

**Corporate Governance and Sarbanes-Oxley  
in Kentucky University Curriculums**

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## **Corporate Governance and Sarbanes-Oxley in Kentucky University Curriculums**

### **Introduction**

As a result of the Sarbanes-Oxley Act of 2002, CPAs in Kentucky and across the nation have witnessed an increased interest in the topic of corporate governance in recent years. The business press regularly reviews the responsibilities of Audit Committee and Board members as mandated by Sarbanes-Oxley. In addition, articles proliferate that discuss the advisability of adoption of Sarbanes-Oxley-like corporate governance policies for other entities that are not covered by that law.

In response to their new duties under Sarbanes-Oxley, board members have begun a quest to ramp up their knowledge and understanding of Sarbanes-Oxley specifically and corporate governance in general. In turn, vendors have rolled out products and services to support Board members in their efforts. Corporate governance seminars are being offered and CPE classes focus on the topic.

The educational efforts aimed at current Audit Committee and Board members are certainly commendable. However, this approach is short-term, focusing on those people currently sitting on Boards. In the long run, it is those young people currently enrolled in Kentucky colleges and universities who will become the leaders and members of Boards of Directors across our Commonwealth. Thus, it is essential that they be prepared for their future roles.

Are Kentucky public institutions of higher education introducing our young people to the subject of corporate governance? If such coverage exists, what topics

within corporate governance are discussed? If corporate governance topics are not addressed at Kentucky public universities, which areas might be incorporated into coursework? Further, which disciplines might take “ownership” of corporate governance and what types of teaching approaches should be considered?

### **Coverage of Corporate Governance Topics**

To explore the extent of exposure to corporate governance topics Kentucky students receive, we perused the online course catalogs for all public colleges and universities in the Commonwealth. These are: Eastern Kentucky University, Kentucky State University, Morehead State University, Murray State University, Northern Kentucky University, University of Kentucky, University of Louisville, and Western Kentucky University.

The online descriptions of courses at both the graduate and undergraduate levels at the institutions were studied. Key terms and words were searched for when perusing the catalogs. These included: Sarbanes-Oxley, corporate governance, governance regulations, Section 404, Board of Directors, Audit Committee, ethics, regulatory environment, governance policies or procedures, regulatory compliance, fraud, investor confidence, business risk, internal audit, internal control, corporate misconduct, and internal auditor-external auditor relations.

### **What Do Kentucky Universities Offer?**

The study of course offerings revealed that none of Kentucky’s public universities offers a distinct stand-alone course in corporate governance. This is true at both the graduate and undergraduate levels.

While no public university in the Commonwealth offers a stand-alone corporate governance course, two classes do include corporate governance in the catalog descriptions of the topics covered in the course. A public administration course entitled “Nonprofit Laws” is offered at Northern Kentucky University. Also, a philosophy course at Western Kentucky University called “Morality and Business” is taught.

Although there is a paucity of courses addressing the subject of corporate governance itself, several courses at Kentucky public institutions of higher learning do include coverage of topics traditionally thought of as being encompassed by corporate governance. For example, ethics is incorporated in auditing classes at Eastern, Kentucky State, Morehead, Murray, Northern, and Western. In addition, the topic is addressed in the accounting information system courses at both NKU and WKU.

Management courses might also address ethics; the topic can be found in classes offered in the Management departments at EKV, Murray, and UK. Another discipline that houses coverage of ethical issues is philosophy; both Eastern and Western have descriptions in the online catalog of philosophy courses encompassing ethics topics.

Other topics with relevance to corporate governance are codes of conduct, whistleblowing, and social responsibilities of businesses and individuals. Eastern offers a philosophy course dealing with codes of conduct and whistleblowing. Social responsibilities of businesses are addressed in both graduate and undergraduate courses at Morehead.

A paralegal class at Eastern takes up the topic of regulatory compliance while a related subject, the regulatory environment, is discussed in a business course at Kentucky State. The regulatory environment is also covered in a finance class in UK.

The subject of internal control has received increased attention and emphasis in light of the financial scandals of recent years and the internal control certification mandate of Sarbanes-Oxley. Even before these events, controls were a topic typically included in university accounting curriculums. While most likely discussed in Auditing, Systems, and other accounting courses at all Kentucky universities, internal control is specifically noted in online course descriptions for Eastern, Kentucky State, University of Louisville, Murray, University of Kentucky, and Western.

Fraud, and especially its prevention, is still another topic encompassed within the realms of corporate governance. Three public institutions, Murray, Northern, and Western, incorporate fraud occurrence and fraud prevention into their undergraduate coursework.

### **A Course in Corporate Governance**

While coverage of corporate governance and related topics is surely needed in Kentucky public universities, perhaps less clear are the details of such offerings. Should corporate governance be introduced at the undergraduate or the graduate level? Should the topic be covered in a distinct, stand-alone course or be integrated into existing classes? What academic discipline should house corporate governance? Are particular teaching approaches better suited to the subject? Finally, what corporate governance topics should be included in the coverage?

#### **• Undergraduate or Graduate Level?**

The subject of corporate governance should initially be introduced at the undergraduate level. Students armed with an understanding of the significance of the

topic and the pervasive impact which governance has upon an entity are better prepared for the demands they will encounter in the workplace upon graduation.

Besides being introduced in the undergraduate curriculum, corporate governance issues should again be taken up at the graduate level. Much deeper coverage than was given in undergraduate classes should be afforded the topic during the graduate coursework.

#### • **Stand-alone Course or Integration?**

The subject of corporate governance can successfully be incorporated into a university curriculum either by integrating it into existing coursework or by developing a distinct, stand-alone class. There are advantages and disadvantages of each approach.

By integrating corporate governance topics into the existing curriculum, students gain an understanding of how governance relates to each of the various disciplines as well as to the many aspects of the entity. However, an integrated approach relies on the professors in the various disciplines not only embracing the subject of governance but also upon those individuals either having expertise in the governance area or committing to obtain it before teaching the course.

If electing to offer a distinct, stand-alone governance course, a university makes a strong statement regarding the significance of the subject matter. Further, this approach reduces the number of faculty who must have, or must acquire, specific expertise in governance.

When covering governance topics in a stand-alone course, a university must take special care regarding the relationship of governance topic to the coursework in other

academic areas. Faculty teaching the governance course should strive to tie the myriad of issues presented in it to the material in other disciplines, especially those in business.

- **Discipline to House Governance**

Any number of academic disciplines might house governance classes. The College of Business seems the most logical home for corporate governance. The subject ties in nicely with management topics and especially well with Legal Environment of Business classes, which are traditionally taught out of Management.

Accounting is another natural place for corporate governance. Sarbanes-Oxley is of great import to the accounting profession and accountants are well-versed in its many mandates relating not only to accounting, auditing, and internal control, but also to officer certifications and governance issues. Thus, governance classes might logically be placed in Accounting.

Other areas within Business that might include a governance course are Finance or Economics. The University of Delaware offers a corporate governance class taught in Finance. The course addresses stakeholders' interests, executive compensation, audit committee reform, director and management responsibilities and their accountability, and financial misconduct. At Bond University, a governance course in the Economics department covers optimal organizational structure, management structure, compensation and incentives, and ownership and control. The description of the course states that it is intended to complement courses in finance and law, as well as other economics classes.

Some Business Colleges may have departments or specialists in Strategy, Decision and Risk Analysis, or Entrepreneurship. These are also areas which might appropriately accommodate corporate governance.

Most courses currently offered in corporate governance are in a university's College of Business. More specifically, they are incorporated into the MBA curriculum. However, governance might very well be included in a variety of other academic disciplines.

The Law or Pre-law curriculums could readily embrace a course covering corporate governance issues. The material ties in nicely to coverage of the Securities Acts of 1933 and 1934, SEC regulations, listings on stock exchanges, and agency theory.

While governance is a topic which many associate only with for-profit organizations, various other types of entities also face such issues. Therefore, disciplines outside of business and law might appropriately house governance courses.

All levels of governmental entities are accountable to their stakeholders and thus face governance issues. Therefore, a governance class might be offered out of the Government or Public Administrations departments.

Education is another area which might incorporate governance topics. Like other governmental entities, school districts are responsible to different groups than are corporations. Governance topics readily tie into the various administrative topics addressed in the education curriculum and so, a governance class could be offered through Colleges of Education.

Still other disciplines which might house governance courses are International Affairs, International Business, or Economics. With business and even education increasingly operating in international venues, governance issues might very well be taken up in these academic areas.

Some universities feel so strongly regarding the significance of governance issues that they have established Centers to house various governance activities. For example, Kennesaw State University, outside of Atlanta, has a Center for Corporate Governance, as does the University of Delaware. Similarly, St. Mary's College of California, the University of Tennessee, Bentley College (Massachusetts), and San Diego State have such Centers. More high-profile schools with an Institute or Center for Corporate Governance include Dartmouth, the University of Pennsylvania's Wharton School, George Washington University Law School, Harvard, and Yale. The disciplines represented by the faculty of these Centers include: accounting, management, finance, economics, entrepreneurship, strategy, government, public policy, law, and sociology.

- **Topics to Include**

A myriad of topics might be included in a governance class. These include: defining what corporate governance entails and tying governance issues to the organization's structure. The legal aspects of governance should be discussed. Also, the impact on the entity of regulatory bodies, such as the SEC and the PCAOB, as well as various laws and regulations, including the Securities Acts of 1933 and 1934 and the Sarbanes-Oxley Act of 2002, should be explored.

Issues related to the Board of Directors should be addressed in a course in governance. Topics such as the selection and compensation of Board members, the Board's decision-making process and its accountability to stakeholders, the responsibilities of the directors, and how to measure the effectiveness of the Board should be taken up. Other Board-governance topics include the Board's role in strategic planning and the impact of external constituencies on the Board. Warning signs of a

Board in trouble should be discussed, as should measures to be used to assess the effectiveness of a Board. Of course, the very latest in governance issues and events should be incorporated into a governance class.

Besides structure, laws and regulations, and Board issues, topics related to shareholders should be addressed in a governance course. These should encompass information and disclosures made available to stakeholders, investors' rights, and relationships with the various constituencies of the entity.

The role of the Audit Committee and its significance to the Board should also be addressed in a corporate Governance course. Two bodies which report to the Audit Committee, i.e., the external auditors and the internal auditors, as well as the work that each performs, are also significant items that might be examined. In connection with the functions of both external and internal auditors, the subjects of internal control and fraud should be discussed.

Finally, corporate governance in the international arena might be explored. Multinational entities, operating in an international environment with different cultures, norms, and laws, face special governance challenges worthy of study.

[Exhibit about here]

- **Teaching Approaches**

The teaching approaches utilized by professors in governance courses are contingent upon the subject matter to be included. Also, the expertise possessed by academics in various disciplines should be considered in deciding how best to approach the material.

The Sarbanes-Oxley Act of 2002 and the PCAOB Standards and regulations, with their many mandates, are probably best presented in the traditional lecture format. Assessments of students' knowledge in this area could appropriately be made utilizing objective assessments.

Ethics, on the other hand, is a much more subjective topic. Despite its coverage in Sarbanes-Oxley and inclusion in the regulations of the various stock exchanges, ethical conduct, or misconduct, continues to be a murky issue and worthy of much discussion. Therefore, case approaches, in which students consider dilemmas faced by leaders of organizations, are perhaps best suited for education in ethical matters.

Group projects might be used for topics such as organizational and governance structure. For example, given a new or expanding business, the groups or teams could be asked to develop an organizational chart for the entity and suggest a governance structure.

Besides contemplating teaching approaches for specific governance topics, universities must also consider how to organize governance courses utilizing the most effective resources available. Team teaching, utilizing the expertise of professors from across academic disciplines, has much merit. As noted above, governance courses, or topics traditionally thought of as being encompassed by governance, are housed in a variety of departments at Kentucky universities. Thus, expertise resides in various areas at the institutions; drawing from the knowledge housed in these academic areas and incorporating it into one course has much appeal.

### **Final Thoughts**

While a paucity of governance courses are currently included in the catalogs of universities in the Commonwealth, some governance topics do receive attention. Also, anecdotal evidence shows that governance courses are making their way into Kentucky classrooms. For example, at Western, an undergraduate class entitled “Corporate Responsibility in Society” was offered as a Senior Seminar in Management in the Fall of 2004. “Ethics and Corporate Responsibility” is being taught as a Special Topics course in Economics at WKU in the Spring semester 2005. Also, “Ethical Governance, Leadership, and Sarbanes-Oxley,” a course in the MBA and eMBA programs, is being delivered during 2005 at Western.

In preparing our young people to become future leaders, Kentucky will continue to see governance courses being offered at more and more public universities in our Commonwealth.

**Exhibit  
Topics to Include  
in a Governance Course**

What is corporate governance?  
Organization structure and governance  
Legal aspects of governance  
Impact of regulatory agencies (SEC, PCAOB, other agencies) on the corporation  
Sarbanes-Oxley and other significant legislation

Board accountability  
Legal and ethical obligations of directors  
Warning signs of a board in trouble  
Corporate social responsibility  
Director selection procedure

Board decision-making process  
Board effectiveness measures  
Board compensation  
Board's role in strategic planning  
Impact of external constituencies on Board

Corporate executive compensation  
Private and public information/disclosure  
Investors' rights  
Shareholder vs. stakeholder relations  
Internal control

The role of the Audit Committee  
External auditors and the Board  
Internal auditors and the Board  
Employment law  
Fraud and the Board

International audit and the Board  
International law  
Recent and significant governance events  
Corporate Governance and financial performance  
Compliance issues and programs  
Attestation of internal control systems