



INCPAS BOARD TASK FORCE

THE FUTURE OF COMPETENCY WHITE PAPER

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“Excellence is an art won by training and habituation. We do not act rightly because we have virtue or excellence, but we rather have those because we have acted rightly. We are what we repeatedly do. Excellence, then, is not an act but a habit.”

-Aristotle

The INCPAS Board Task Force looking at the future of competency was charged with becoming content experts on the topic of competency and preparing a report for the Board of Directors for their November 2012 retreat that would include implications for the future of INCPAS planning and identification of possible impacts of changes in competency on members, firms and industry employers and the public.

Competency was defined as: The identification (plan), acquisition (education), and demonstration (experience) of behaviors, knowledge, skills and abilities necessary for successful performance as a professional.

No law, new regulatory standard, or educational model can completely prevent incompetent practice. Today, CPE credits are what generally indicate continued competency for licensed CPAs. However, the rate of non-compliance is around 30% in most states, so how effective is it? While the investment in our current system may be considered a sunk cost, we have not come to the end of the ROI period for CPE. While examining and promoting a better competency-based platform, care should be taken; it may be ideal to slowly graduate the current CPE system forward. But, with the rapid pace of change in standards and regulations, technological advancements, globalization, changes in education and the general volatility of our world today, the fact is that we must consider how the competency of CPAs is keeping up. What can CPA Societies' roles be in developing changes that will enhance members' competencies and the work they produce for those they serve? This report contains wide-ranging information and some provocative statements – it is meant to ask questions and provide momentum for future discussion on the topic of competency which is so important the CPA profession.

Broad-Based Education Changes

In order to understand the environment in which future members will be entering the workforce and experiences they may encounter, a long-term view must be taken of education in general and broad changes in the realm of knowledge dissemination and enhancing competency.

Virtual Schools – The reputations of online universities, like the University of Phoenix have changed dramatically over the last two decades. What was once considered, by many, a sub-standard option for undergraduate or advanced education is now commonly used by hundreds of thousands of people each year. Due to the success of such schools and advances in technology

more traditional schools are offering online courses to be taken in conjunction with live classes in order to fulfill degree requirements. High school students can take online classes to enhance their coursework to prepare for college and there are entirely virtual K-12 schools in many states.

The Pew Internet and American Life Project reported that "...university-level education will adopt new methods of teaching and certification driven by opportunity, economic concerns and student and parent demands." By 2020, higher education will be quite different from the way it is today through:

- mass adoption of teleconferencing and distance learning to leverage expert resources
- significant numbers of learning activities will move to individualized, just-in-time learning approaches
- assessment of learning will take into account more individually-oriented outcomes and capacities that are relevant to subject mastery
- requirements for graduation will be significantly shifted to customized outcomes

OpenSource Classes – More and more opportunities are available to get a high level education without ever getting college credit but simply to gain knowledge or competencies. Harvard and MIT teamed up in 2012 to develop the edX online learning platform aimed at revolutionizing education for students around the world. Within 6 months the venture grew to include the University of California, Berkeley and University of Texas. Anyone interested in learning can take part in these courses for free; while they won't receive college credit they will receive the knowledge that everyone else in the class had the opportunity to gain. The classes, supported by edX, though are also being used to augment traditional interaction with online content. Per the MIT newspaper:

MIT Professor and edX President Anant Agarwal is fond of saying that he sees edX as a "rising tide that will lift all boats," that is, both for students attending an "X University" and those who aren't. He envisions that those who are will benefit from "blended model" of education combining traditional classroom interaction with online content.

The program's developer thought it would be a success with 10,000 applicants. More than 50,000 signed up in the first year.

Competency vs. Tradition – Today, we think of education as something that is bestowed upon an individual from an institution by way of a degree denoting particular competencies were learned, but will there come a day when people will get credit just for *learning* vs. paying tuition to receive a specific degree? This concept is being discussed even by those firmly entrenched in the established system. Rita McGrath, a professor at Columbia Business School in New York is known as one the world's leading experts on strategy. She works with Global 1,000 companies including Microsoft, GE, PPG, and Novartis. Based on digital technologies, Rita McGrath

believes 7 major changes are underway right now that will upend traditional education. From Rita McGrath's blog (ritamcgrath.com/blog/):

1. *“Unbundling: Increasingly, certification of a skill or mastery will happen at the level of individual courses. That means it matters whether you mastered the course, but not necessarily whether it came as part of a degree package. The effect on universities will be the same as the effect of selling songs by the song (rather than the album) was in the music business. It will completely change the business model.*
2. *Accessibility: The availability of high-quality, on-line courses that thousands of students can take means that many students can get the credential they need from the professor they want, regardless of the university they are affiliated with and regardless of where the student physically is. This will create greater power and draw for popular professors, leave the unpopular ones (or the ones teaching less popular subjects) behind and give far greater connection to students who would otherwise be unable to connect due to lack of access.*
3. *Upend traditional teaching: Increasingly, students are learning content on-line and then coming to a physical class to work with a teacher on application. This is already happening in many elementary schools with the advent of the Khan Academy video series.*
4. *Upend traditional grading: Conventionally, you taught a subject and then graded a student on how well they retained it. With digital technologies, a student can self-test and review the material as many times as they need to in order to guarantee mastery.*
5. *Change a professor's job: Professors will increasingly be called upon to master new distribution methods and models.*
6. *Change the economics of schools' 'brand': Schools will find themselves under pressure to put their brands on an increasingly broad array of content; sometimes risking the elusive exclusivity that the top brands can command.*
7. *More specialization: There will be a temptation for schools without a broad and well known brand to specialize in becoming known for particular topics, which will fragment the target market.”*

Khan Academy – Rita McGrath references the Khan Academy videos in her blog. The [Khan Academy](#) could completely change the model schools use to educate students. The Khan Academy is a not-for-profit with the goal of “providing a free world-class education for anyone anywhere”. More than 3,000 videos are available on the Khan Academy site on topics from history to physics to arithmetic to art history. All videos and resources are free. Some schools are using Khan Academy videos to completely transform the learning model. Rather than the student working around the education model (everyone in a classroom, working at basically the same pace, from the same books, being tested periodically to determine a grade), the Khan Academy model allows the education to work around the student. Students watch the video lectures on their own time and come to school to assess themselves (test how they've learned

concepts) and to get individualized attention in areas where they need it. This model allows teachers to identify who needs what kind of help, to lecture on practical applications of what the students have learned and to allow students who are ready to do so to move ahead as they learn a subject.

Education and Employment – College credit is now commonly available through high school courses and some students can get a year or more of college credits under their belts before they even leave high school. While this is a big change from the previous path toward higher education, will there be even greater changes in the future related to education and employment?

Will organizations bring the next generation of professionals into the workplace earlier than they do today? Should they? Most public accounting firms prefer to hire from their intern pool of candidates. Will there be a need for a four year degree if the skills are being learned and the student is ready? There are obvious regulatory obstacles to this right now, but if people like Rita McGrath are right, could a scenario like this be true in the future?

I studied with Rita McGrath through an online class (for free) at her Ivy League university, I took all of the MBA level courses offered, took a self-assessment in each and got an A+ . Am I considered just as competent as someone who earned a degree from the same school through tuition-paid coursework in order to earn an MBA? One could argue that someone who got an A in a class by attending online for free (with documented, easily accessible assessments to prove it) may be more competent in a subject matter than the person who sat through class, got a B-, but earned a degree?

Competency and Higher Education

With the strenuous education requirements for initial competency within the profession, the American Accounting Association (AAA) and the American Institute of Certified Public Accountants (AICPA) created the Pathways Commission on Accounting Higher Education to study the future structure of higher education for the accounting profession and develop recommendations for educational pathways to engage and retain the strongest possible community of students, academics, practitioners, and other knowledgeable leaders in the practice and study of accounting.

At the beginning of their exploration, the Pathways Commission adopted a fundamental premise: The educational preparation of accountants should rest on a comprehensive and well-articulated vision of the role of accounting in the wider society.

The Pathways Commission identified the value proposition for a broadly defined accounting profession - students, faculty, and accounting practitioners need a shared sense of why

accounting is important; the scope and breadth of the accounting profession; and what it takes to successfully think, perform, and act with integrity in the study and practice of accounting.

The Pathways Commission developed important action items:

1. *“Build a learned profession for the future by purposeful integration of accounting research, education, and practice for students, accounting practitioners, and educators. (Example: Focus more research on relevant practice issues.)*
2. *Develop mechanisms to meet future demand for faculty by unlocking doctoral education via flexible pedagogies in existing programs and by exploring alternative pathways to terminal degrees that align with institutional missions and accounting education and research goals. (Example: Allow flexible content and structure for doctoral programs.)*
3. *Reform accounting education so that teaching is respected and rewarded as a critical component in achieving each institution’s mission. (Example: Better connect faculty promotion and tenure to the quality of teaching.)*
4. *Develop curriculum models, engaging learning resources, and mechanisms for easily sharing them as well as enhancing faculty development opportunities in support of sustaining a robust curriculum. (Example: Engage the accounting community to define the body of knowledge that is the foundation for accounting’s curricula of the future.)*
5. *Improve the ability to attract high-potential, diverse entrants into the profession. (Example: Develop financial aid literacy programs.)*
6. *Create mechanisms for collecting, analyzing, and disseminating information about the current and future markets for accounting professionals and accounting faculty. (Example: Project future supply, demand, and competencies for accounting professionals.)*
7. *Convert thought to action by establishing an implementation process to address these and future recommendations by creating structures and mechanisms to transition accounting change efforts from episodic events to a more continuous, sustainable process.”*

The report asserts that the accounting community must come together and develop a shared vision for a body of knowledge for accounting to meet future challenges and should create multiple effective curriculum models to fit into the varied educational institutions and missions.

Other professional disciplines (law, medicine, engineering, nursing, and the clergy) are also studying how best to meet opportunities and challenges in their fields of study and practice. In partnership with the Carnegie Foundation for the Advancement of Teaching, these professions participated in a comparative study of their professional preparation programs in a decade-long project called the Preparation for the Professions Program.

The premise underlying this comparative field study was that educational preparation for professional work is essentially formative, extending beyond cognitive development and the acquisition of technical knowledge and skills to include the development in students of a deep

understanding of a profession's overarching purposes and standards as well as a sense of professional identity with these purposes and standards at its core.

This fits clearly with findings of the Pathways Commission. The Commission reported key components to building competency:

- A. Technical Knowledge – Commitment to lifelong learning regarding technical knowledge due to the constant changes in this area.
- B. Professional Skills – Practice skills learned both in and out of the classroom/
- C. Professional Integrity, Responsibility, Commitment – “The pathways commission expands this concept to more broadly recognize that ethical behavior is also founded on integrity, responsibility, and commitment to the profession’s broad societal and economic purposes. Education can enhance these characteristics and build skills in the ethical decision making and responsible judgment.”

The Future of Competency Task Force believes these are the foundational principles of building competency now and in the future. Since a college education is a requirement for a CPA, the ways that accounting education deals with competency could greatly impact how licensed professionals maintain their competency and the expectations of the profession. The Pathways Commission Report outlines many impediments to change in higher education including the slow pace of change at large institutions, lack of reward structures that promote change, financial implications of change, individual professors’ lacking the incentive to change. There are also all challenges to change in the area of professional competency. Change will not likely be swift or smooth, but there are real risks to eroding the public trust if we don’t continue to enhance and advance competency.

The 150 Hour Rule – No discussion can be had on the topic of accounting education without discussing the 150 hour rule. The broad changes in education, the Pathways Commission Report and the increasing costs of higher education all lead to the inevitable question - Will there be a need for, and the ability to sustain, the 150 hours requirement in the future? 24 states have already moved to a process that allows a candidate to sit for the Exam at 120 hours and then earn the other needed hours before licensure. Is this the first step to eliminating those additional hours? Is knowledge the key to enhancing the competency of the CPA? Are apprenticeships or other practical experiences that are more substantial than internships the way to better professionals? How much of the period of time students take to complete the 150 hours is spent on gaining knowledge, learning to problem solve, thinking critically or just maturing? Should we bring the next generation into the profession earlier while continuing their education?

The 150 hour rule is the first step in developing competency and, according to many, it is ill-defined. Should it be better defined? If it is, does that limit the 150 hour rule to a definition that will be adequate three to five years from now in preparing the next generation of CPA’s? What about ten to fifteen years? It is easy to get caught up in the rhetoric of the day or the traditions of

the past. The “checking of the box” approach to learning may actually inhibit learning. In other words, do we stop learning once we check the box?

The Standards for Continuing Professional Education Programs

While it has already been noted that CPE requirements do not equal professional competency, the standards that serve as the framework for professional education for the accounting profession are changing with nods toward the future and the challenges we’ve noted in this discussion paper.

CPE Standards – Effective July 1, 2012, the AICPA and NASBA jointly issued new standards for continuing professional education programs for CPAs, the Statement on Standards for Continuing Professional Education (CPE) Programs. There are additional details in the statement, but the text that relates to a discussion of competency is primarily found in the preamble to the standards document:

Preamble 5: Advances in technology, delivery, and workplace arrangements may lead to innovative learning techniques. Learning theory may evolve to include more emphasis on outcome based learning. These standards anticipate innovation in CPE in response to these advances.

- *Group study*
- *Learning plans- competency based, include, skill or ability self-assessment of gap in knowledge, skills or abilities, identify the knowledge, skill or ability and create learning objectives & activities to gain knowledge*

There are a number of minor changes throughout the standards, but generally they address what is mentioned here in the new preamble – this acknowledges advances in technology that allow for “innovative learning techniques” and something called learning plans. Learning plans are aimed at helping CPAs assess their knowledge gaps to create learning objectives and activities and to gain the needed knowledge.

Ethics and Competency

Ethics is a primary driver of competency within the CPA profession. An ethical CPA will acknowledge where skills or expertise are lacking and acquire (through education or referral to another) whatever is necessary to serve a client or employer. The professions Code of Professional Conduct Article V addresses how integral ethics is to the discussion of professional competence:

“Code of Professional Conduct Article V
ET Section 56 - Article V - Due Care(11)

A member should observe the profession's technical and ethical standards, strive continually to improve competence and the quality of services, and discharge professional responsibility to the best of the member's ability.

.01 The quest for excellence is the essence of due care. Due care requires a member to discharge professional responsibilities with competence and diligence. It imposes the obligation to perform professional services to the best of a member's ability with concern for the best interest of those for whom the services are performed and consistent with the profession's responsibility to the public.

.02 Competence is derived from a synthesis of education and experience. It begins with a mastery of the common body of knowledge required for designation as a certified public accountant. The maintenance of competence requires a commitment to learning and professional improvement that must continue throughout a member's professional life. It is a member's individual responsibility. In all engagements and in all responsibilities, each member should undertake to achieve a level of competence that will assure that the quality of the member's services meets the high level of professionalism required by these Principles.

.03 Competence represents the attainment and maintenance of a level of understanding and knowledge that enables a member to render services with facility and acumen. It also establishes the limitations of a member's capabilities by dictating that consultation or referral may be required when a professional engagement exceeds the personal competence of a member or a member's firm. Each member is responsible for assessing his or her own competence—of evaluating whether education, experience, and judgment are adequate for the responsibility to be assumed.”

The Future CPA

As a profession, what do CPAs want the designation to represent 15-20 years from now? Do CPAs want it to be relegated to a profession defined by one area of practice? The reality is that there is only one thing the CPA is licensed to do – audit. CPA's have existed as a profession for more than 100 years. What will be required in order for the CPA to remain as a thriving profession 100 years from now? What should happen over the next 15-20 years to either strengthen or weaken that 100-year foundation? Does the CPA want to be the “Business Doctor”, the one that our clients, communities, governments and others look to as the most trusted and important professional when it comes to observing, diagnosing and prescribing the solutions that will lead them to success? If so, CPAs must be professionals that are well-versed in all areas of business even while practicing in specialty areas (in public accounting or in business and industry). A broad-based competency is necessary to the CPA so the CPA's competitive advantage is not lost and so CPAs can respond to the diverse financial reporting requirements of the future. In order to meet the needs of those whom the profession will serve,

the CPA 15-20 years from now will need to have an expansive knowledge of subjects beyond traditional areas as evidenced by the AICPA Horizons 2025 project. Over a six-month period during 2011, CPA Horizons 2025 sought the insights of CPAs on current and forecasted trends that will surely impact not only the profession, but also the world. Through an interactive survey, 16 in-person forums, online discussions and focus groups, more than 5,600 CPAs weighed in, spending a cumulative 6,000 hours, and generating in excess of 75,000 individual comments relating to the current state and future of the CPA profession.

“Horizons 2025 identified core competencies for the profession: be technologically adept, strategic and critical thinkers, interpreting converging information, keeping focus on the customer, client and market, and demonstrating communication and leadership skills.

Technology – stay current, embrace, and exploit – real-time information, increased transparency, mobile and social media, more opportunities for fraud, data security concerns

Education/life-long learning – evolve the education framework, devote more time to staying current, develop interpersonal skills, real-time learning in the workplace

Globalization – it’s a world-wide profession and CPAs need to be positioned as preeminent, continue to market the quality and value of their service

Pride in Profession – uphold the integrity of the profession, maintain high standards, help clients adapt to technology and globalization

Trusted Attester – stay vigilant in defining its unique role as providers of audit and attest services, but also evolve and audit and attest functions to meet changing regulatory demands and client/business needs

Trusted Advisor – CPAs develop solutions to complex problems by integrating knowledge, expertise, resources from multiple disciplines, expand traditional services and enhance nontraditional offerings

Market Permissions – leverage the strengths of the profession to expand market permissions and create emerging opportunities for specialization that will allow CPAs to provide additional value to clients, employers, and business

Marketplace – address continual changes in the marketplace, economy, businesses, and regulations by managing change and responding to shifts in business, society, and technology, lifelong learning will take on greater importance as the pace of change accelerates

Value Proposition – CPAs must spend more time demonstrating their value to clients, businesses and the public about the role and value of the CPA to thrive amid increased competition and economic pressures

Demographic Shifts – must strive to reflect the demographic shifts of incoming accounting students, clients, business and society”

As an example of a direct correlation to the core competencies, this year the Chartered Global Management Accountant (CGMA) credential was implemented showing an effect of globalization and signifying that the way competency is measured may be changing. Created through a joint venture between the AICPA and the Chartered Institute of Management Accountants (CIMA), the CGMA is a global management accounting designation that recognizes the unique role of management accountants within organizations and supports the U.S. CPA and the global reach of CIMA. Voting members of the AICPA were able to obtain the designation during a grandfathering period with only a nominal fee and no test or other requirements. According to CGMA.org, CGMAs “are business strategists who apply non-financial, qualitative information along with financial analysis to understand all aspects of business”. Currently, the requirements for maintaining a CGMA are the same as maintaining a CPA in the U.S. (aside from the fact that one also has to be a voting AICPA member), but there is an understanding that once the grandfathering period ends and a test is required to earn a CGMA that a continuing education framework will be established that will include a competency-based model – not prescribed hours of education. While there are no details on the model at this time, it is believed that ‘credit’ will be established in ways such as documenting mentoring relationships, creating learning contracts with other professionals and other types of learning that don’t fall within the traditional competency model.

How will the acquisition and measurement of competency need to change in order for the future CPA to meet the challenges outlined in the CPA Horizons 2025 project? What will the CGMA mean for U.S. CPAs and are there implications for CPE related to a new competency model? These are all questions that state CPA societies should be watching closely.

Determining What *Is* Learning

It seems that while a professional has an ethical and professional responsibility to maintain competence, based on current regulatory requirements throughout the U.S. the idea that the system would change in such a way that there wouldn’t be a demand for ‘proof’ of competence seemed hard to believe. Is a formal assessment needed for different, or all, levels of competency? Should competency be assessed by the individual, their employer or a third-party that can make that information available? Should it be seen as a process similar to peer review; something meant to help improve practice, not to serve as a punitive measure unless there is a serious problem with improvement? Other question surround, not the process, but the individual CPA; how do professionals get to the point where they feel comfortable with their weaknesses and take on the challenge of improving where needed? With a 30% CPE noncompliance rate for CPA’s in Indiana (which is comparable to the rate in other states), does the Indianan CPA Society need to hold members more accountable during the CPE experience? As a professional organization, do we have an ethical obligation to do so? Who gets to say you're competent? Will there be changes in who determines competency? The state currently officially certifies that the CPA has

completed courses necessary for licensure (in Indiana, if audited by the Board of Accountancy). In reality, the clients and the CPA determine competency in some ways, based on successful outcomes. This model may or may not change. It is not realistic to consider an 'honor system' will serve all of the needs of the profession. Research has shown that self-rating of learning gains can be a challenge and there is likely a role for a mentor, employer or third-party to help in assessing whether knowledge and expertise were gained. This opens up the question as to who is the keeper of this information and how, and to whom, and at what times, is it disseminated?

A challenge to the profession in changing the competency assessment of individual CPAs will be striking a balance between flexibility and respecting the public interest by ensuring professionals can meet the needs of clients and employers.

There are many opportunities for the Society, the AICPA and the organizations that employ CPAs to work together to shape what the future of professional accounting competency will be; the key questions are how willing are we to invest in the technology changes necessary and how willing are we to change a model that has at least appeared to work for so long? Creating more flexible environments where professionals are empowered has many benefits for the CPA and the people that the CPA serves, but it is also a bigger responsibility than simply earning hours by sitting in a class. It will be a long process to change the mindset of individuals and to change the model to make competency something the learner controls and is motivated to do.

Conclusions

INCPAS believes members in 15-20 years should be considered the most trusted and important professional to those whom they serve. CPAs will need to be learned professionals with a broad array of knowledge and yet experts in their specific areas of practice. The CPA 15-20 years from now will need to have an expansive knowledge of subjects beyond the traditional areas of the profession and be able to find answers. There is a threat, but also an opportunity to expand the reputation of the CPA brand to represent more than it does today.

The foundation of competency and the future of competency can be summed up in the following questions and assertions:

1. If we certify that a person attended a class to enhance their competency, we then need to revisit the question, what does that mean? How does that class make a person more competent?
2. Education should include the exercising of the knowledge during the course time. Exercising the knowledge could include: group case exercises, knowledge sharing, planned and purposeful interaction between the participants and the facilitators.
3. Education should be planned and purposeful based upon one's desire to grow professionally in certain areas.

4. Education should be directed to respond to one's weak areas.
5. Education should, at times, go beyond one's immediate areas of interest.
6. Education should include a CPA's work experience. Repetitive exercising of the knowledge gained transforms the person into a competent CPA.
7. Education should provide a person with a modeling and mentoring component.
8. An education/competency development system should tolerate mistakes and facilitate participation by all.