.0% | 2,081 |
| My ethical reasoning ability has increased. | 7.14 | 9 (Agree) 25.9% | 2,860 | 6.48 | 6 (Neither Agree nor Disagree) 33.6% | 2,078 |
| I understand the concept of auditor independence. | 8.15 | 9 (Agree) 35.3% | 2,864 | 7.11 | 6 (Neither Agree nor Disagree) 31.8% | 2,078 |
| I have a greater understanding of the role of the accounting profession in business and society. | 7.69 | 9 (Agree) 31.5% | 2,864 | 6.80 | 6 (Neither Agree nor Disagree) 33.6% | 2,081 |
| I feel that I will make better ethical decisions. | 7.17 | 9 (Agree) 24.5% | 2,864 | 6.59 | 6 (Neither Agree nor Disagree) 35.3% | 2,076 |
| I feel I have a framework for making ethical decisions. | 7.57 | 9 (Agree) 29.0% | 2,858 | 6.77 | 6 (Neither Agree nor Disagree) 34.2% | 2,078 |
| I now consider the ethics of more decisions. | 7.23 | 9 (Agree) 26.3% | 2,858 | 6.61 | 6 (Neither Agree nor Disagree) 34.7% | 2,064 |

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breakdown of the entire population of CPAs newly licensed within the past five years.

Figure 2 shows the location of the ethics course taken by respondents, both by type of institution (Panel A) and by host department within the institution (Panel B). Panel A shows that 43 percent of the 2,755 usable responses indicated they took the required course as part of a degree program at a public or private college or university. Fifteen percent of the respondents took the required course at either a community college, or as part of post-baccalaureate programs at public or private schools. A total of 1,149 respondents (42 percent) indicated they had taken an online distance education course approved by the Board for certification, which the authors found surprising since there are relatively few such courses and they have only been available since 2006. This highlights the rising popularity of online format for courses like ethics, and may also indicate the importance of TSBPA's oversight policy and requirements for comparability of quality with live courses.⁴

The authors also inquired about what

academic department offered the ethics courses. Panel B shows the host department for the three-hour class as indicated by our respondents. Of a total of 2,129 usable responses, 1,655 individuals (78 percent) took the course through the accounting department of the institution; 402 individuals (19 percent) took the course in the business school outside the accounting department; and 72 individuals (3 percent) took an approved course outside the business school. These figures support the results of an earlier study⁵ that showed an overwhelming preference among instructors for offering the TSBPA required ethics course in the accounting department.

IMPACT OF REQUIRED THREE-HOUR COURSE

Respondent perceptions of the impact of the required three-hour college ethics course were generally positive. As shown in Figure 3, respondents were asked to rate, on an 11-point scale (1 = strongly disagree; 11 = strongly agree), whether they felt the course improved their knowledge, skills and abilities based on the implied objectives of Rule 511.58 (c).

Panel A of Figure 3 shows that respondents generally agreed that the three-hour ethics

class they took in college improved their abilities to recognize ethical issues; reasoning abilities; understanding of the concept of auditor independence; understanding of the role of the accounting profession in business and society; decision-making abilities; and ethical frameworks for making decisions. The mean responses for each of these dimensions was in the mid-7s, indicating a slightly positive impression. The modal (most frequent) response for each dimension was nine out of 11 (agree). When asked if the ethics class they took in college was a valuable learning experience, students generally agreed (9.0 modal response), with the question receiving an average 7.67 rating on the 11-point scale. Respondents were asked to describe, in free-response format, the most valuable learning activities or concepts they were exposed to in their three-hour class. The most frequently listed responses to this question were case studies, both real and hypothetical, that required evaluating alternatives and reaching decisions; exposure to the concept of independence, as well as other pertinent sections of the AICPA Code of Professional Conduct; open group discussions related to situations involving ethics; and guest

Footnotes:

1. According to the TSBPA website, as of Dec. 13, 2010, 88 educational institutions (20 located outside of Texas) offered a total of 108 approved courses in ethics for university students. An Internet web search using the terms "CPA Ethics CPE" produced approximately 72,000 hits. Using an average fee of \$90 per course, and a conservative estimate of 60,000 licensees per biennial period, CPAs are spending about \$5,400,000 every two years for the ethics update.
2. Texas Administrative Code, Title 22, Part 22, Chapter 511, Subchapter C, Rule §511.58(c).
3. Texas State Board Report, Vol. 102 (February 2010), page 11.
4. TSBPA has rather stringent standards for offering online distance education courses. For details, see <http://www.tsbpa.state.tx.us/education/criteria-board-approved-ethics.html>.
5. R. Kathy Hurr and C. William Thomas, "Implementing a Required Ethics Class for Students in Accounting: The Texas Experience." *Issues in Accounting Education* 23, No. 1, February 2008, 31-51.

speakers who actually had experienced ethical failure, including participants in recent fraud cases.

Respondents were also asked to describe, in free-response format, the activities they regarded as least effective. Interestingly, the individuals who chose to respond to this question generally had negative impressions of the overall value of the course. Many of these respondents questioned whether teaching ethics to young adults is a useful activity. Numerous individuals responded that they didn't believe ethics could be taught in the classroom. They also commented that learning about the classical theoretical basis for making ethical decisions was not helpful. In addition, they felt that examples used by instructors were not relevant to the real life experiences they face as young professionals. This is supported by responses to another question: "I have encountered ethical situations that were similar to situations I was exposed to in the required college ethics class." Over 70 percent of respondents to this question indicated they have never encountered similar situations to those they were exposed to in their formal class in ethics. Conversely, the fact that 30 percent of respondents to this question indicated they have actually encountered one to five such situations in their brief careers is worth noting.

IMPACT OF REQUIRED BIENNIAL ETHICS UPDATE

In the next section of the survey, respondents were asked identical questions to those in the first section regarding their impressions of the impact of biennial ethics updates they have been required to take since becoming licensed. About 63 percent of respondents indicated that they have taken at least one such update since initial licensure. Panel B of Figure 3 shows respondents' views of the relative value of the biennial ethics update, based on the same rating scale as used for the formal ethics course.

With respect to every dimension, respondents had less favorable impressions of the impact of the biennial update on their abilities to recognize ethical issues, to understand the role of the accounting profession, and to make sound ethical judgments and decisions, in comparison with the three-hour formal course they had obtained as a part of their formal education. The average rating of these courses dropped to the mid-6s (slightly above neutral on the 11-point scale), and the modal response on every dimension fell to 6.0 (neither agree nor

disagree). A question eliciting their overall response to the CPE updates produced similar results; 77.4 percent of respondents indicated they had never encountered ethical situations in practice that were similar to the situations they were exposed to in the biennial updates.

Given that ethics updates may be expected to add current and relevant information to licensees' experiences, this finding may help to explain respondents' less favorable impressions of the biennial updates, compared to the three-hour ethics classes they took as a part of their formal educational experiences. A review of responses to an open-ended question – "Do you have any other comments for us?" – gives further insight into their relatively negative impression of the four-hour update. A sample of comments indicates:

- some feel the required updates are too frequent;
- those licensed in multiple states with ethics CPE requirements do not like that states generally do not grant reciprocity for one ethics class, resulting in these licensees being required to take multiple ethics updates;
- some feel that updates are redundant (or "overkill");
- some feel that the information in the updates is irrelevant; and
- some feel that teaching ethics to adults is a meaningless exercise.

OTHER FACTORS CONTRIBUTING TO THE DECLINE IN ENFORCEMENT ACTIONS

Regardless of the positive or negative impressions of CPAs toward ethics education, the fact remains that the rate of enforcement actions taken against CPAs by TSBPA has dropped significantly over the same time period that required ethics education in Texas has been in force. We asked respondents for their opinion as to what other factors might have contributed to this result. A total of 892 individuals supplied free-form responses to this question. A sample of these responses indicates their perceptions:

- increased media coverage of high profile unethical practices in business and the consequences of those practices has increased public awareness of the function of CPAs and has placed the accounting profession under greater scrutiny;
- increased governmental regulation (Sarbanes-Oxley and the Public Company Accounting Oversight Board) has strengthened internal controls and

has made corporations as well as CPAs behave in a manner that shows more accountability for their actions;

- a recessionary economy may have led to more circumspect behavior on the part of CPAs in an effort to remain employed; and
- the fallout from the Enron and Arthur Andersen situation, while almost a decade ago, still lingers as a warning, and CPAs are self-policing their actions to avoid a recurrence.

The authors were pleasantly surprised to find that a relatively large number of respondents were quite complimentary of TSBPA's mandatory ethics education policy. Many actually thanked the Board for imposing ethics education and asked them to retain the requirement, stating that they truly felt these requirements had helped them become more thoughtful and diligent practitioners.

THE NUMBERS DON'T LIE

After five years of implementation experience, licensed CPAs in Texas have a relatively positive impression of the impact of a mandatory three-hour college ethics course on their careers. This is a testimony to the hard work of educators across the country who believe that ethics education can have a positive impact on individuals, even if obtained beyond the formative years of life. It is also a testimony to the courage of TSBPA in implementing such a requirement, in the face of what was, at the time, rather formidable opposition from both the practicing and academic branches of the profession.

Practicing CPAs in Texas have a somewhat less positive impression as to the effectiveness of the mandatory two-year ethics update. They cite excessive frequency, redundancy and irrelevance of subject matter as contributing factors. Given the amount of resources that are being spent on mandatory ethics for CPAs, TSBPA should take these observations under advisement in deciding future CPE guidelines on ethics for practicing CPAs.

Regardless of whether one accepts or rejects the idea that mandatory ethics education is effective, it is hard to argue against it, given the decline in reported ethics violations over the past five years. Mandatory ethics education, along with increased public scrutiny and tighter regulation, have all apparently contributed to a better informed, and better behaved, population of CPAs in Texas. ■