



# AICPA Update

*Jim Brackens, Jr., CPA, CGMA  
AICPA Vice President - Ethics and Firm Quality*

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## **Jim Brackens, CPA**

*Vice President – Ethics & Firm Quality, AICPA*



Jim is responsible for providing strategic and tactical direction for the Professional Ethics and Peer Review teams, while also assisting the CEO - Public Accounting in driving and monitoring the Association's Public Accounting strategic, financial, and operating plans and key initiatives.

Prior to joining the AICPA in 2006, Jim was associated with both international and local public accounting firms, including managing his own practice for 17 years. Jim also served as a peer reviewer and performed more than 300 peer reviews of local accounting firms.

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### What I'm here to talk about

Reputation of the profession and upholding our trusted brand  
Health, relevancy and growth of firms; new innovative services  
Talent and capacity  
Driving good public policy

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### Top concerns for finance and accounting teams

#### Spring 2023

- 1 Finding and retaining talent
- 2 Accelerated digital transformation
- 3 Need for new competencies and skills
- 4 Maintaining culture in a hybrid environment
- 5 Impact of inflation (cost management)

#### Spring 2024

- 1 Accelerated digital transformation
- 2 GenAI & AI
- 3 Need for new competencies and skills
- 4 Finding and retaining talent
- 5 Maintaining culture in a hybrid environment

Source: Future of Finance Leadership Advisory Group

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## What firms are worried about 2024 PCPS CPA Firm Top Issues Survey

### Current issues

- Challenges working with the IRS for all but the largest firms
- Keeping up with changes and complexity of tax laws for smaller firms
- Talent issues
  - Finding staff (all but solo firms)
  - Developing next generation of leaders
  - Larger firms - Compensation and rewards, and utilization

### Expected over next 5 years

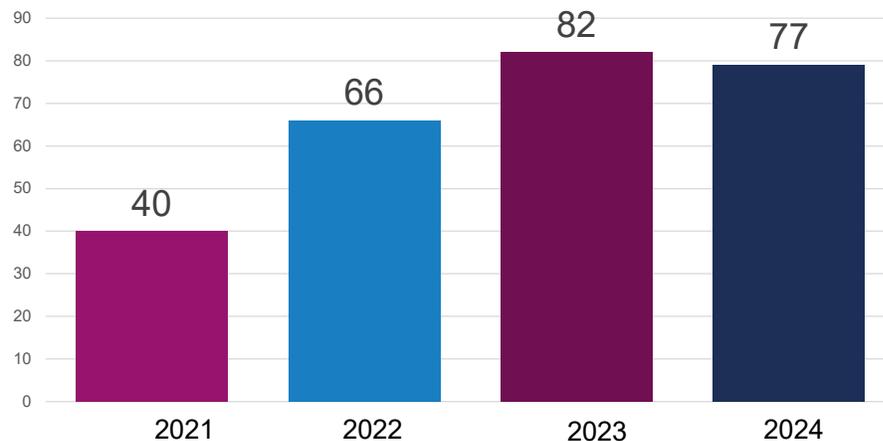
- Emerging technologies like data analytics, blockchain, AI
- Changing client needs
- Changing regulatory environment
- Talent
  - Finding and retaining staff
  - Managing a hybrid/remote workforce

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## How firms are evolving for success: 2024 Mergers and Acquisitions Overview

Year over Year comparison (January-June)



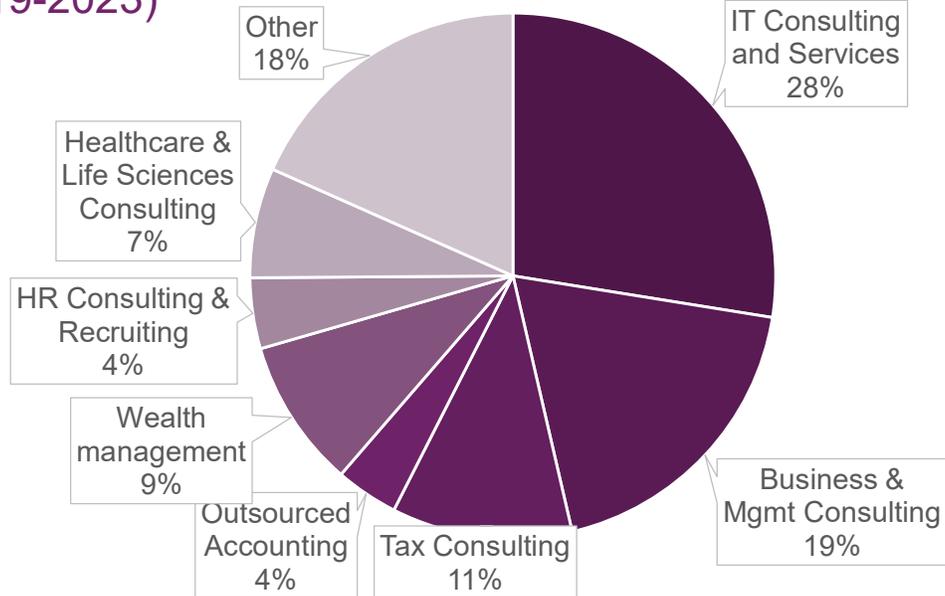
- Includes Activity for Top 500 firms in US

- Includes Private Equity and Wealth Management investments in firms and sales of segments

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### Trend in US firms' acquiring non-CPA lines of business (2019-2023)



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### Transform Your Business Model

The award-winning PCPS “Transforming Your Business Model” project will provide ongoing resources that support and enable changes within firms to create cultures that attract, retain, and develop talent.

Strategy

Talent

Service offerings

Technology

Governance – 2024 development



Creating a culture focused on the success of people within firms will, in turn, strengthen firms and the profession.

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# Reputation, Trusted Brand and Service Opportunities

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## Amplifying the profession's voice

### Current affairs

- **Quality/trust:**
  - Audit reform
  - Occupational/professional reform
  - Business ethics
- Protection of CPA mobility
- Services:
  - Global taxation
  - Digital assets/crypto/banking
  - **Emerging tech/Gen AI**
  - **ESG - sustainability**

### Regulatory issues

- Audit:
  - **Single audit**
  - **EBP/Department of Labor**
  - **SEC PCAOB changes**
  - FAF/FASB
- Private companies
- Global
- Non-compete agreements

### Legislative issues

- State
- Federal Advocacy and Tax:
  - Beneficial Ownership Information
  - Wyden-Smith Tax Bill
    - Section 174 (R&E) relief
    - ERC
  - Wyden-Crapo Tax Administration Bill
    - Simplify automatic filing extensions (SAFE) Act
    - Natural Disaster Tax Filing Relief
    - Preparer regulation language
- **Pipeline**
  - STEM
  - Expansion of 529 plans

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**Implemented peer review reforms**

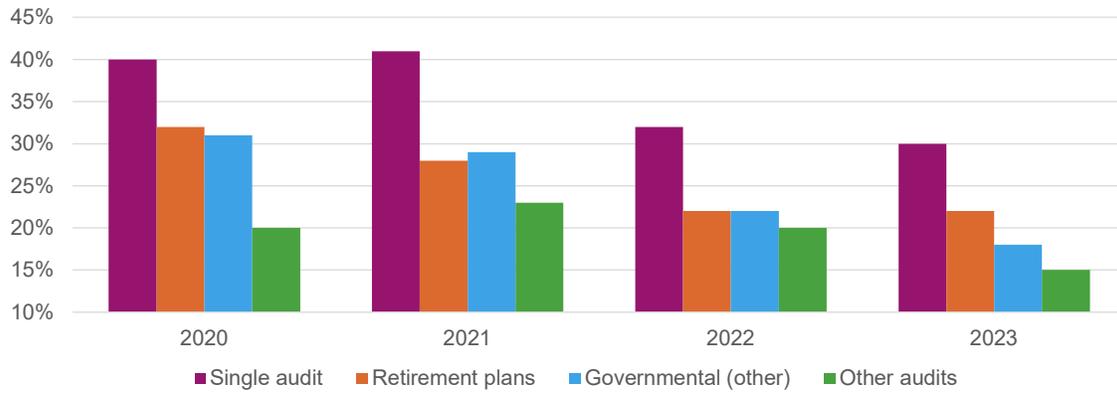
- Enhanced oversight of peer reviewers and firms
- Peer reviewer training, remediation
- Evolution of Peer Review administration

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## Trending of audit quality

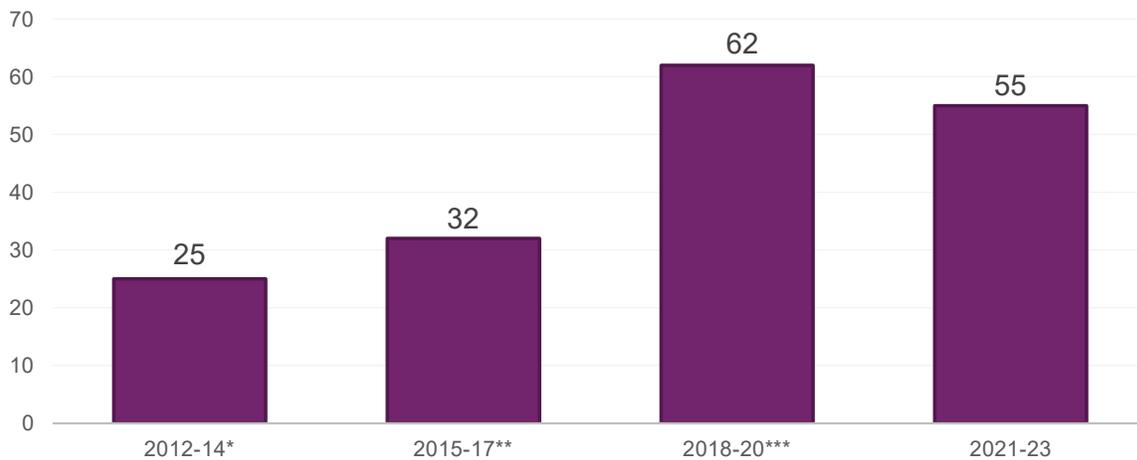
Peer Review results  
% of engagements deemed non-conforming



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## Number of remedial actions per 100 peer reviews



\* EAQ Initiative commences in 2014

\*\* 2016 data unavailable due to PRIMA migration

\*\*\* Heightened focus on risk assessment and response drove improved detection across all industries

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2023 analysis: Remedial actions continue to have the desired effect

75%

improvement after continuing professional education

80%

improvement after pre-issuance review of firm engagements

85%

improvement after joining Audit Quality Center

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### DOL audit quality study results

Progress, with more work to do

Deficiency rate dropped from 39% to 30% (statistically significant)

Positive trends

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## 2024 EAQ areas of focus



**Risk assessment**



**Quality management**



**Technology-enabled auditing**



**Single audit**



**SOC 2® engagements**

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# Quality Management Standards

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## Quality Management: Key changes from current QC standards



**NEW RISK-BASED APPROACH**  
FOCUSED ON **QUALITY MANAGEMENT**  
**TAILORED TO THE FIRM'S CIRCUMSTANCES**



**REVISED COMPONENTS OF THE SYSTEM OF QUALITY MANAGEMENT, INCLUDING INFORMATION AND COMMUNICATION**



**MORE ROBUST LEADERSHIP AND GOVERNANCE REQUIREMENTS**



**ENHANCED MONITORING AND REMEDIATION PROCESS**

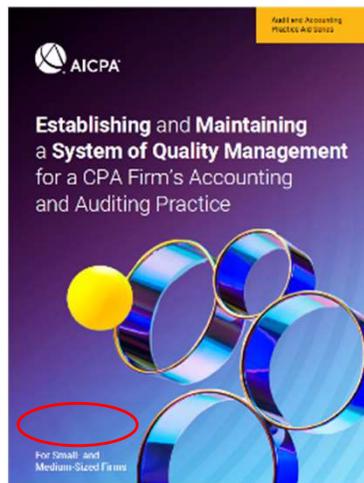
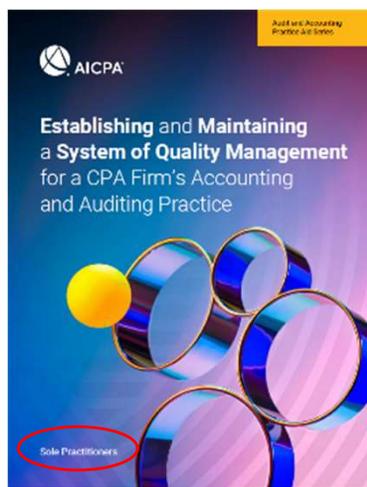


**NEW! REQUIREMENTS FOR NETWORKS AND SERVICE PROVIDERS**

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## Quality Management Practice Aids



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- [QM Practice aid](#) is available in two versions:
  - Sole practitioners
  - Small- and medium-sized firms
- Each version contains:
  - How to use this practice aid
  - Overview of SQMS No. 1
  - Overview of risk assessment requirements
  - Library of quality objectives, potential risks, and potential responses
  - Monitoring and remediation process
- Works in tandem with the Example QM Risk Assessment template, which provides a starting point

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## Other QM Resources

- Quality Management Practice Aid  
[Free practice aid: Set up your A&A quality management system | Resources | AICPA & CIMA \(aicpa-cima.com\)](#)
- [Crosswalk between SQMS No. 1 and SQCS No. 8, as amended](#)
- [Firm checklist to guide your quality management system](#)
- [Webinar series](#)

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# Technology-enabled auditing

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## Key drivers of audit transformation



TECHNOLOGY



METHODOLOGY



STANDARDS



SKILLS

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## Single audits and SOC 2<sup>®</sup> engagements

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## Governmental auditing and accounting activity

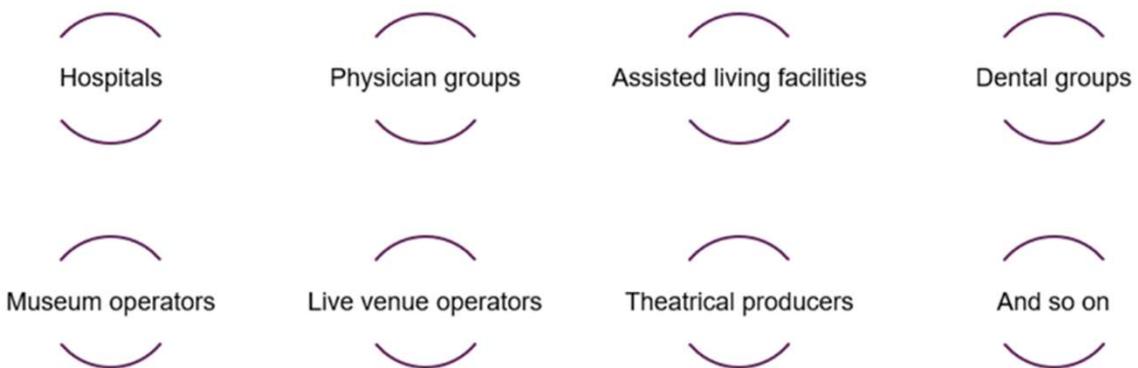
- Single audits
  - Uniform guidance revisions
  - Compliance supplement
  - Federal Audit clearinghouse
- Other Governmental Audit Quality Center activities
- GASB activity



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## Industries potentially affected



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## SOC 2® SOC for Service Organizations

Examination of a service organization's description of:

- Its system,
- The suitability of the design of its controls, and
- In a type 2 examination, the operating effectiveness of controls relevant to security, availability, processing integrity, confidentiality, or privacy.

Access the [SOC 2 Guide](#)

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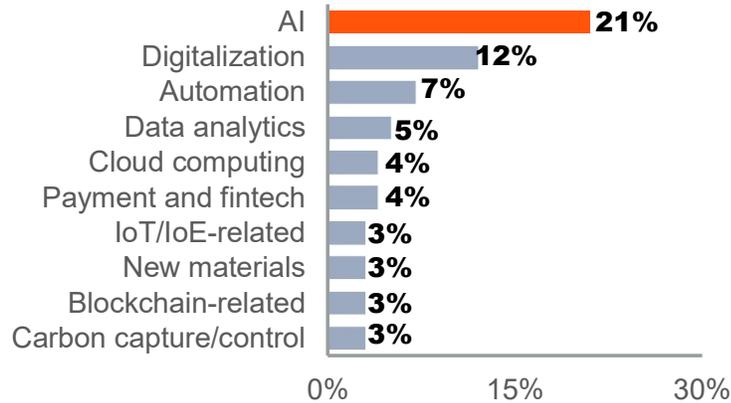
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# Artificial intelligence

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### CEO Study: AI Is a Strategic Concern

The New Technology That CEOs Believe Will Most Significantly Impact Their Industries Over the Next Three Years



n = 408, all respondents excluding N/A, none, don't know

Source: 2023 Gartner CEO and Senior Business Executive Survey

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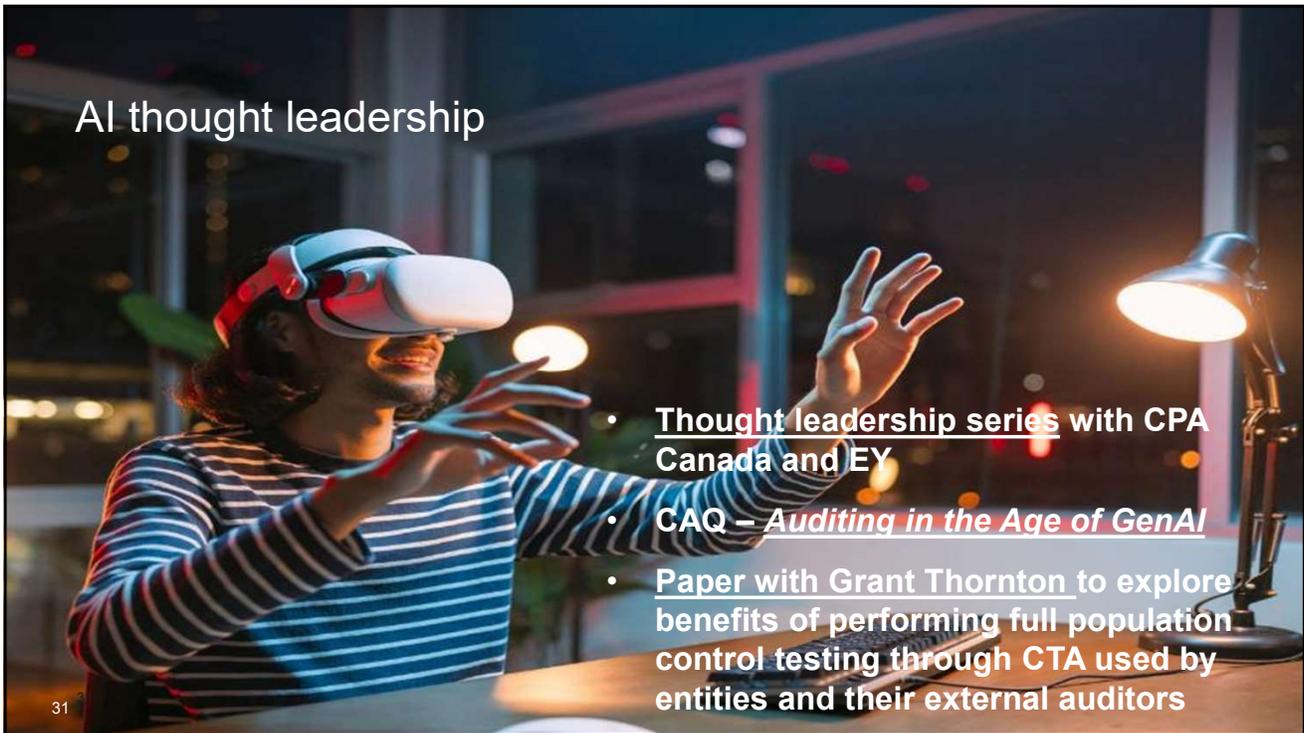
**By 2027, spending on AI software will grow to \$297.9 billion with a CAGR of 19.1%.**



Source: [Forecast Analysis: AI Software Market by Vertical Industry, 2023-2027](#)

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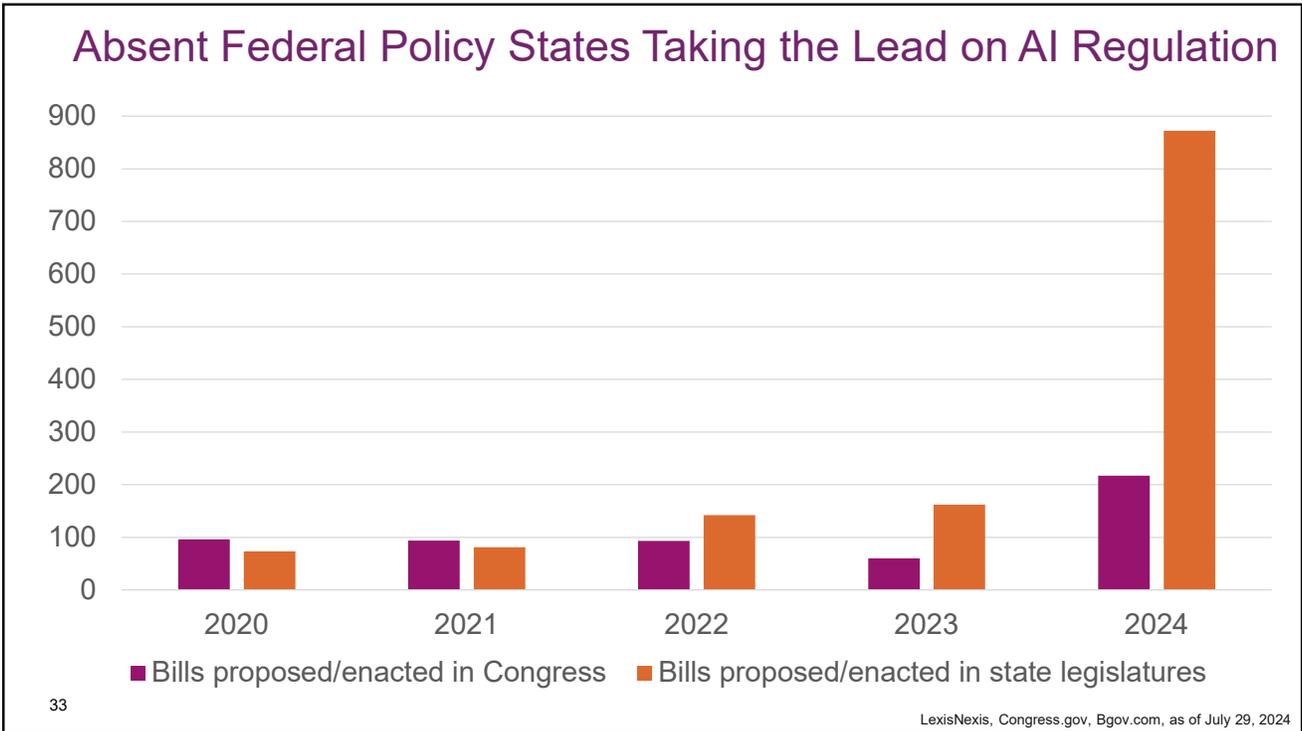
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## “AI Audit” legislation

**Senator Hickenlooper (D-CO) Keynote Speech at Silicon Flatirons Flagship Conference, February:**

*“Clear, defined auditing practices – like the financial audits companies undertake – for both classical AI systems and Generative AI systems encourage collaboration and grow trust between industry and the public.”*

- Making recommendations regarding appropriate attest standard setting process
- Certification Advisory Board

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# Sustainability

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## Sustainability

Drivers of adoption



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## Laws and regulations



**EU Corporate Sustainability Reporting Disclosure Act (CSRD)**



**SEC rule: The Enhancement and Standardization of Climate-Related Disclosures for Investors**



**State of CA: SB 253: The Climate Corporate Data Accountability Act**  
  
**SB 261: The Climate-Related Financial Risk Act**

Reporting and assurance for both public and private companies

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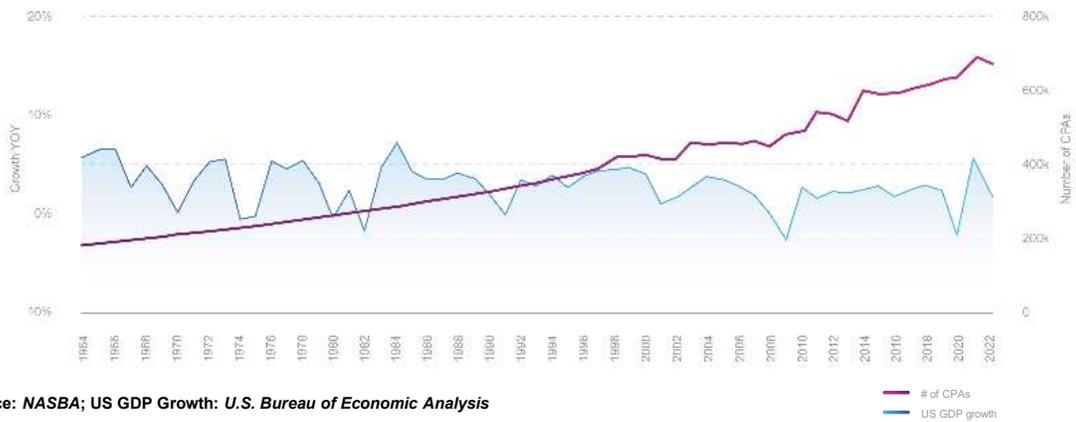


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# Talent

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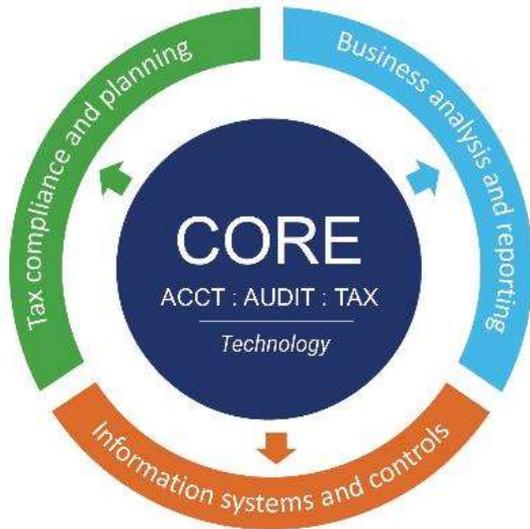
## CPA growth vs. U.S. GDP



Source: NASBA; US GDP Growth: U.S. Bureau of Economic Analysis

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## CPA Evolution Exam launched successfully!!!



More than 60,000 sections have been delivered through 24Q2.

2024 volumes are on target for our forecast.

Candidates' choice of Disciplines is expected to change over time.

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## Pipeline Acceleration Plan: Addressing Root Causes

 <b>Experience, Learn &amp; Earn Program</b>	 <b>STEM recognition</b>
 <b>Addressing firm culture and business model challenges</b>	 <b>AICPA Foundation and scholarships</b>
 <b>30-hour communication campaign</b>	 <b>Expansion of 529 funds to CPA Exam costs</b>
 <b>Extending 18-month exam window</b>	 <b>Government audit and finance collaboration</b>
 <b>Examining Uniform Accountancy Act variances</b>	 <b>Best practices for offshore talent</b>
 <b>High school and college strategies</b>	 <b>CPA image campaign</b>

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*Ongoing discussions with all stakeholders and close collaboration with state CPA societies*

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# National Pipeline Advisory Group (NPAG)

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## Themes in the talent data

- ✓ Address time and cost of education
- ✓ Grow support for CPA Exam candidates
- ✓ Expand access for underrepresented groups
- ✓ Make education more engaging
- ✓ Tell a more compelling story
- ✓ Enhance employee experience

Read the report: [www.accountingpipeline.org/npag-report](http://www.accountingpipeline.org/npag-report)



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## National Pipeline Strategy execution timeline & next steps



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Good public policy

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## Audit environment

### AccountancyAge

Auditors failed to raise alarm for 75% of companies that went bust

#### THE WALL STREET JOURNAL

The Auditing Industry’s Regulator Has a Vocal Critic. And She’s on Its Board.

#### FINANCIAL TIMES

Why auditors are missing red flags

#### THE WALL STREET JOURNAL

Auditors Balk at Regulator’s Push to Expand Their Role

#### FINANCIAL TIMES

Private equity groups poised to own one in three top US accounting firms



Blame poor audits on absent investors

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## Regulatory Pressure on Audit

*“Last year, the PCAOB took more formal actions on standard setting and rulemaking than any year in the previous ten... We have repeatedly broken records for monetary penalties, and we are just getting started... We have not hesitated to impose bars on bad actors or revoke firms’ registrations where appropriate.”*

- PCAOB Chair Erica Williams



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## Federal Trade Commission: Noncompete Agreements Rule

- April 23 vote 3-2 to proceed with the final rule
- For the vast majority of workers, noncompetes no longer enforceable
  - Exempts “senior executives” making more than \$151,164 and in policy-making positions

Bans any NEW noncompete – including for senior executives

- Exclusions – depends on how they are written
- Non-disclosure
- Buy / Sell
- Confidentiality
- Mergers and acquisitions – still allows for non-compete

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### Banning noncompetes:

Good for workers, businesses, and the economy





**The FTC estimates that banning noncompetes will mean**

- ▶ **More innovation:** an average of 17,000-29,000 more patents each year
- ▶ **More startups:** a 2.7% increase in new firm formation - that's 8,500+ new businesses per year
- ▶ **Higher earnings:** typical workers earn \$524 more per year

Who's affected?



An estimated **18%** of U.S. workers are covered by noncompetes.

That's 30 million people.



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## FTC Bans Non-Competes, Drawing Challenges

### Effective Date

September 4

### Lawsuits Filed – Court Decision in TX Signals States in Charge

July 3: Judge in Texas lawsuit issued stay of U.S. Chamber case

- Applies only to plaintiffs in case – NOT to plaintiffs’ members
- Judge will rule by August 30 – questions remain how far August decision will go
- Concern some businesses will be underprepared for a short-term ban

SCOTUS Overturn of *Chevron* Doctrine impact

<sup>50</sup> Outlook: Very likely that the noncompete rule will be successfully challenged

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*"Courts must exercise their independent judgment in deciding whether an agency has acted within its statutory authority."*

Chief Justice John Roberts

*"In every sphere of current or future federal regulation, expect courts from now on to play a commanding role."*

Assoc. Justice Elena Kagan

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## SCOTUS Ruling on "Chevron Deference"

- On June 28, 2024, Supreme Court overturned 40-year-old decision guiding lawsuits challenging federal regs.
- "Chevron deference" = Courts give deference to the expertise of the government's administrative agencies in interpreting legislative statutes.
- Allowed for broad regulatory regimes derived from vague or broad statutory language.

### Why It Matters:

- Courts will now have much more latitude to push back on agency rulemaking if underlying statute is vague.
- Congress may need to be more specific when instructing agency rulemaking.
- Could spur – and bolster – legal arguments against recent rulemaking
  - FTC non-competes ban
  - ESG
  - SEC cryptocurrency regulation

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Time to hit the bar!



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Thank you!

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