Professional Skepticism Behavioral Competence Task Force: An Update

IAESB Meeting
Mexico City, Mexico
November 1-3, 2017
Agenda

• Background
• Behavioral Competence – What is it?
• Application of Behavioral Competence
  – Current Scope of the Task Force
• Literature Review – Professional Skepticism
• The Skills Buckets – Professional Skepticism
• Feedback from the CAG
• Review of IES 3, 4 & 8
• Proposed Way forward
Background
Background

• Professional Skepticism Working Group (IAASB / IESBA / IAESB)
• IAESB
  – PSTF – Literature Review
  – PSTF – Stakeholder Engagement
  – PSTF – Behavioral Competence
• Task Force Members
  – Bernard Agulhas (Chair), Robert Zwane (Secretary), David McPeak (IFAC Staff), Sue Flis, Manil Jayesinghe, Mienkie Etcheverrigaray, and Elizabeth Gammie
Background Cont.

• Possible output
  – Amendments to IESs competence areas or learning outcome
  – Additional explanatory material
  – Providing Guidance
  – Developing new IESs

• Work to date
  – 1st meeting: During the Steering Committee’s June 2017 meeting
  – 4 Teleconferences (1 with SEC Chair and 1 with ICT Chair)
Behavioral Competence – What is it?
Behavioral Competence – What is it?

• Definition

Any behavior attribute such as knowledge, skill set, teamwork, leadership skills, technical know-how, etc. which contributes to the development of an individual in the organisation to take up bigger roles is known as behavior competency. It can be applied to individuals at all levels, which simply means that it is not restricted to just top, middle, or lower level. Behavior competency is used to enhance the competency of employees at all the positions in the organisation for smoother transition of workflow. It is not just limited to career, but personal life as well. It involves traits which an individual has or should have to be successful. (http://economictimes.indiatimes.com/definition/behavioural-competency)

• ICT Task force

“The business world has changed considerably in the last couple of decades and the next decade will see further industry disruption and transformation via technological advancements. (Doraisamy & Stalley, 2016). Technological advancements and the importance of behavioral competencies such as acting ethically and legally, exercising professional judgment and emotional intelligence will bring about many challenges and opportunities for new and existing members of the profession.”

“Accountants’ roles in the digital age will also change radically and this combined with the growing importance of behavioral skills such as exercising professional judgment and demonstrating emotional intelligence will create new challenges for the accounting profession.”

• FRC: Comment Letter on the IAESB’s Future Strategy and Priorities

Knowledge and understanding of behaviour and the ability to apply that knowledge and understanding is important to professional accountants in self-regulating their own behaviour in the face of factors that may influence others' behaviour. Behaviour is also important in learning and development itself (for example in understanding what it takes for an individual to deliver a commitment to life-long learning to develop and maintain professional competence). It is a subject, the knowledge and understanding of which continues to develop, particularly in relation to the influence of heuristic processes.

These considerations lead us to suggest that behaviour may be sufficiently important to warrant treatment as a separate competence area and to explain how it interacts with other competence areas to enable delivery of a role.
THEREFORE - THIS RAISES THE QUESTION:

Is there a need for a project on the wider concept of Behavioral competence?
Application of Behavioral Competence
Application of Behavioral Competence

• June 2017 Steering Committee
  – Guidance was to focus on Professional Skepticism
  – Not the wider concept of Behavioral Competence
    • Work to date has been limited to Behavioral Competence as it relates to Professional Skepticism
    • But deliberations of the Task Force seem to support a project on the wider concept of Behavioral Competence
A. Does the Board support a change in the scope of the Task Force’s project to focus on Behavioral Competence beyond that of Professional Skepticism? If not, why?
Literature Review – Professional Skepticism
Literature Review – Some Issues

• Are professional education programs developing an appropriate understanding of non-financial data, questioning mindset and soft skills by the end of IPD?
• The role of culture in influencing Professional Skepticism
• Can aspiring accountants be educated to be more skeptical?
• How to effectively evaluate and nurture Professional Skepticism
• Is Professional Skepticism innate (learned versus inherited) and can someone be educated to overcome their innate instincts?
Literature Review – The Principles

• Key Elements of Helson (1964) Framework
  
  General Equation from Psychology: $B = f(O, E)$
  
  “Behavior is a function of the organism and its environment”

• Factors (enhancing; inhibiting) that influence PS:
  – Background (O)
  – Stimulus (E)
  – Environment (E)
  – Personality (O)

• PS consists of:
  – Latent behavior (attitude)
  – Manifested behavior (application)
### Literature Review – The Principles Cont.

<table>
<thead>
<tr>
<th>Environment</th>
<th>Organism</th>
<th>Environment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Situational Analysis</td>
<td>Education</td>
<td>Situational Analysis</td>
</tr>
<tr>
<td>Risk, Readiness, Requirements, Response</td>
<td>Experience</td>
<td>Risk, Readiness, Requirements, Response</td>
</tr>
<tr>
<td>(Observe, Orient, Decide Act)</td>
<td></td>
<td>(Observe, Orient, Decide, Act)</td>
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</tbody>
</table>

(Observe, Orient, Decide, Act)
The Skills Buckets

- Role of the Literature Review
- Role of the Survey on Professional Skepticism
- Task Force still working on these buckets
The Skills Buckets

• The Skills Buckets combine:
  – Key skills required to enhance the application of Professional Skepticism.
  – Environmental factors that may affect the application of Professional Skepticism.

• Why this approach:
  – Researchers conclude that auditors with higher levels of professional Skepticism behave systematically differently from less skeptical auditors.
  – Studies have attempted to induce changes in behavior by manipulating changes in the environment
## The Skills Buckets

<table>
<thead>
<tr>
<th>Bucket / Factors</th>
<th>Success Factors / Impediments</th>
<th>Possible Action</th>
<th>IAESB</th>
<th>PSWG</th>
</tr>
</thead>
<tbody>
<tr>
<td>Knowledge</td>
<td>Refer to table in issues paper</td>
<td></td>
<td></td>
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<tr>
<td>Behavioral</td>
<td>Refer to table in issues paper</td>
<td></td>
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<td></td>
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<tr>
<td>Competence</td>
<td>Refer to table in issues paper</td>
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<tr>
<td>Environmental</td>
<td>Refer to table in issues paper</td>
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</table>
Questions

B. Does the Board agree with the categorization of the competencies into the four buckets (knowledge, behavioral, competence and environmental factors)?

C. Should more categories be added? Should any of these categories be removed?

D. Does the Board agree with the skills (under each category) identified by the Task Force?

E. Should more skills be added? Should any of these skills be removed?
Feedback from the CAG

• Bernard Agulhas presented at the CAG meeting on 30 October 2017
• Some statements from the CAG members
Feedback from the CAG

• Behavioural Competence – Is this capturing something different?
• There is already an emphasis on non-technical competence. Is our current way of looking at non-technical skills requiring some changes?
• Behavioral Skills are a subset of professional skills. It might just be about how you categorise them.
• Is there a way to educate professional accountants on Behavioral Competences? So they know what they don’t know!
• There might be a need to involve Psychologists.
• Can we provide better guidance on how to implement these learning outcomes on IES 3 and 4?
• There might be a need for more Thought Leadership Papers.
• Where are professional accountants falling short? Business Acumen?
• It’s easy to set up assessment tools for just technical competence.
Feedback from the CAG Cont.

• Scope to be widened to look at the Broader Concept of Behavioral Competence
  – Consider doing a survey to look into the concept of Behavioral Competence

• Current work
  – Supports the Skills Buckets and its categorisation
IES 3, 4 & 8

- IES 3: IPD – Professional Skills
- IES 4: IPD – Professional Values, Ethics and Attitudes
- IES 8: Professional Competence for Engagement Partners

Why the review of IES 3, 4 and 8:
- To better understand the current standards regarding non-technical competences (including behavioral competence)
<table>
<thead>
<tr>
<th>COMPETENCE AREA</th>
<th>LEARNING OUTCOMES</th>
</tr>
</thead>
<tbody>
<tr>
<td>INTELLECTUAL</td>
<td>Evaluate information</td>
</tr>
<tr>
<td>INTERPERSONAL &amp; COMMUNICATION</td>
<td>Cooperation and Teamwork</td>
</tr>
<tr>
<td>PERSONAL</td>
<td>Commitment to lifelong learning</td>
</tr>
<tr>
<td>ORGANIZATIONAL</td>
<td>Meet deadlines</td>
</tr>
</tbody>
</table>
# IES 4 – Professional Values, Ethics and Attitudes

<table>
<thead>
<tr>
<th>COMPETENCE AREA</th>
<th>LEARNING OUTCOMES</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>PROFESSIONAL SKEPTICISM &amp; PROFESSIONAL JUDGEMENT</strong></td>
<td>Apply a questioning mindset critically to assess financial information and other relevant data. Identify and evaluate reasonable alternatives to reach well-reasoned conclusions based on all relevant facts and circumstances.</td>
</tr>
<tr>
<td><strong>ETHICAL PRINCIPLES</strong></td>
<td>Explain the nature of ethics. Identify ethical issues and determine when ethical principles apply. Analyze alternative courses of action and determine the ethical consequences of these. Apply the fundamental ethical principles of integrity, objectivity, professional competence and due care, confidentiality, and professional behavior. Apply the relevant ethical requirements to professional behavior in compliance with standards.</td>
</tr>
<tr>
<td><strong>COMMITMENT TO THE PUBLIC INTEREST</strong></td>
<td>Explain the role of ethics within the profession and in relation to the concept of social responsibility. Explain the role of ethics in relation to business and good governance. Analyze the interrelationship of ethics and law, including the relationship between laws, regulations, and the public interest. Analyze the consequences of unethical behavior.</td>
</tr>
</tbody>
</table>
# COMPETENCE AREA

## LEARNING OUTCOMES

### PROFESSIONAL SKILLS

<table>
<thead>
<tr>
<th>INTELLECTUAL</th>
<th>Resolve audit issues using inquiry, abstract and logical thought, and critical analysis to consider alternatives and analyze outcomes.</th>
</tr>
</thead>
<tbody>
<tr>
<td>INTERPERSONAL &amp; COMMUNICATION</td>
<td>Communicate effectively and appropriately</td>
</tr>
<tr>
<td>PERSONAL</td>
<td>Promote and undertake lifelong learning</td>
</tr>
<tr>
<td>ORGANIZATIONAL</td>
<td>Evaluate whether the engagement team, including auditor’s experts, collectively has the appropriate objectivity and competence.</td>
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### PROFESSIONAL VALUES, ETHICS AND ATTITUDES

| COMMITMENT TO THE PUBLIC INTEREST | Promote audit quality in all activities with a focus on protecting the public interest. |
| PROFESSIONAL SKEPTICISM & PROFESSIONAL JUDGEMENT | Apply a skeptical mindset and professional judgment in planning and performing an audit and reaching conclusions on which to base an audit opinion. |
| ETHICAL PRINCIPLES | Apply the ethical principles | Evaluate and respond to threats to objectivity and independence | Protect the confidential information |
Proposed Way Forward
Behavioral Competencies as it relates to Professional Skepticism (Limited Scope)

- Review of Literature Review
- Review of Survey Results
- Stakeholder Outreach

- Project Proposal

Dec 2017 - Mar 2018

April 2018
Behavioral Competence (Wider Scope)

- Dec 2017: Analysis of IESs
- Dec 2017 - Mar 2018: Survey and literature review on Behavioral Competences
- April 2018: Issues Paper
- Jul 2018: Project Proposal
Questions

F. Depending on the agreed scope, does the Board support the proposed way forward?

G. Are there specific stakeholders the Board would like to recommend that the Task Force engage with?
Thank you