



AICPA Update

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

1

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.

2

2

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

3

3

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

4

4

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

5

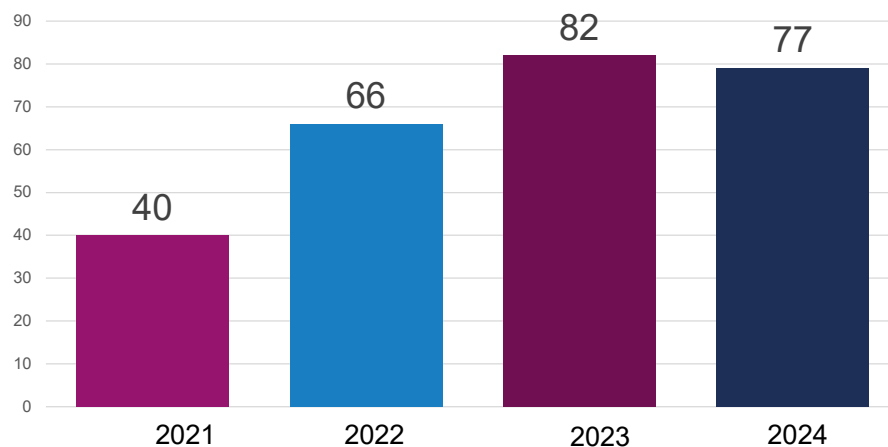
Expected over next 5 years

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

5

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

Year over Year comparison (January-June)

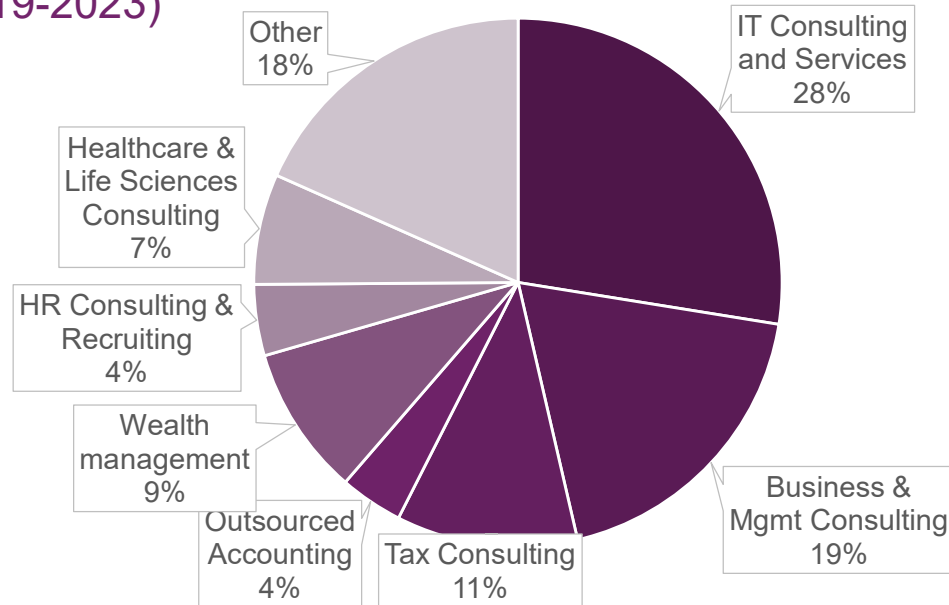


6

- Includes Activity for Top 500 firms in US
- Includes Private Equity and Wealth Management investments in firms and sales of segments

6

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



7

7

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.

8

8

Reputation, Trusted Brand and Service Opportunities

9

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

10

10



11

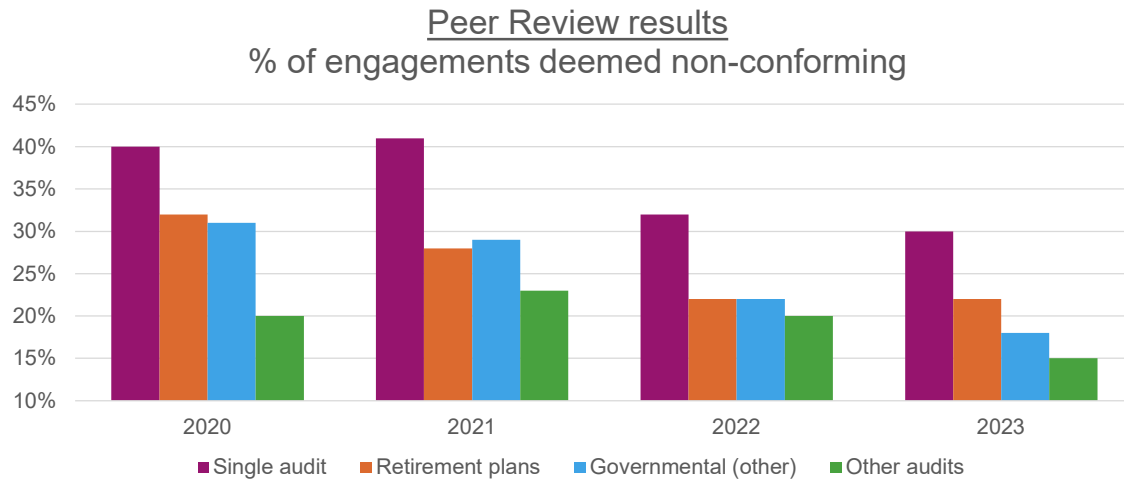
Implemented peer review reforms

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

12

12

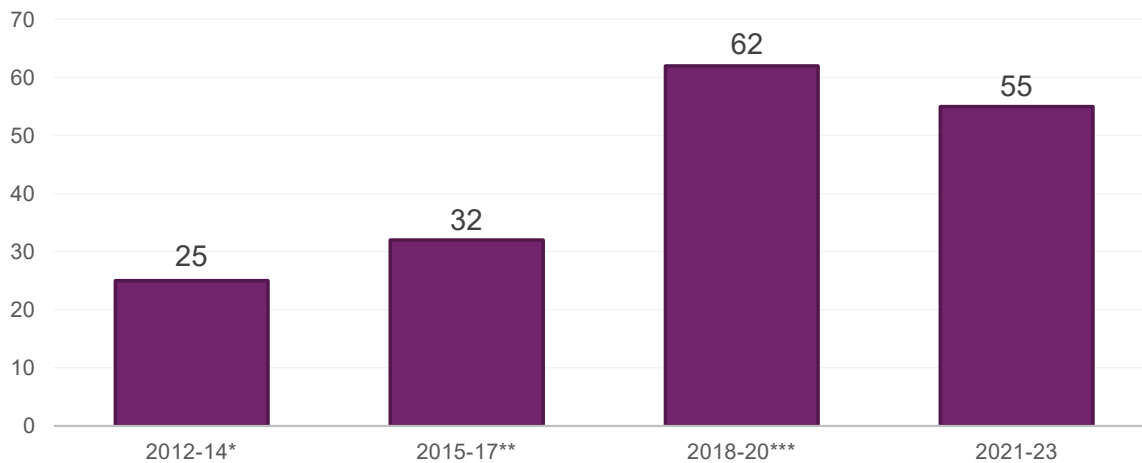
Trending of audit quality



13

13

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

14

14

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

15

15

DOL audit quality study results

Progress, with
more work to do

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

Positive trends

16

16

2024 EAQ areas of focus



Risk assessment



**Quality
management**



**Technology-
enabled
auditing**



Single audit



**SOC 2®
engagements**

17

17

Quality Management Standards

18

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

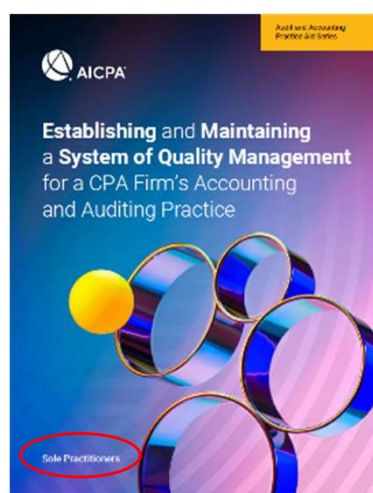


NEW!
REQUIREMENTS
FOR NETWORKS
AND SERVICE
PROVIDERS

19

19

Quality Management Practice Aids



20

- [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

20

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](#)

21

21

Technology-enabled auditing

22

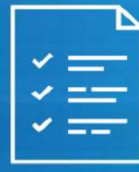
Key drivers of audit transformation



TECHNOLOGY



METHODOLOGY



STANDARDS



SKILLS

23

23

Single audits and SOC 2[®] engagements

24

Governmental auditing and accounting activity

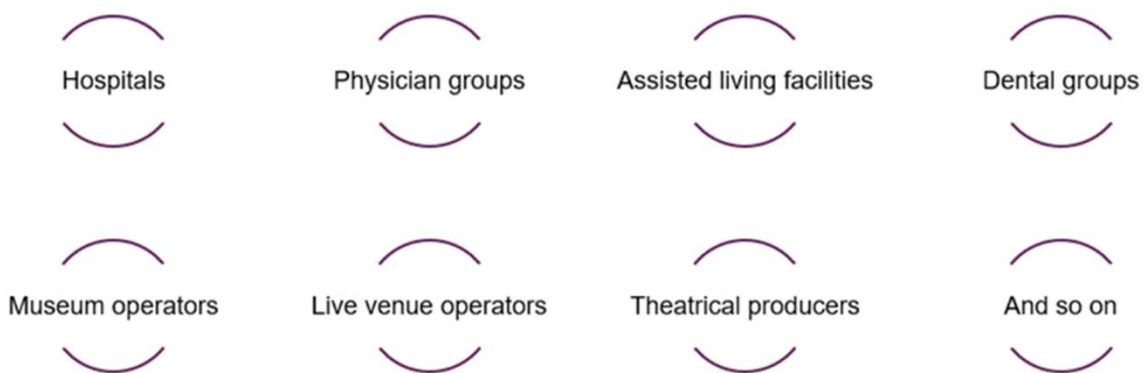
- Single audits
 - Uniform guidance revisions
 - Compliance supplement
 - Federal Audit clearinghouse
- Other Governmental Audit Quality Center activities
- GASB activity



25

25

Industries potentially affected



26

26

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](#)

27



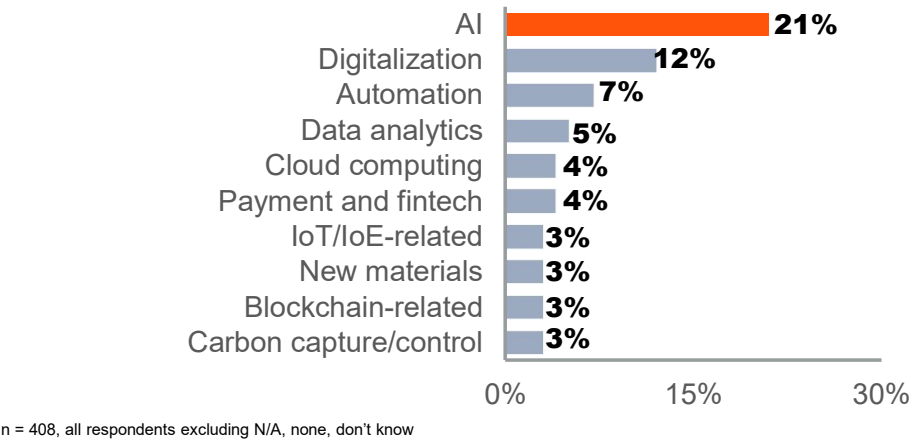
27

Artificial intelligence

28

CEO Study: AI Is a Strategic Concern

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



Source: 2023 Gartner CEO and Senior Business Executive Survey

29

29

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



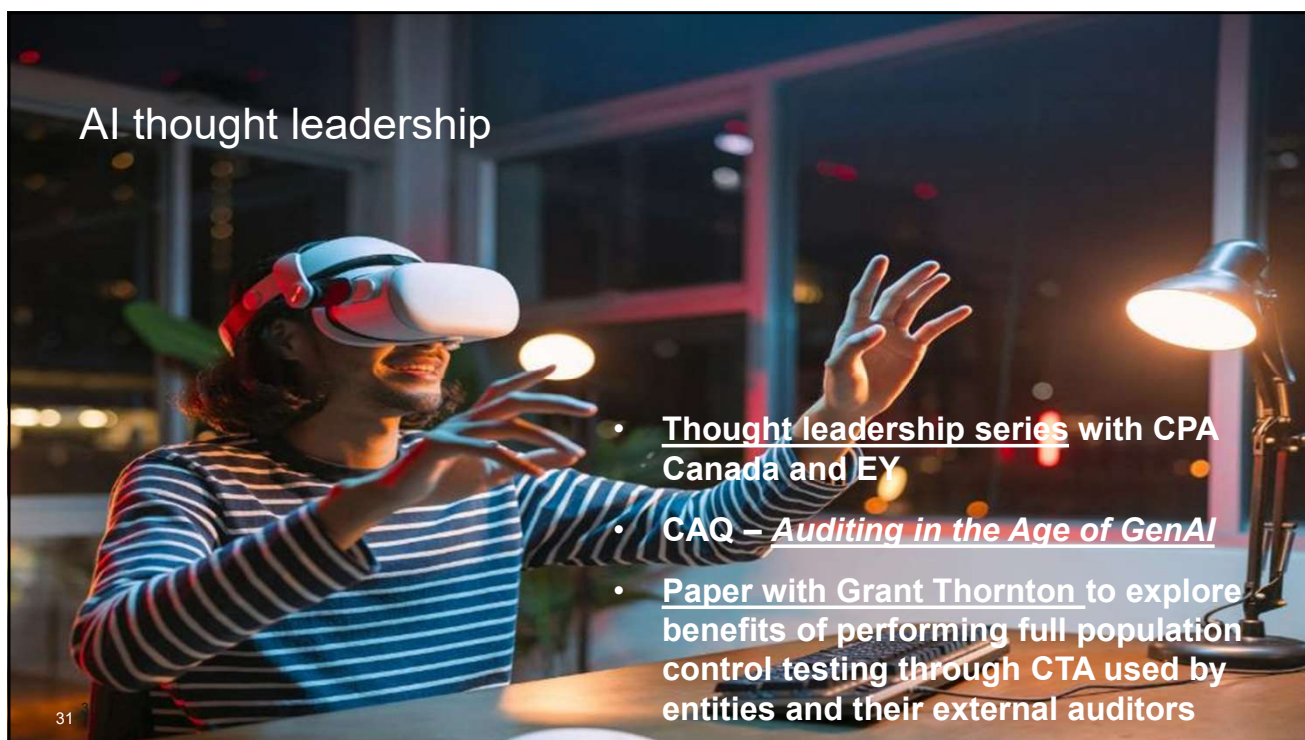
2027

2024

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

30

30

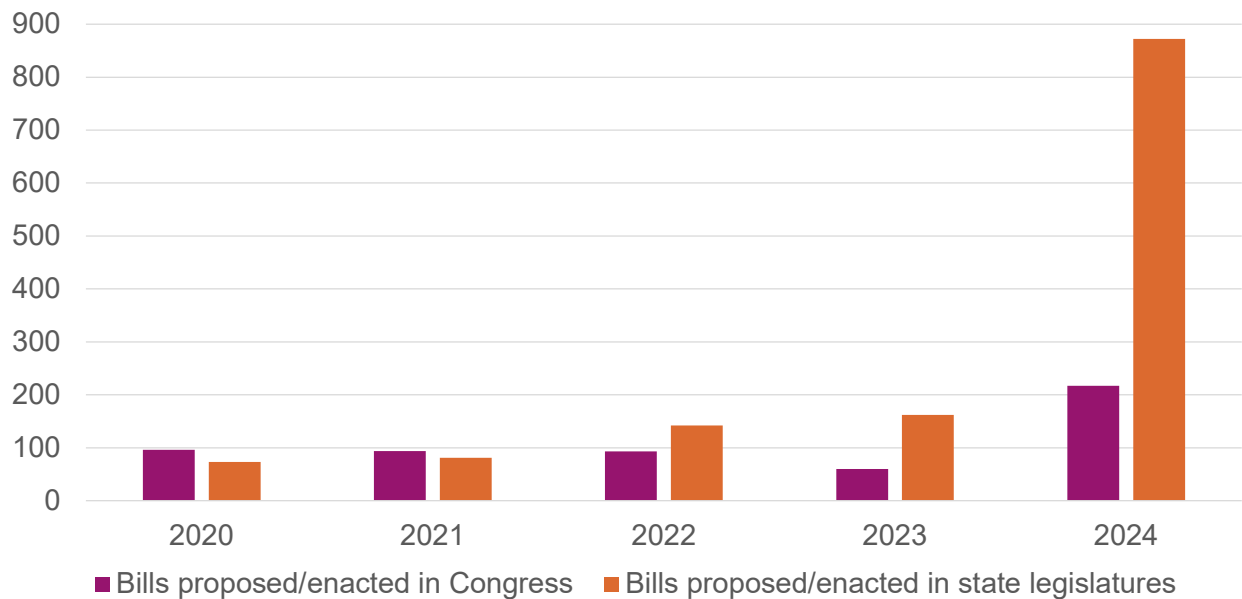


31



32

Absent Federal Policy States Taking the Lead on AI Regulation



33

LexisNexis, Congress.gov, Bgov.com, as of July 29, 2024

33

“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

34



34

Sustainability

35

Sustainability

Drivers of adoption



36

36

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

37

37

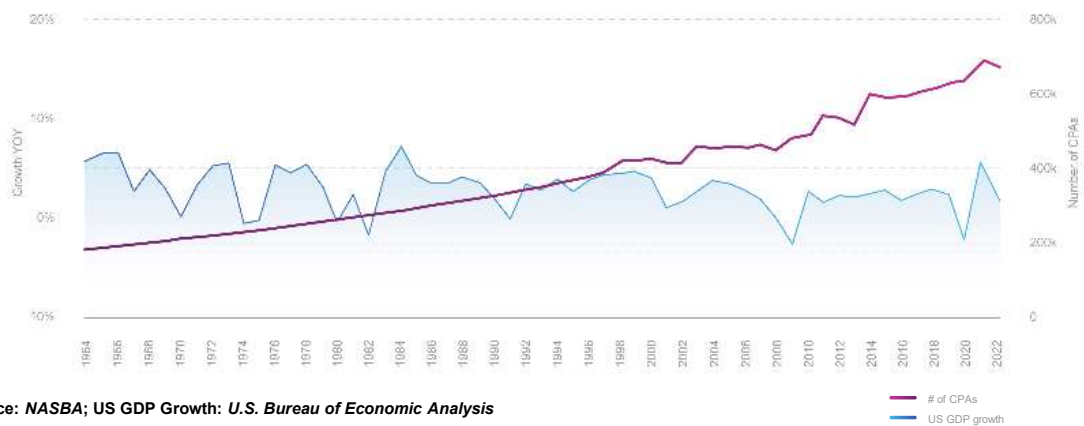


38

Talent

39

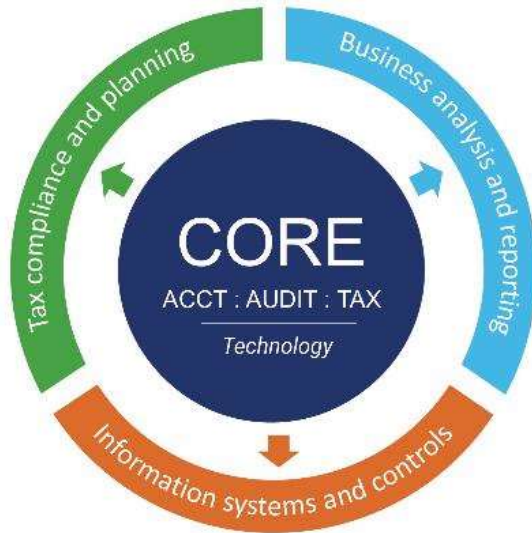
CPA growth vs. U.S. GDP



40

40

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.

41

41

Pipeline Acceleration Plan: Addressing Root Causes

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

42

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

42

National Pipeline Advisory Group (NPAG)

43

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

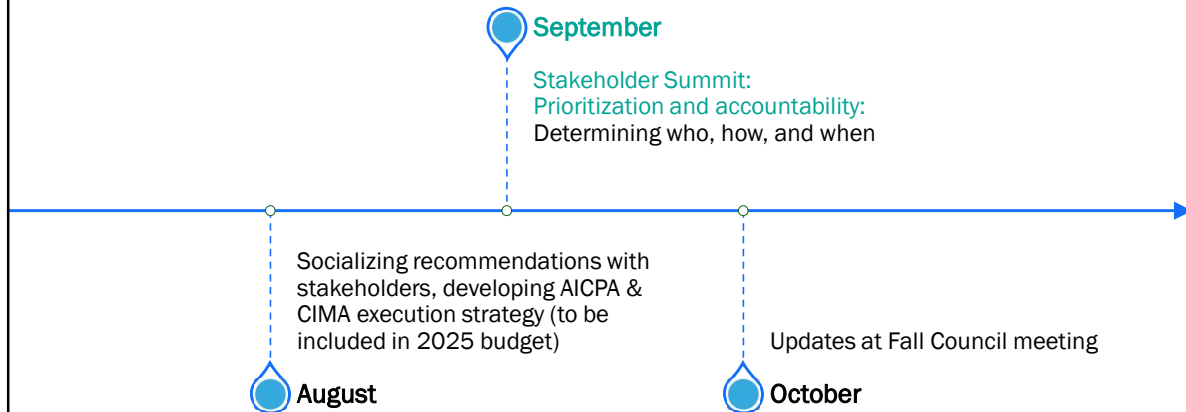
Read the report: www.accountingpipeline.org/npag-report



44

44

National Pipeline Strategy execution timeline & next steps



45

45

Good public policy

46

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



Reuters

Blame poor audits on absent investors

47

47

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

48



48

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

49

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.



49

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

⁵⁰ Outlook: Very likely that the noncompete rule will be successfully challenged

50

"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

51

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

51

Time to hit the bar!



52

Thank you!

52