Competency Frameworks for Professional Accountants and Auditors

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World Bank Centre for Financial Reporting Reform
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EDUCATION COMMUNITY OF PRACTICE EVENT
Learning Objectives

» Distinguish between competence and knowledge

» Recognize why professional competence is essential for auditors and accountants

» Evaluate the responsibilities of professional accountancy organizations (PAOs) in developing and maintaining member competence

» Explore what typical Competency Frameworks look like

» Evaluate the use of Competency Frameworks by PAOs

» Describe Competency Framework development methods

» Describe ongoing dissemination and maintenance of the Competency Framework
I. Competence and Knowledge
II. Competency Frameworks – typical structures
III. How Competency Frameworks are used
IV. Development Methods for Competency Frameworks
V. Sustaining a Competency Framework
Knowledge: “Do you know how to…?”

» Relies on learning principles, standards, concepts, facts, and procedures
» Is often theoretical or academic in approach

» Knowledge is necessary but not sufficient – we can “know how” to do something, but still not be able to do it consistently in a real situation.
Knowledge or Competence?

Professional Competence: “Can you…?”

» Defined by IFAC as "the ability to perform a role to a defined standard"

» Competence “goes beyond knowledge …; it is the integration and application of
(a) technical competence,
(b) professional skills, and
(c) professional values, ethics, and attitudes”
Professional Competence

Why focus on Professional Competence?

» When developing and qualifying professional accountants and auditors, it’s not enough that they know what the standards require
  » Professionals work in complex environments
  » Professionals are entrusted by society to guard the public interest
  » Often, once qualification is achieved, they can offer services to the public without further requirements
» Professionals need to be able to perform their roles competently, to the level expected by the public, clients and employers.
Professional Accountancy Organizations’ Responsibilities

» PAOs are responsible for ensuring member competence to:
  » protect the public
  » protect the reputation of the profession and maintain public trust
  » comply with national standards and regulations
  » meet international requirements and expectations
The Role of Universities (and other educators)

» University education provides the foundation for professional education.

» In early courses, students build knowledge, but the sooner we can start developing competence, the better.

» As much and as early as possible, courses should incorporate the application of judgment, critical thinking, dealing with uncertainty, ethics and values, communication, leadership, teamwork, etc.
II. Competency Frameworks – Typical Structures
Elements of a Competency Framework

- **Competency Domains**
  - e.g., Financial Accounting, Audit, Strategy, Communications

- **Competency Statements**
  - e.g., “Develops the audit plan” at Level B

- **Knowledge Topics**
  - e.g., • ISA 300
    - Materiality
    - Scope and timing

- **Levels of Proficiency**
  - e.g., ISA 300
    - Materiality
    - Scope and timing
Competency Frameworks

- Technical Competencies
- Non-technical ("Pervasive") Competencies
Competency Frameworks

**Technical Competencies**

- Financial Accounting & Reporting
- Audit & Assurance
- Management Accounting
- Finance & Financial Management
- Strategy & Governance
- Taxation
- Business Laws & Regulation

**Non-technical (“Pervasive”) Competencies**

- Communication
- Teamwork & Leadership
- Problem Solving
- Integrative Approach
- Professional skepticism & judgment
- Ethics & Trust
## Competency Statements

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<tr>
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<tr>
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<tr>
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<tr>
<td>Determines the scope of the engagement</td>
</tr>
<tr>
<td>Evaluates risks and business issues to determine their impact on the engagement</td>
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<tr>
<td>Develops the audit plan</td>
</tr>
<tr>
<td>Develops and/or performs appropriate audit procedures</td>
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<tr>
<td>Evaluates and advises on internal controls</td>
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<td>... and so on</td>
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**EXAMPLE**
Area: Communication

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<td>Selects an appropriate medium to convey information, ideas, and results</td>
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<tr>
<td>Prepares information in formats appropriate for specific purposes</td>
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<tr>
<td>Communicates information in a timely, clear, and concise manner</td>
</tr>
<tr>
<td>Projects a professional image in communications</td>
</tr>
<tr>
<td>Follows up to ensure that communications are clearly understood</td>
</tr>
<tr>
<td>Ensures effective meetings by developing agendas and minutes, and facilitating discussions</td>
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<tr>
<td>Facilitates resolution between differing viewpoints</td>
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Competency Frameworks

Proficiency Levels – “How well can you…?”

» Each Competency Statement in the Framework is assigned a required “level of proficiency”

» Proficiency levels specify the required level of performance expected by the time of qualification

» Proficiency levels differ between competency statements and between various programs or specialties, depending on context
Proficiency Levels

» Proficiency levels are labeled and described in various ways:
  » 1, 2, 3 (or 3, 2, 1)
  » A, B, C or (C, B, A)
  » Expert, Advanced, Intermediate, Foundational
  » Mastery, Comprehension, Awareness

» Interim proficiency level requirements may be set for milestones along the way, such as various levels in a program
## Competency Statements

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<tr>
<td>Evaluates and consults on the organization’s reporting needs and related assurance requirements</td>
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<td>Selects an appropriate medium to convey information, ideas, and results</td>
<td>Advanced</td>
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<tr>
<td>Prepares information in formats appropriate for specific purposes</td>
<td>Advanced</td>
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<tr>
<td>Communicates information in a timely, clear, and concise manner</td>
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Competency Frameworks

Knowledge Topics:

» provide lists that represent the scope and context of each Competency Statement.

» add detail without “bulking up” the Competency Statements

» provides the granularity needed to give guidance to educators (Universities and developers of the professional education courses) about what topics should be covered in courses.

» may or may not be specified for non-technical competencies.
Sample Knowledge Topics: Audit & Assurance

Competency Statement:
3.2 Determines whether to accept an engagement consistent with professional standards

<p>| | |</p>
<table>
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<tr>
<th></th>
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</tr>
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<tbody>
<tr>
<td>K3.2.1 Auditor independence requirements for external engagements (Independence Standards for External Auditors)</td>
<td></td>
</tr>
<tr>
<td>K3.2.2 Client acceptance, including scope restrictions and conflict of interest</td>
<td></td>
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<tr>
<td>K3.2.3 Engagement management, including resource allocation</td>
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</table>
Example – CPA Canada’s Competency Map
Framework includes technical and “enabling” competencies
Enabling competencies comprise professional skills, values, ethics, and attitudes

<table>
<thead>
<tr>
<th>FIVE ENABLING COMPETENCY AREAS</th>
<th>SIX TECHNICAL COMPETENCY AREAS</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Professional and Ethical behaviour</td>
<td>1. Financial Reporting</td>
</tr>
<tr>
<td>2. Problem-solving and Decision-making</td>
<td>2. Strategy and Governance</td>
</tr>
<tr>
<td>3. Communication</td>
<td>3. Management Accounting</td>
</tr>
<tr>
<td>5. Teamwork and Leadership</td>
<td>5. Finance</td>
</tr>
<tr>
<td></td>
<td>6. Taxation</td>
</tr>
</tbody>
</table>
Proficiency levels are C (lowest) to A (highest):

» **Level C**: retrieval and comprehension skills; be able to explain, describe, and demonstrate knowledge that is low to moderate in complexity for a routine situation.

» **Level B**: demonstrate knowledge, analyze problems, and draw logical conclusions in routine situations that have low to moderate complexity; be able to perform a preliminary analysis of an issue, but the work will require the involvement of more senior professionals before the candidates are able to complete the work.
» **Level A:** demonstrate knowledge, analyze problems in sufficient depth and draw conclusions in routine situations that have low to moderate complexity. In cases of non-routine and moderate complexity, candidates are expected to be able to see some, but not all, of the interrelationships. In these situations, candidates will require some guidance from a more experienced professional to complete the task.

*Highly complex and non-routine situations are assumed to be handled by more seasoned professionals.*
### CPA Competency Map

<table>
<thead>
<tr>
<th>Competency Statements</th>
<th>Entry</th>
<th>Core</th>
<th>Electives</th>
<th>Capstone</th>
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<td>TECHNICAL COMPETENCIES</td>
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<td>4. AUDIT AND ASSURANCE</td>
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<td>4.1 Internal Control</td>
<td></td>
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<td></td>
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</tr>
<tr>
<td>4.1.1 Assesses the entity's risk assessment processes</td>
<td>B</td>
<td>A</td>
<td>A</td>
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</tr>
<tr>
<td>4.1.2 Evaluates the information system, including the related processes</td>
<td>C</td>
<td>B</td>
<td>B</td>
<td>A</td>
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<td>4.2 Internal and External Audit Requirements</td>
<td></td>
<td></td>
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<td>4.2.2 Explains the implications of pending changes in assurance standards</td>
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<td></td>
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<td>4.3.1 Assesses issues related to the undertaking of the engagement or project</td>
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#### Proficiency Levels

- **B**: Basic
- **A**: Advanced
- **C**: Competent

**Common Final Evaluation**
CPA Competency Map

> ENABLING COMPETENCIES

i. Professional and ethical Behaviour
ii. Problem-solving and decision-making
iii. Communication
iv. Self-management
v. Teamwork and leadership

> indicates coverage and progressive development of professional skills and behaviour.
## CPA Competency Map – Knowledge Reference Lists

<table>
<thead>
<tr>
<th>Knowledge Topics</th>
<th>Related CPA Competencies</th>
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<tbody>
<tr>
<td>• Objectives and fundamental accounting concepts and principles (qualitative characteristics of accounting information, basic elements)</td>
<td>1.1.1 Evaluates financial reporting needs</td>
</tr>
<tr>
<td>• Ethical professional judgement</td>
<td>1.1.2 Evaluates the appropriateness of the basis of financial reporting</td>
</tr>
<tr>
<td>• Objectives of financial reporting</td>
<td>1.1.3 Evaluates reporting processes to support reliable financial reporting</td>
</tr>
<tr>
<td>• Difference between accrual accounting compared to cash accounting</td>
<td>1.2.1 Develops or evaluates appropriate accounting policies and procedures</td>
</tr>
<tr>
<td>• Framework of standard setting (IFRS and ASPE)</td>
<td>1.4.2 Evaluates financial statements including note disclosures</td>
</tr>
<tr>
<td>• Financial statement users and their broad needs, standard setting, and requirement for accountability</td>
<td>1.4.4 Interprets financial reporting results for stakeholders (external or internal)</td>
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<td>• Accounting information systems</td>
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# CPA Competency Map

## TECHNICAL COMPETENCIES

### 4. AUDIT AND ASSURANCE

#### 4.1 Internal Control

4.1.1 Assesses the entity's risk assessment processes
- B
- A
- A

4.1.2 Evaluates the information system, including the related processes
- C
- B
- B
- A
- A

#### 4.2 Internal and External Audit Requirements

4.2.1 Advises on an entity’s assurance needs
- B
- B
- A
- A

4.2.2 Explains the implications of pending changes in assurance standards
- C
- C
- B
- A

#### 4.3 Internal Audit Projects and External Assurance Engagements

4.3.1 Assesses issues related to the undertaking of the engagement or project
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Used for developing professional courses and exams.
### CPA Competency Map

#### Paper 1: CPA Competency Map

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Capstones integrate technical areas and strengthen enabling competencies.
III. Using Competency Frameworks
How Competency Frameworks are Used

Competency Frameworks are the foundation ensuring competence is achieved and maintained:

1. Required Education, Exams, Experience
2. Professional Qualification
3. Continuing Professional Development

Supports PAO’s internal programs pre- and post-qualification
How Competency Frameworks are Used

» Competency Frameworks support compliance:

- International good practice
- Local laws and regulations

Supports compliance with local and international expectations
Competency Frameworks are often mapped to the requirements of other organizations:

- Universities seeking accreditation
- Recognition agreements with other PAOs

Supports comparisons with other organizations
IV. How Competency Frameworks are Developed
How competency frameworks are developed

» Broad stakeholder input is essential, in order for the Framework to meet the needs and expectations of the public, clients, and employers:
  » The goal is to reflect the full range of competencies essential for professional accountants and auditors
  » The proficiency levels required are highly dependent on context, and also need to be realistic based on the local environment
How competency frameworks are developed

» A “Practice Analysis” is typically used to determine competencies and the appropriate levels of proficiency required by new professional accountants

» Full-scale Practice Analysis includes a comprehensive survey of:
  » Members
  » Employers
  » Academics
  » Professional recruiters
  » Regulators
How competency frameworks are developed

» Independent consultants are usually hired to assist (to bring specialized expertise and help ensure objectivity and avoid potential bias)

» The Practice Analysis should be updated periodically (normally every 3 to 5 years) to reflect changing needs of stakeholders and the professional environment
Performing a Practice Analysis

» Led by a small, but representative committee who compile the draft list of Competency Statements.

» For each Competency Statement, Knowledge Topics are generated to describe the intended scope and context of the statement.

» A comprehensive survey is held, where members, employers, academics, regulators, and recruiters rate competency statements on Essentiality/Importance and Proficiency Level.

» Results are compiled to finalize the Competency Statements, Proficiency Levels, and related Knowledge Topics.
How competency frameworks are developed

Results of recent Practice Analyses:

» Competencies rated most essential to a newly designated professional accountant relate to professionalism, ethics & trust, leadership, and communicating.

» Among the technical competency domains, financial accounting and reporting, internal controls and auditing, management accounting and risk, and taxation generally rank highest.

Technical Competencies

Non-technical ("Pervasive") Competencies
Challenges of a Practice Analyses

Logistical/Resource Challenges:

» Practice Analyses are time-consuming, complex, and expensive

» Ideally, the first comprehensive Practice Analysis should occur before professional education programs are in place and it becomes more difficult to totally overhaul them

» Be careful not to just retrofit an education program to the Framework and ignore the need for changes indicated by the Practice Analysis
Challenges of a Practice Analyses

Content Challenges:

» The Framework needs to be articulated at the “right” level of granularity – in order to serve their purpose, they can’t be too broad or too focused:
  » If too broad – not enough detail for implementation
  » If too granular – too cumbersome to work with

» Remember that the Framework represents the *minimum* level of competence to be demonstrated by all professional accountants and/or auditors at the time of certification
  » this should reflect a *strong* minimum level, but also needs to be *realistic* given the certification program
Overcoming Challenges

A Potential Iterative Approach:

» Draw on experience of established Frameworks and IESBA’s IESs

» Draft the Competency Statements, Proficiency Levels and Knowledge Statements (or descriptions)

» Use a small but representative group of stakeholders to vet the Framework in an intensive workshop

» Fit the program and Framework together, adjusting the program as needed over time

» Review and adjust the Framework over time as appropriate
Overcoming Challenges

Collaborative assistance from experts:

» Best results occur when based on a collaboration of:
  » Experienced experts – to gain independent guidance and international perspective
  » Strong local expertise – to ensure local context is understood and adapted to
Example – Developing Poland’s “Framework of Learning Outcomes”
Chamber of Auditors - Krajowa Izba Bieglych Residentow (KIBR)

Requirements to become a Statutory Auditor:

1. 10 Pre-Requisite Exams (up to 4 hours each)
2. Work experience
3. Diploma Exam (3 hours)
World Bank Project in Poland

**CFRR Project: Strengthening Accounting and Auditing Education**

» Terms of Reference called for for:
  » Developing an integrated case-based exam to serve as the final qualification exam for auditors
  » Developing a process to accredit universities and provide exemptions to the current 10 pre-requisite exams

» Outputs needed to be in compliance with IFAC’s *International Education Standards for Accountants* (IESs)
IFAC’s IESs require a “Learning Outcomes” approach:

“A learning outcomes approach focuses on the individual’s demonstrated achievement of the learning outcomes at the targeted level of proficiency and not on the learning process.”

“Demonstrating the achievement of these outcomes provides evidence of the professional competence of the individual to perform the role of a professional accountant.”

Source: January 2016 - IAESB Implementation Support Materials: Guiding Principles For Implementing A Learning Outcomes Approach
To support IES compliance, a Competency Framework was needed, but there were not enough resources to perform a full Practice Analysis.

As a solid interim approach, a “Framework of Learning Outcomes” was developed.

Less grounded in research, but more efficient to produce, using the work of other respected groups.
KIBR Framework of Learning Outcomes

» KIBR Framework of Learning Outcomes
  » Framework included Learning Outcomes (rather than Competency Statements), including technical areas and pervasive skills
  » Ties directly to IFAC’s IESs to support compliance
  » Uses proficiency levels
    1 = Foundation, 2 = Intermediate, 3 = Advanced

This recognizes that newly-qualified candidates are not experts (there is room to add Levels 4 or 5 for CPD)
KIBR Framework of Learning Outcomes

» Serves as an interim step on the way to building a Competency Framework (following a national Practice Analysis)

» Learning Outcomes were essentially “unverified” competency statements

» Learning Outcomes were assigned Proficiency Levels

» Learning Outcomes were mapped to the knowledge lists contained in current regulation
Sample Learning Outcomes – Financial Accounting & Reporting

<table>
<thead>
<tr>
<th>Learning Outcome</th>
<th>Proficiency Level</th>
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<tbody>
<tr>
<td>Explain the regulatory environment and standard-setting process, and identify the relevant laws and regulations that pertain to the organization.</td>
<td>2 - Intermediate</td>
</tr>
<tr>
<td>Explain the purposes, objectives and qualitative characteristics of financial reports, the benefits to the public, and the fundamental processes and tasks.</td>
<td>3 - Advanced</td>
</tr>
<tr>
<td>Apply Polish accounting regulations other than IFRS to transactions and other events.</td>
<td>2 - Intermediate</td>
</tr>
<tr>
<td>Apply International Financial Reporting Standards (IFRSs) to transactions and other events.</td>
<td>2 - Intermediate</td>
</tr>
<tr>
<td>Evaluate the appropriateness of accounting policies used to prepare financial statements.</td>
<td>2 - Intermediate</td>
</tr>
</tbody>
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## Sample Learning Outcomes – Intellectual Skills

<table>
<thead>
<tr>
<th>Sample Learning Outcomes</th>
<th>Proficiency Level</th>
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<tr>
<td>Evaluate information from a variety of sources and perspectives through research, analysis, and integration.</td>
<td>2 - Intermediate</td>
</tr>
<tr>
<td>Identify when it is appropriate to consult with specialists to solve problems and reach conclusions.</td>
<td>2 - Intermediate</td>
</tr>
<tr>
<td>Apply reasoning, critical analysis, and innovative thinking to solve problems.</td>
<td>2 - Intermediate</td>
</tr>
<tr>
<td>Recommend solutions to unstructured, multi-faceted problems.</td>
<td>2 - Intermediate</td>
</tr>
<tr>
<td>Resolve audit issues using inquiry, abstract and logical thought, and critical analysis to consider alternatives and analyze outcomes.</td>
<td>2 - Intermediate</td>
</tr>
</tbody>
</table>
IV. Implementing and Sustaining a Competency Framework
Implementing a Competency Framework

Once a Competency Framework has been developed:

» it needs to be rolled out to all areas

» the Framework should be referenced any time the profession sets up processes for ongoing training, education, evaluating or monitoring of members

» communication is key with other stakeholders, such as government oversight/regulators, education partners
Once a Competency Framework has been implemented:

» it should be reviewed and updated regularly (every 3 to 5 years) to keep it relevant

» review/revision can be done through a full Practice Analysis or through surveys and/or workshops in specified domains

» International and local trends and regulatory changes need to be monitored and reflected in the Framework

» the organization needs to become comfortable mapping it against other Frameworks for benchmarking and partnership purposes
Learning Objectives - Recap

» Distinguish between *competence* and *knowledge*
» Recognize why professional competence is essential for auditors and accountants
» Evaluate the responsibilities of professional accountancy organizations (PAOs) in developing and maintaining competence of members
» Explore what typical Competency Frameworks look like
» Evaluate the use of Competency Frameworks by PAOs
» Describe Competency Framework development methods
» Describe ongoing dissemination and maintenance of the Competency Framework
Thank You!!

Questions?
Comments?
Feedback?

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