

Memorandum

ECC Agenda Item V.
September 21, 2010

To : ECC Members

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Subject : Overview of Licensure Requirements and the Effects of Senate Bill 819 on the Pathways to Licensure

Provided for your assistance for future deliberations on the ethics study guidelines, please find attached a staff-developed informational paper with an overview of the existing California Certified Public Accountant licensure requirements and effects of Senate Bill 819 on the pathways to licensure.

Attachment



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OVERVIEW OF LICENSURE REQUIREMENTS AND THE EFFECTS OF SENATE BILL 819 ON THE PATHWAYS TO LICENSURE

Introduction

The purpose for providing this informational paper to Ethics Curriculum Committee (ECC) members is twofold – to supply an overview of the existing licensure requirements, focusing mainly on the educational and ethics requirements, and to outline the effects of Senate Bill (SB) 819 on the existing pathways to licensure. Both topics included in the paper will provide a context for discussion as members embark on deliberations on defining the new 10 units¹ of ethics education required by SB 819.

Licensure Requirements

Presently, the California Board of Accountancy (CBA) maintains two pathways to licensure – Pathway 1 (Business & Professions (B&P) Code Section 5092) and Pathway 2 (B&P Code Section 5093). Applicants applying under either pathway must complete all four sections of the Uniform CPA Examination and complete pathway-specific education and experience requirements. In addition, applicants must complete the required Professional Ethics for Certified Public Accountants (PETH). Outlined below are the education and experience requirements Pathway 1 or Pathway 2, as well as an overview of the PETH course required for licensure.

Pathway 1

- Completion of a baccalaureate degree or higher, with completion of a core-course requirement of 24 units² of accounting subjects and 24 units of business-related subjects.
- Completion of 24 months (2 years) of general accounting experience³.

Pathway 2

- Completion of a baccalaureate degree or higher, with a minimum of 150 units of education, and completion of a core-course requirement of 24 units of accounting subjects and 24 units of business-related subjects.
- Completion of 12 months (1 year) of general accounting experience.

¹ For this, and all other agenda items, when referring to units, the units are considered semester units.

² When calculating a transcript(s) from a college/university with quarter units, the factor is one quarter unit equals 2/3 semester unit.

³ Licensees who want the ability to sign attest reports must document, as part of the experience requirement, a minimum of 500 hours of attest experience performed under the supervision of a licensed CPA.

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To document the conferral of a degree and completion of the required units, an applicant must have an original transcript(s)⁴ submitted directly to the CBA from the college or university. After receipt, staff review the transcript(s) to ensure all educational requirements are met.

In order for an applicant to receive credit for the accounting units, the course subject matter must pertain to the following: accounting, auditing, financial reporting, external or internal reporting, financial statement analysis or taxation. For an applicant to receive credit for the business-related units, the course subject matter must pertain to the following: any accounting subjects in excess of the 24 units needed to fulfill the aforementioned accounting requirement, business administration, economics, finance, business management, marketing, computer science and information services, statistics, business communications, mathematics, business law, or business-related law courses offered by an accredited law school.

PETH

All applicants for CPA licensure must pass the PETH course within the two-year period prior to submitting an application for licensure to the CBA. The PETH course is offered by the California Society of Certified Public Accountants (CalCPA). The course includes a comprehensive coverage of the American Institute of Certified Public Accountants' (AICPA) Code of Professional Conduct, the Accountancy Act, and the CBA Regulations. It also covers the following topics:

- Ethics in business
- Basic concepts and philosophy of professional conduct
- Independence: Interpretations, Security and Exchange Commission rules
- Expression of opinion
- Tax practice

The course is provided in a self-study format. CalCPA advises applicants to devote a minimum of 16 hours to complete the course, which includes nearly 300 pages of materials. Applicants must pass the examination at the end of the course with a minimum score of 90 percent.

Effects of SB 819 on the Pathways to Licensure

The information that follows focuses exclusively on how the bill set in motion the changes for obtaining a Certified Public Accountant (CPA) license beginning in January 1, 2014.

⁴ Applicants that earn their education at institutions outside of the United States must have their transcripts evaluated by a CBA-approved Foreign Credential Evaluation Service.

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As noted in the previous section, at present the CBA maintains two pathways to licensure. SB 819 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, SB 819 now requires that an additional 30 of the 150 units be defined as part of the minimum requirements for licensure under of Pathway 2.

Regardless of the pathway an applicant selects, a total of 48 units are prescribed – divided equally between accounting and business-related subjects.⁵ Beginning January 1, 2014, SB 819 will require that an additional 30 units be further defined, with 10 units of ethics and 20 units of accounting-related subjects, thus resulting in a total of 78 units of the 150-unit requirement being prescribed. In the bill, the Legislature outlined the purpose for requiring the need to define 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.

The bill defines the overall content a course must contain for it to meet the 10-unit ethics and 20-unit accounting-related requirements. Ethics 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 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.⁶ As it relates to the 20 units of accounting-related subjects, or accounting study, the bill defines that the units be made up of independent study or other academic work in accounting, business, ethics, business law, or other academic work relevant to accounting and business.

To assist in development of the newly prescribed units, the Legislature established two committees under the jurisdiction of the CBA. The 11-member Advisory Committee on Accounting Ethics Curriculum – or more commonly known as the Ethics Curriculum Committee or ECC – 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 ECC will provide recommendations to the CBA on the 10-unit ethics study guidelines to be included as part of the licensure education requirements. The

⁵ The division of the 48-unit requirement is known as the 24/24 requirement. It should be noted that not only is this a requirement at the time of licensure, but an applicant for the Uniform CPA Exam must also meet the baccalaureate degree and 24/24 requirement.

⁶ These materials have been supplied in ECC members' Reference Materials.

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ECC must submit the ethics study guidelines to the CBA by June 1, 2012, and the CBA has until January 31, 2013 to adopt, via regulation, the guidelines offered by the ECC. SB 819 requires the CBA to adopt the ECC's recommendation for ethics study guidelines without making any substantive changes.

To assist with the development of the accounting study, the Legislature established the Accounting Education Advisory Committee – more commonly referred to as the Accounting Education Committee or AEC. SB 819 did not spell out the composition of the AEC, so at its March 2010 meeting the CBA established the composition at nine members. The AEC will provide recommendations to the CBA regarding the accounting study guidelines, with the CBA required to adopt guidelines, via regulations, by January 1, 2012 for the new 20 units of accounting study to be included as part of the licensure education requirements.

Conclusion

As evident by the overview provided, SB 819 does not provide any real detail regarding how to incorporate the new educational requirements into the existing Pathway 2 educational structure. The bill simply provides a high-level overview of how the units will be divided and direction on the course content. In the agenda items that follow, members will get a fuller understanding on the specific responsibilities and expectations regarding their work on defining the 10 units for the ethics study guidelines.