

AUDIT PARTNER PULSE SURVEY

November 2022

FALL 2022



CAQ

About the Center for Audit Quality

The Center for Audit Quality (CAQ) is a nonpartisan public policy organization serving as the voice of U.S. public company auditors and matters related to the audits of public companies. The CAQ promotes high-quality performance by U.S. public company auditors; convenes capital market stakeholders to advance the discussion of critical issues affecting audit quality, U.S. public company reporting, and investor trust in the capital markets; and using independent research and analyses, champions policies and standards that bolster and support the effectiveness and responsiveness of U.S. public company auditors and audits to dynamic market conditions.

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Executive Summary:

Audit Partner Observations Fall 2022

Audit partners are trusted leaders whose work with every public company in the US allows them to independently assess the state of our capital markets. Their work performing high-quality audits for public companies within their industry sector arms them with insights across businesses of all sizes, industries, and geographies in the U.S.

The Center for Audit Quality's (CAQ) 2022 Fall Audit Partner Pulse Survey (see the Spring 2022 survey [here](#)) asked audit partners at some of the country's largest firms about what they are observing in the industries they audit in terms of economic health indicators, challenges and risks facing businesses within their sectors, and how those businesses are adjusting their strategies in the current environment.

Completed in October before the US 2022 midterm elections, the CAQ observed notable shifts in audit partners' perspectives that suggest US businesses are responding to inflation and a possible recession by scaling back on certain growth strategies while increasing focus on cost savings, liquidity, and improving productivity.

ECONOMIC OUTLOOK: RISING INFLATION AND OTHER CHALLENGES MAKE COST MANAGEMENT A TOP PRIORITY FOR BUSINESS LEADERS

A confluence of economic factors are driving continued pessimism among audit partners with regards to their outlook for US businesses. More than half (57%) of the partners surveyed hold a pessimistic or very pessimistic outlook on the US economy for the next twelve months, a thirteen-point increase since the spring of 2022.

Most audit partners expect price increases (73%) and inflation (68%) to persist for the next twelve months. However, inflation expectations decreased by seven points since the spring, with some audit partners (28%) expecting inflation to last just six to twelve months.

This pessimism is likely being driven by economic risks impacting US businesses. The audit partners surveyed categorized inflation (75%), labor shortages (48%), and supply chain impacts (44%) as the top three risks affecting US companies. Although estimates for how long the inflationary cycle will last

Figure 1 | Overall, how would you characterize your outlook regarding the US economy over the next 12 months?

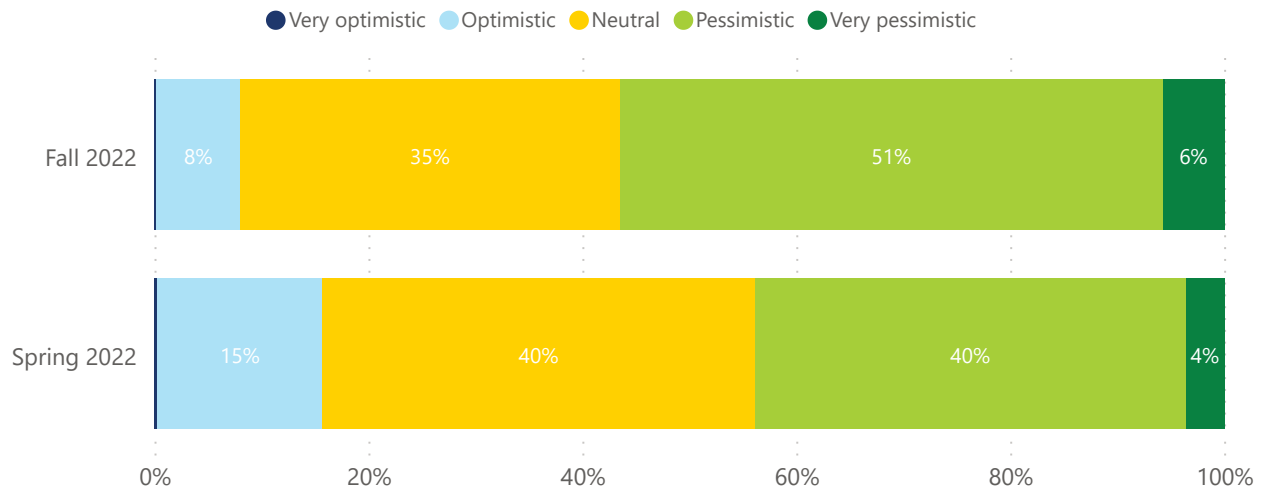
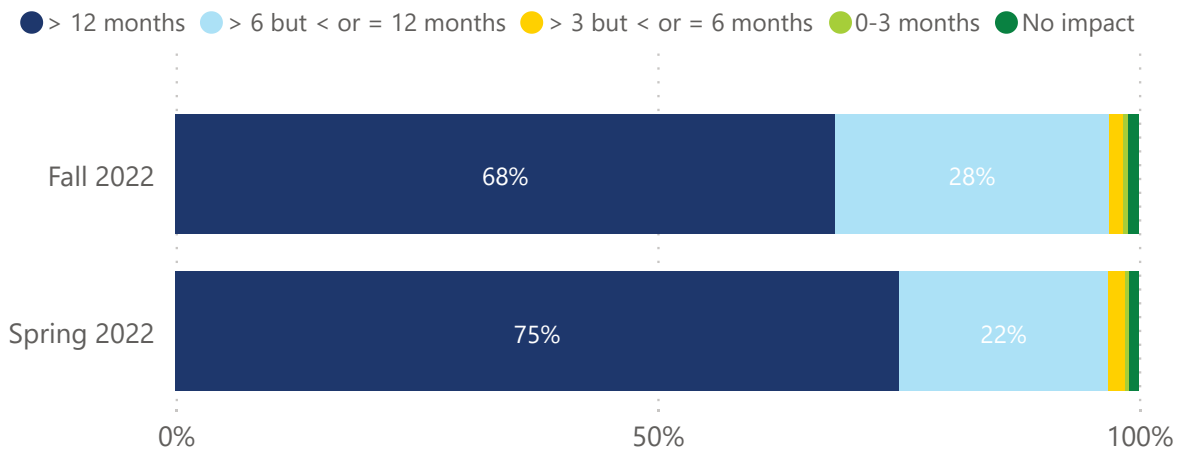


Figure 2 | How long, if at all, do you anticipate the current inflation cycle to have an impact on your primary industry sector?



have decreased since the spring, concern about its impact on businesses increased by twelve points in the fall survey. At the same time, while still a top-three risk, labor shortage concerns decreased by five points.

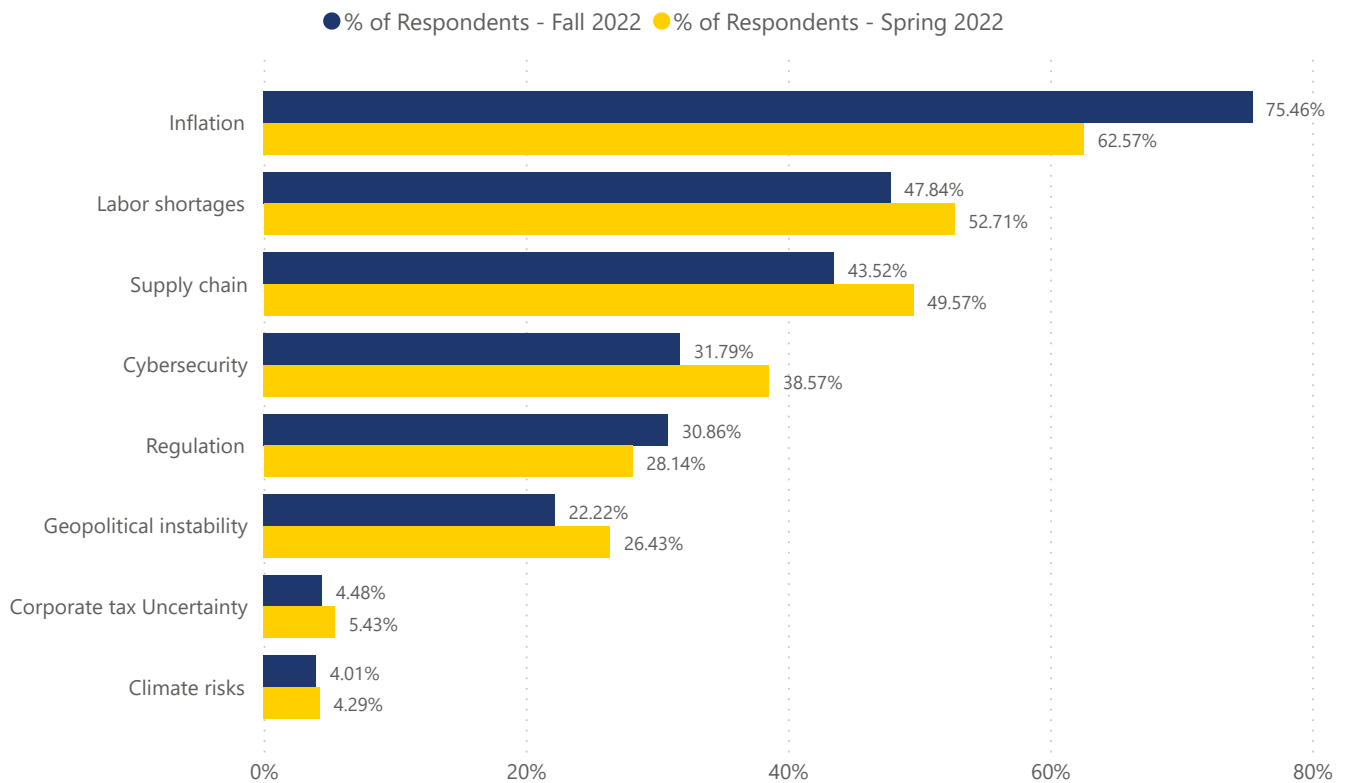
The state of the economy appears to have affected business leader focus areas. Although audit partners indicated that cost management (53%) remains a top priority, focus on talent/labor and growth decreased, while focus on financial performance increased.

BUSINESS LEADERS ARE SHIFTING STRATEGIES TO MITIGATE ECONOMIC RISKS

When asked to rank areas in which they believe most companies in their primary industry sector will make changes over the next 12 months, audit partners indicated that business strategies will be most affected.

The survey results found that most of the actions business leaders are taking to mitigate the negative

Figure 3 | What do you believe are the largest economic risks facing companies in your primary industry sector over the next 12 months? (Select up to three from list below)



impact of the current economic environment remain the same (re-evaluating investments, focusing on cash flow and liquidity). The results also show that mergers and acquisitions, within the top three mitigation actions in the spring, decreased considerably. Interestingly, 35% of partners noted that companies are decreasing revenue and growth forecasts, up from just 16% in the spring.

The survey also found that most business growth strategies (88%) are domestic. These results together suggest that business leaders are pausing more aggressive growth strategies in favor of strategies that will help them save costs.

TALENT RETENTION IS KEY AS LABOR SHORTAGES CONTINUE

Despite labor shortages stemming from the “Great Resignation” and ongoing labor market participation shortages, many public companies are shifting

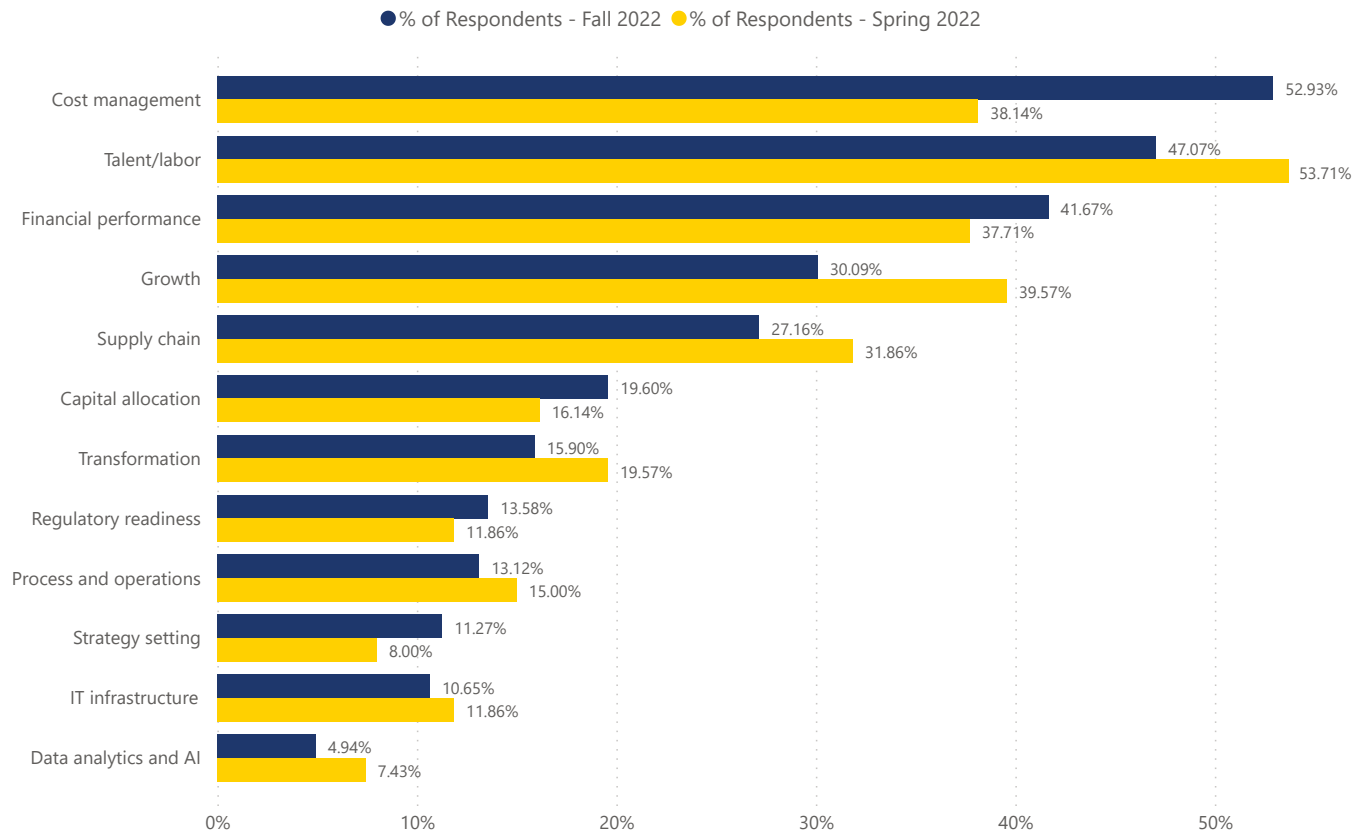
their focus to existing employees and increasing productivity.

According to 85% of the audit partners, business leaders are taking resource scarcity into account when developing their corporate strategies. This number was particularly high among the healthcare, retail and industrial products industries, which have all been affected by talent shortages.

To retain employees, the audit partners reported that businesses are increasing workplace flexibility (66%), increasing compensation (62%) and upskilling their employees (32%).

And although still a minority trend, audit partners report a rise in the number of companies considering their workforce size as the broader economic trend continues showing signs of a contraction. Survey respondents identified reducing as an action public companies are taking by or

Figure 4 | With respect to companies in your primary industry sector, what are their top priorities for the next six months? (Select up to three from list below)



considering more frequently, with a 14-percentage-point increase since the spring survey (22% up from 8%).

BUSINESS LEADERS ARE ALSO KEEPING AN EYE ON EMERGING RISKS

Audit partners reported that business leaders are also preparing for emerging issues including climate change (59%) and for emerging technologies such as blockchain (63%) in their strategies.

Fraud risk is also heightened, and public companies continue to be proactive in their efforts to deter and detect fraud. Top actions include increased use of technology (63%), updated internal controls (50%), and a heightened focus on fraud deterrence by audit committees (40%).

Although cyclic economic risks such as inflation and a recession loom, these results suggest that business leaders emerging risks are increasingly considering emerging risks to be a top priority.

ABOUT THE SURVEY

The CAQAudit Partner Survey presents findings from a survey distributed to audit partners at eight public audit firms in the U.S. that comprise the CAQ’s Governing Board. The survey was conducted from October 14 to October 28, 2022. There were 648 completed responses from audit partners who work with small, mid, and large market capitalization companies (less than \$100 million to greater than \$50 billion) across multiple industry sectors (transportation and hospitality; technology, telecom, media and entertainment; professional

services; power, utilities and renewables; oil, gas and chemicals; non-profits; mining and metals; industrial products; healthcare and life sciences; government and public services; financial services; consumer products and retail; and automotive).

Throughout this report, responses by market capitalization are categorized based on the partners' self-reporting of the market capitalization of the largest company that they audit as of its most-recent fiscal year end; responses by industry sector are

based on partners identifying the primary industry in which they practice.

Survey results are presented for all participating audit firms in total. The data provided in response to the survey were presented and analyzed anonymously by the CAQ. Therefore, responses and results cannot be attributed to a specific firm, firm audit partner, or publicly traded company. In some cases, percentages may not total 100% due to rounding and/or a question that allowed respondents to select multiple choices.

Figure 5 | Rank order the changes you see most companies in your primary industry sector making over the next 12 months.

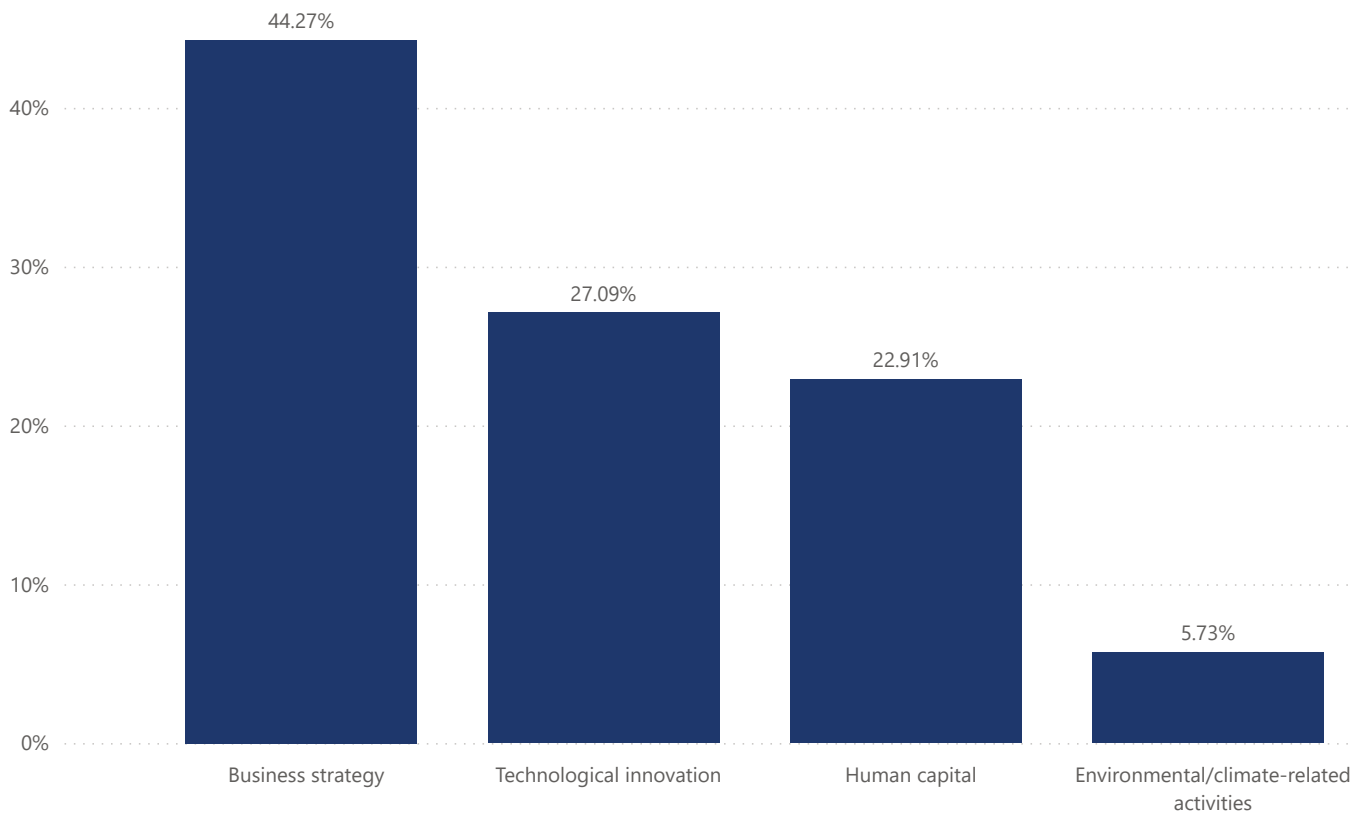


Figure 6 | What actions are most companies in your primary industry sector taking to mitigate negative impacts to business strategy? (Select up to three from list below)

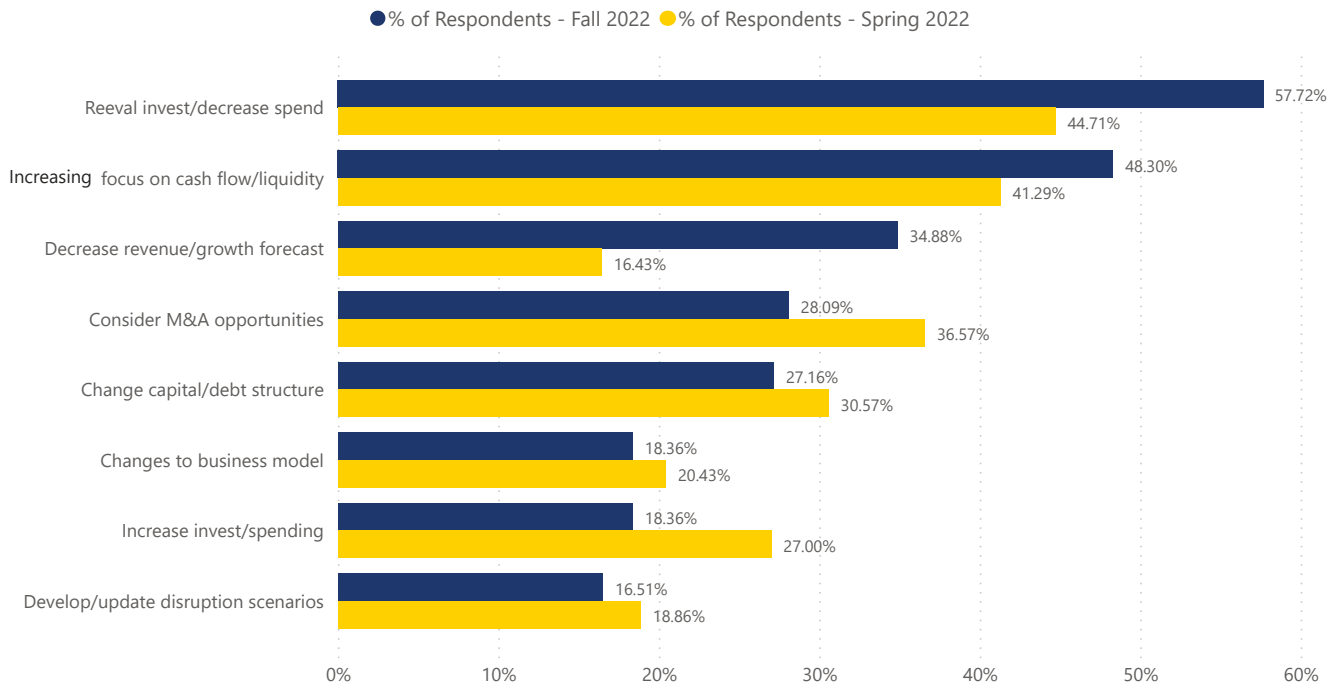


Figure 7 | To what extent are companies in your primary industry sector taking 'Resource Scarcity' into account when developing their corporate strategies?

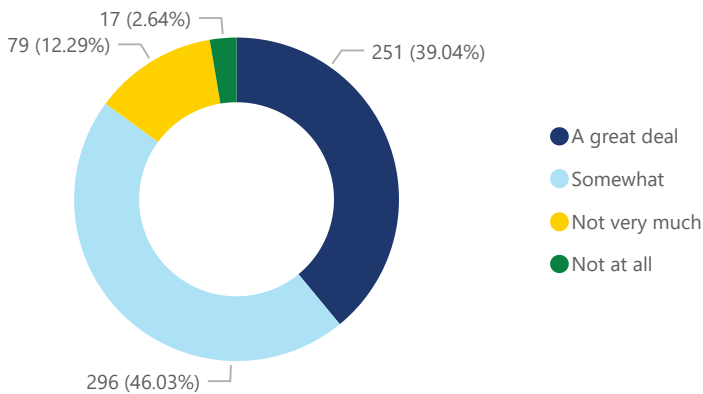


Figure 8 | What actions are companies in your primary industry sector taking with respect to human capital? (Select up to three from list below)

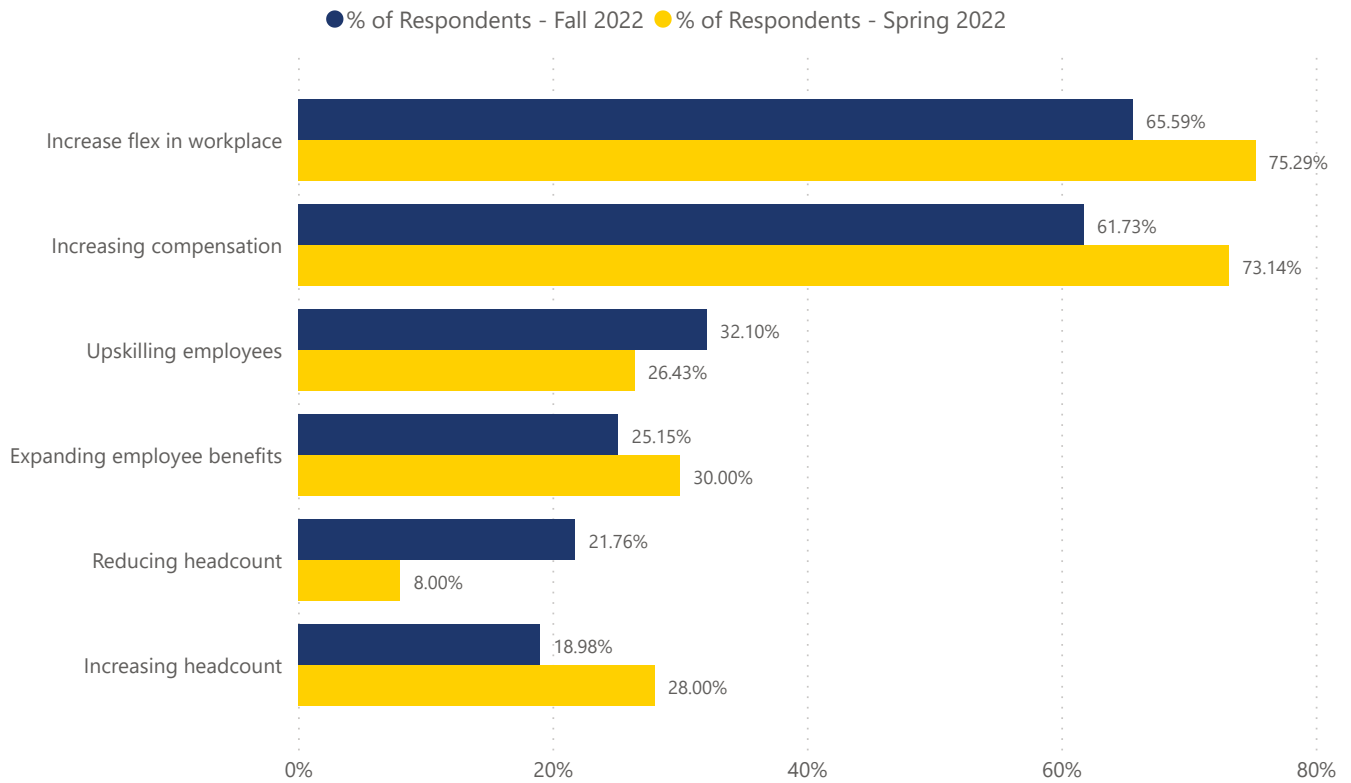
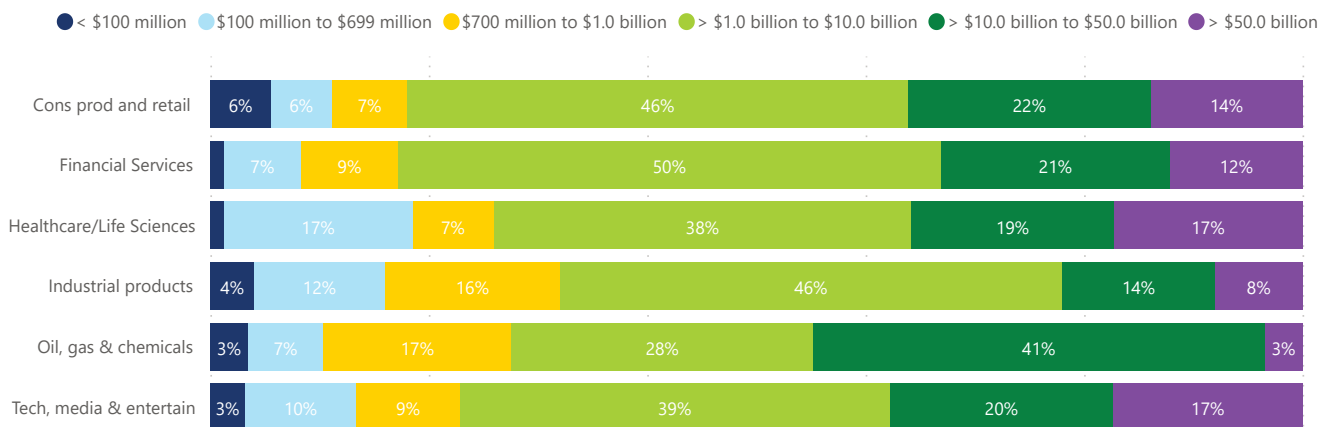


Figure 9

Respondents by Industry and Market Cap

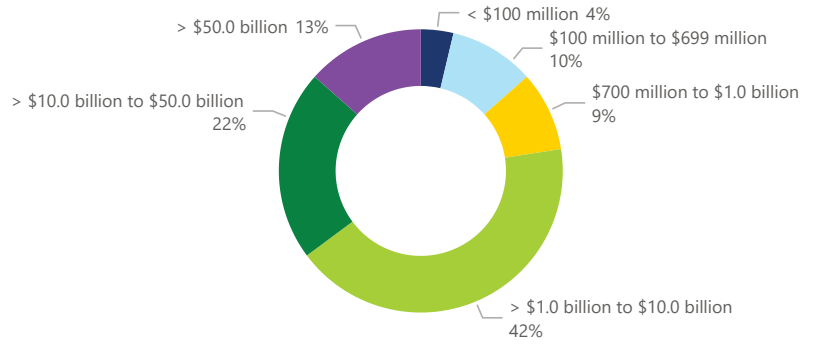


Appendix

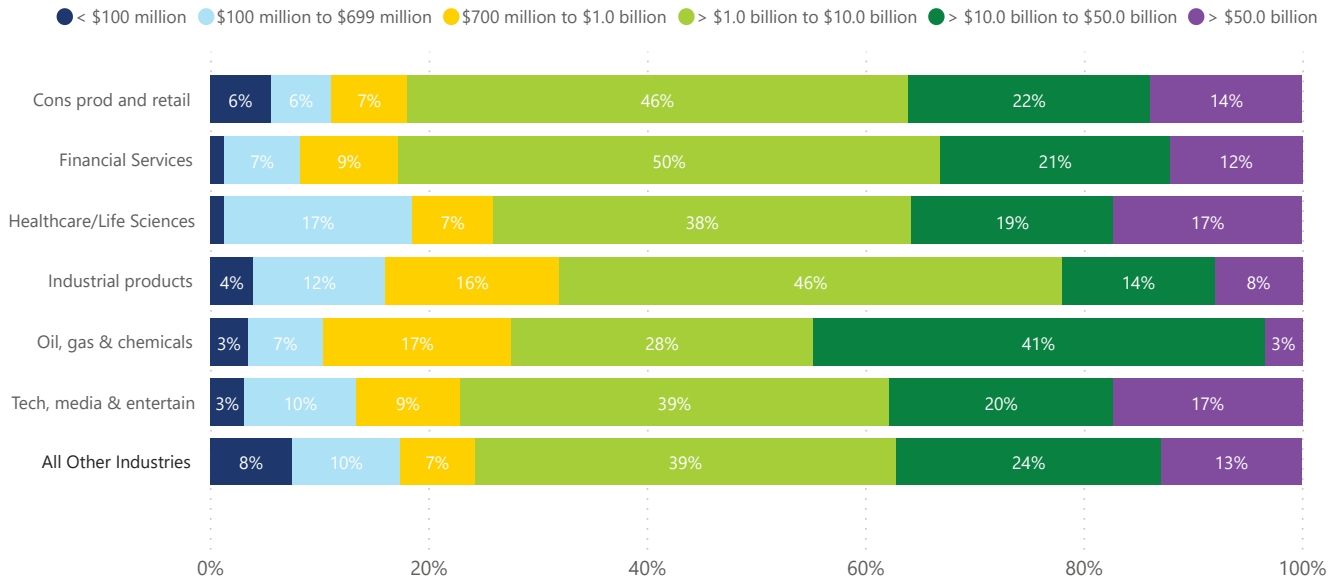
All survey questions and responses

648
Survey
participants

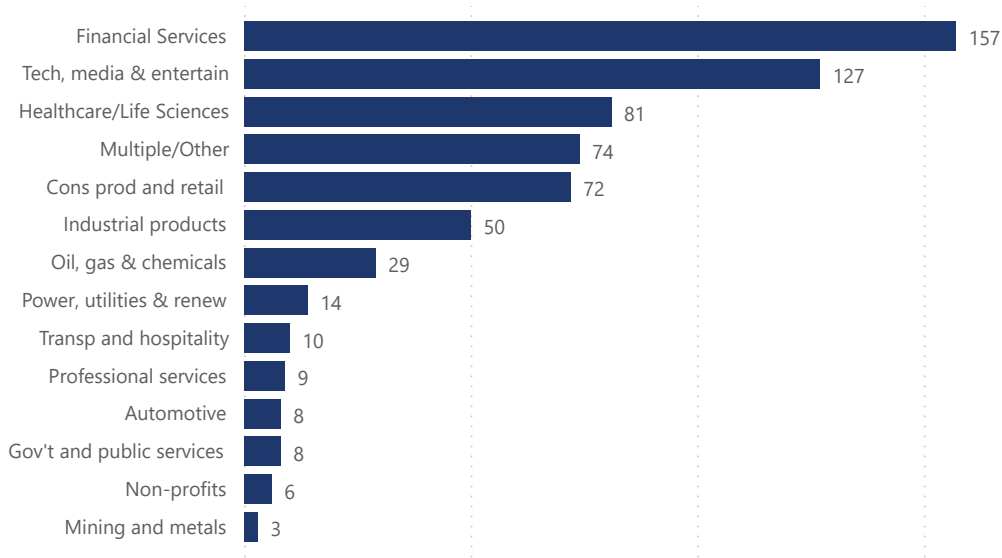
Respondents by Market Cap



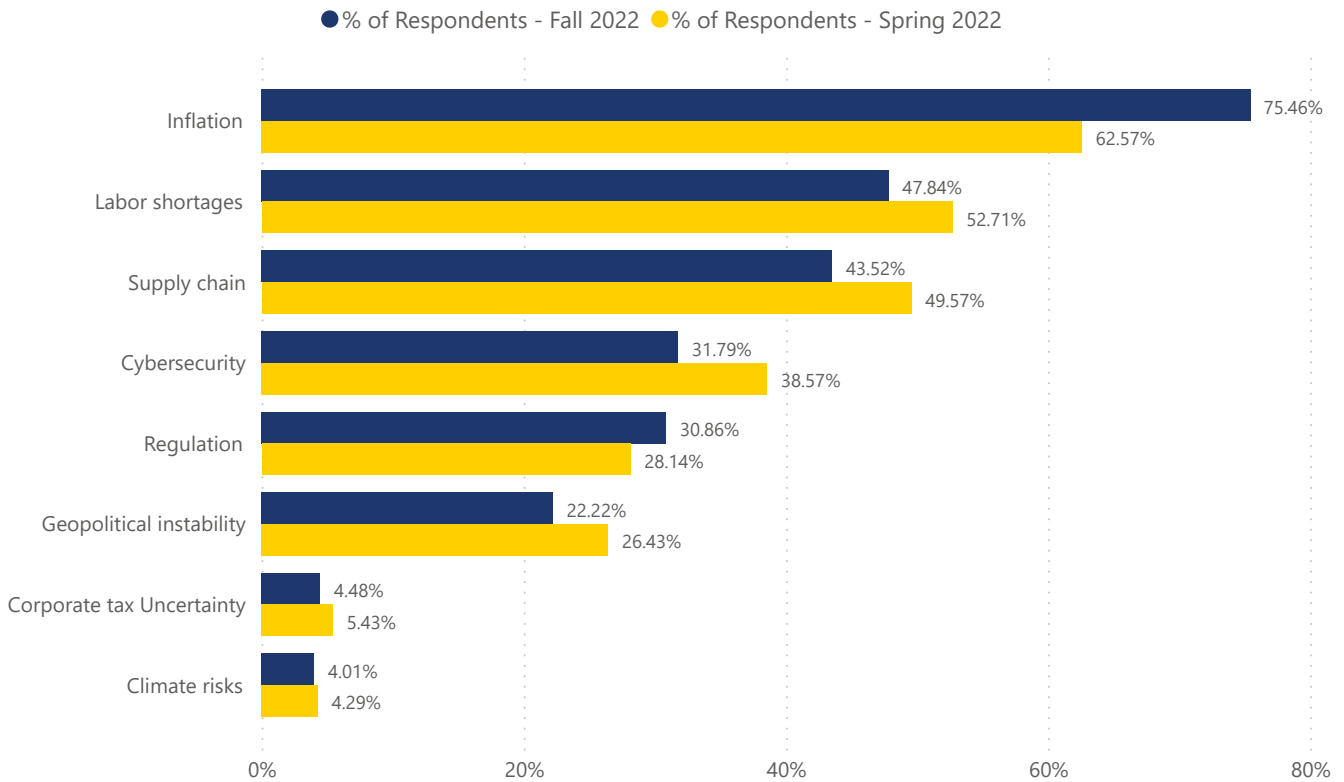
Respondents by Industry and Market Cap



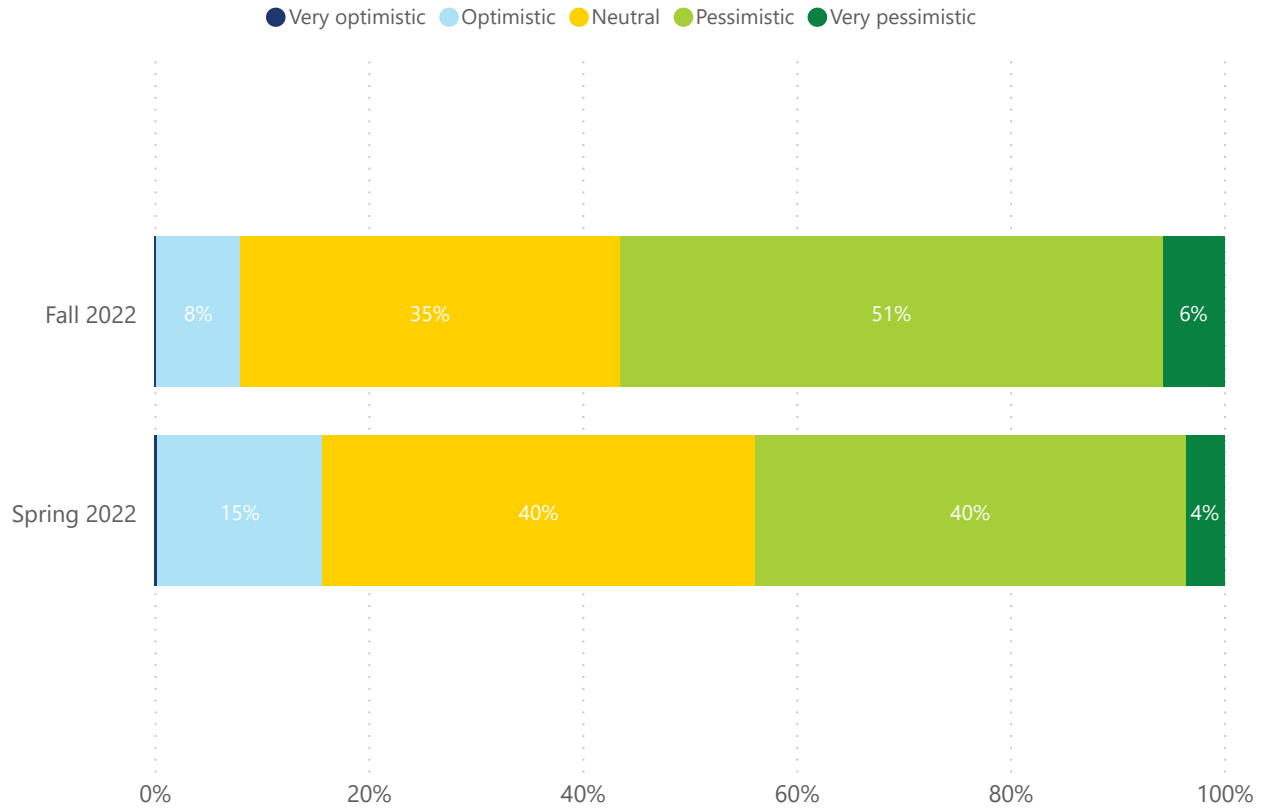
Respondents by Industry



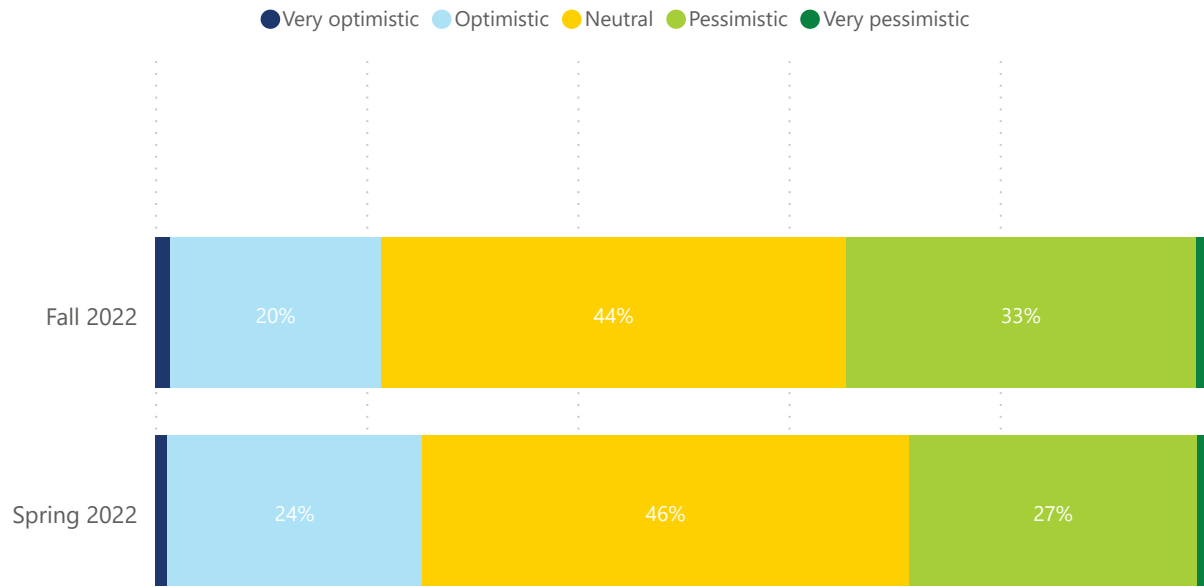
What do you believe are the largest economic risks facing companies in your primary industry sector over the next 12 months? (Select up to three from list below)



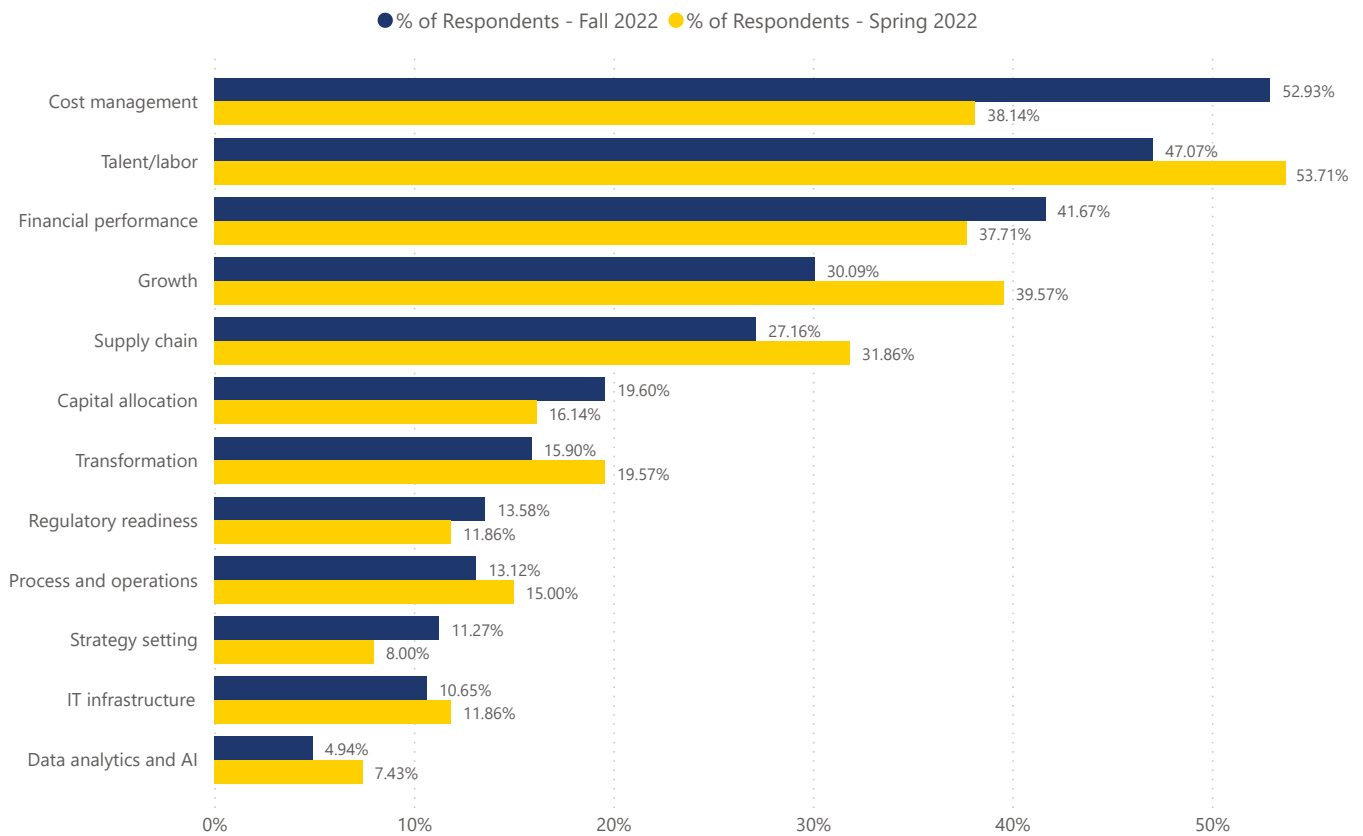
Overall, how would you characterize your outlook regarding the US economy over the next 12 months?



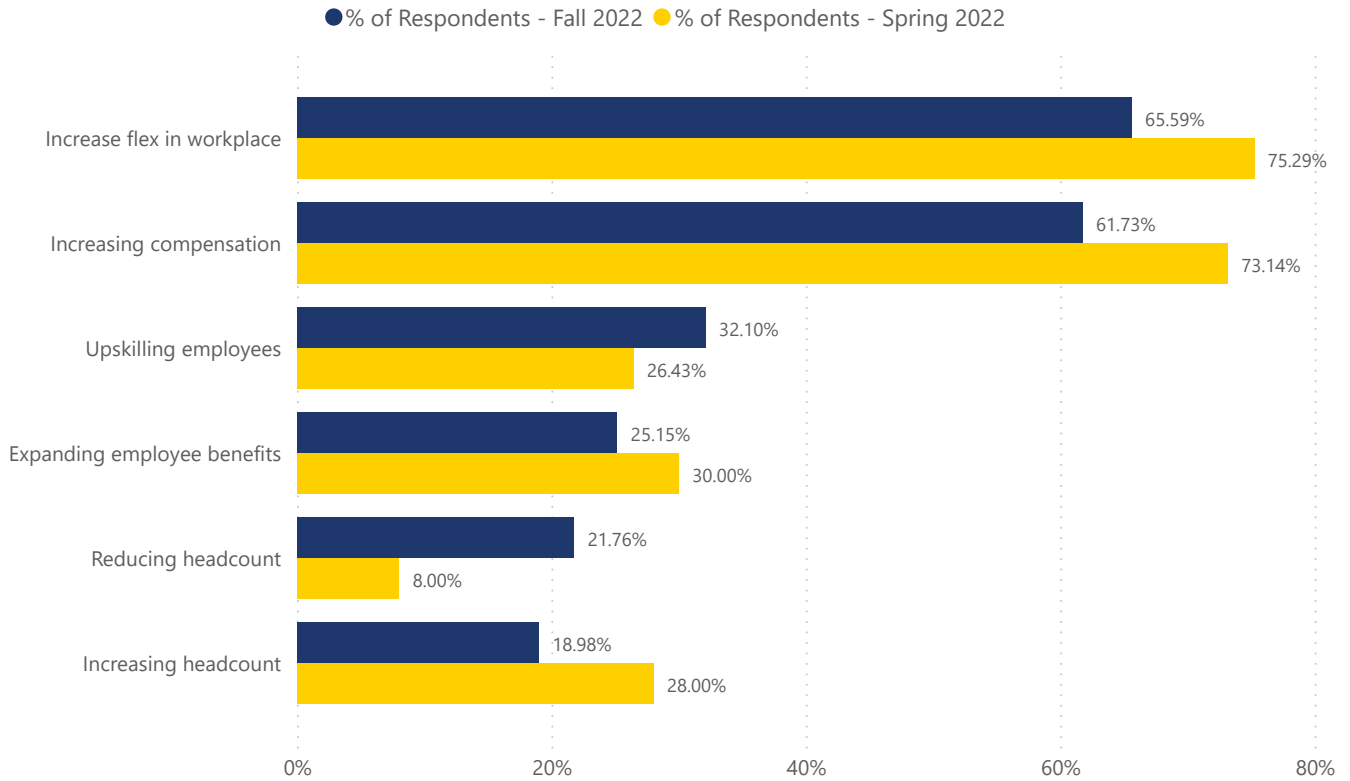
Compared to six months ago, how do you anticipate the future of financial prospects in your primary industry sector?



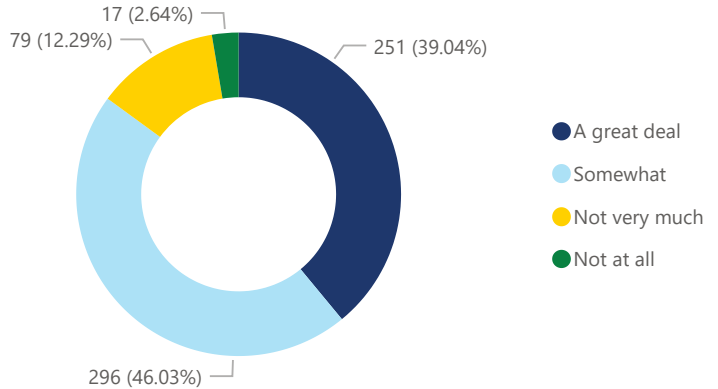
With respect to companies in your primary industry sector, what are their top priorities for the next six months? (Select up to three from list below)



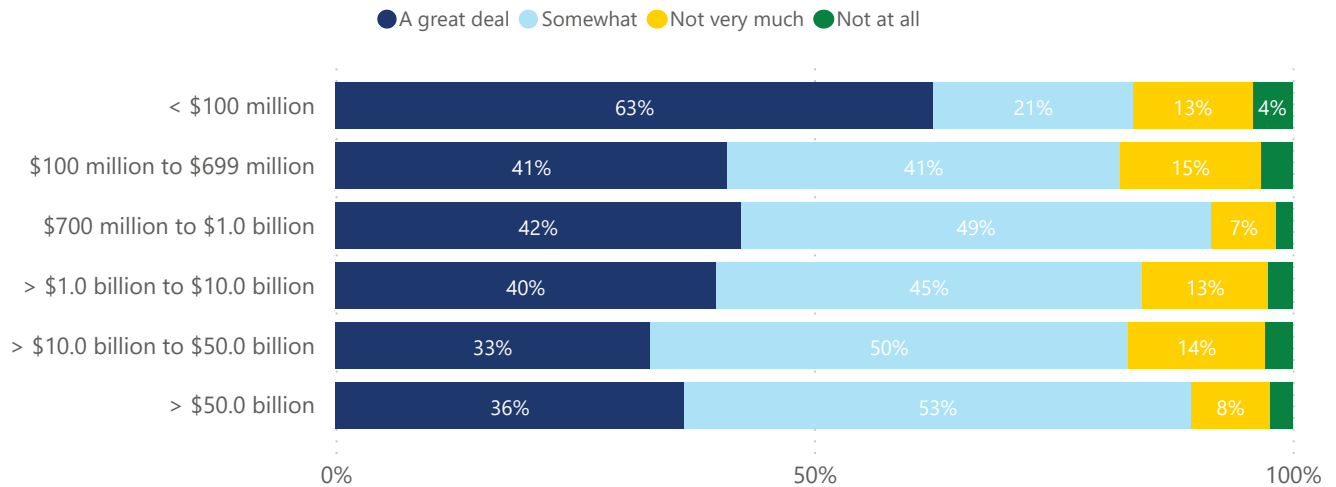
What actions are companies in your primary industry sector taking with respect to human capital? (Select up to three from list below)



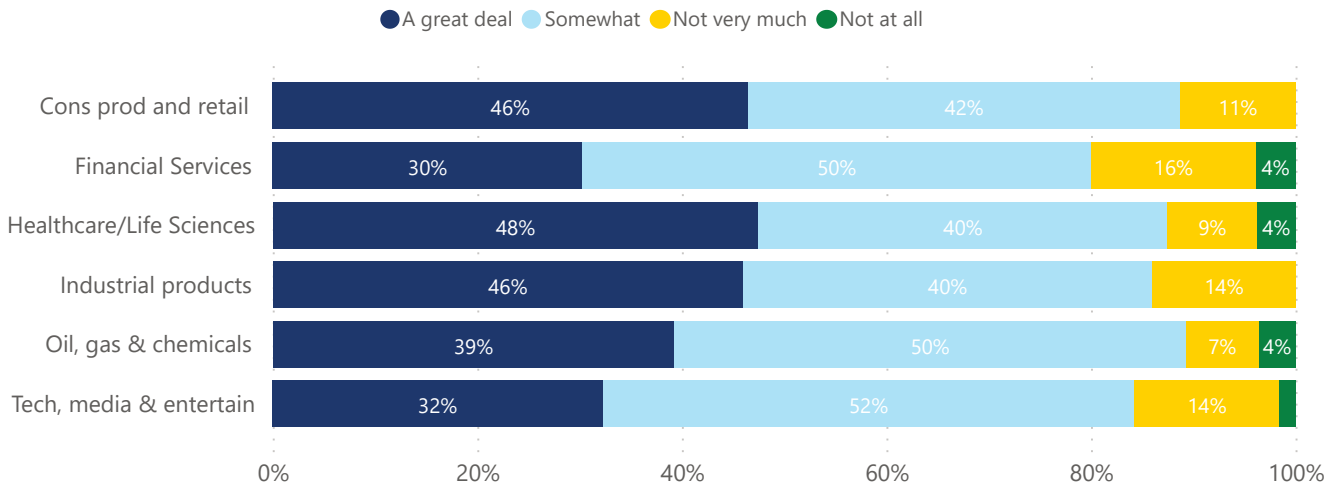
To what extent are companies in your primary industry sector taking 'Resource Scarcity' into account when developing their corporate strategies?



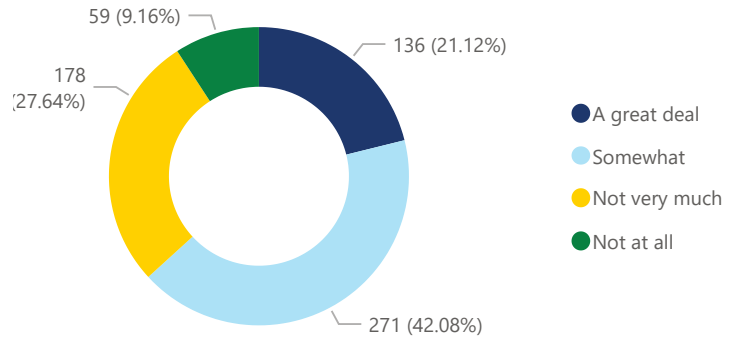
Resource Scarcity by Market Cap



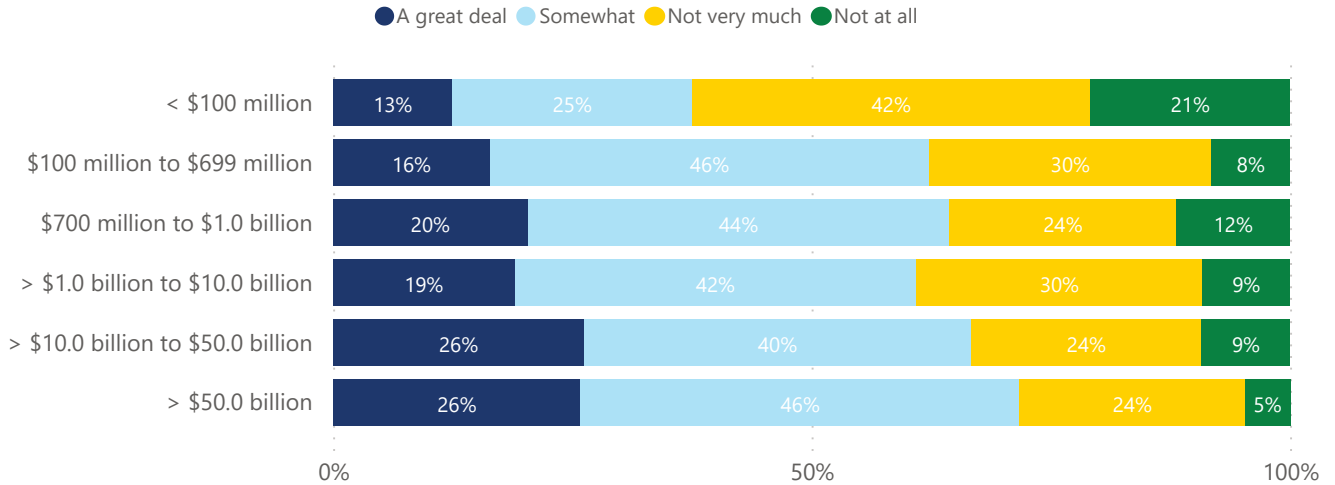
Resource Scarcity by Industry



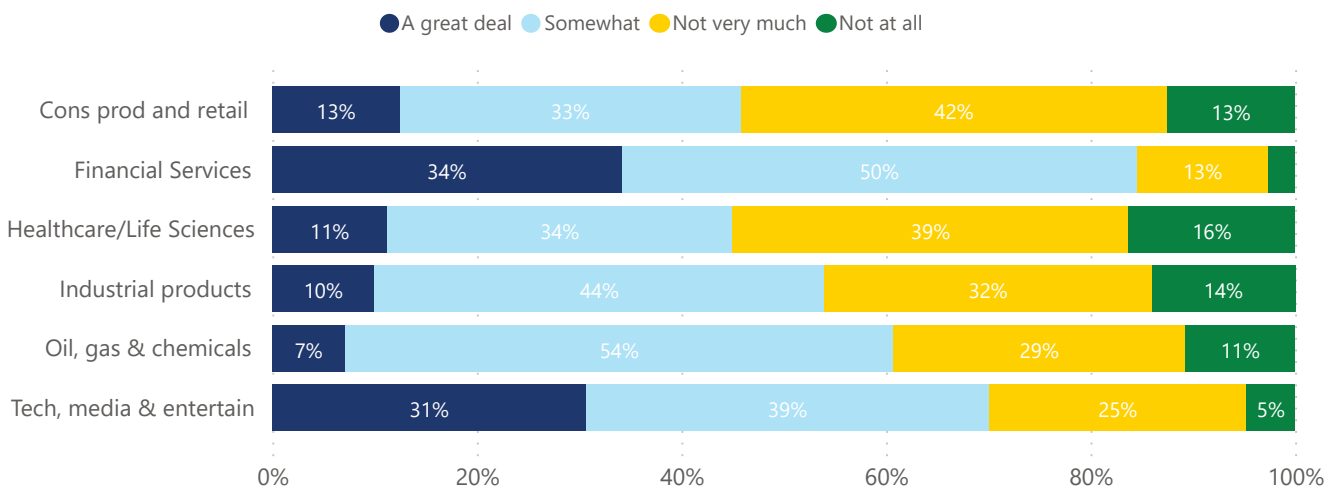
To what extent are companies in your primary industry sector taking 'Emerging Tech' into account when developing their corporate strategies?



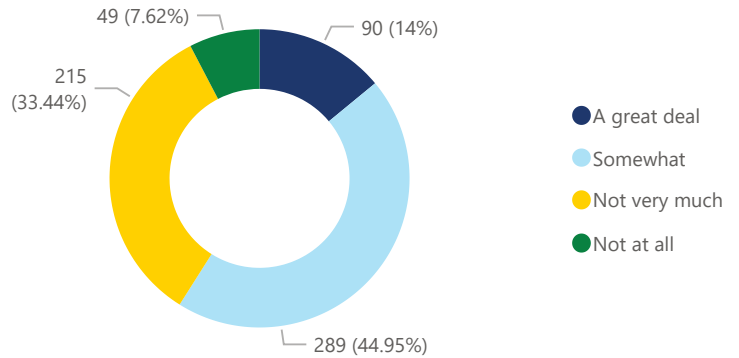
Emerging Tech by Market Cap



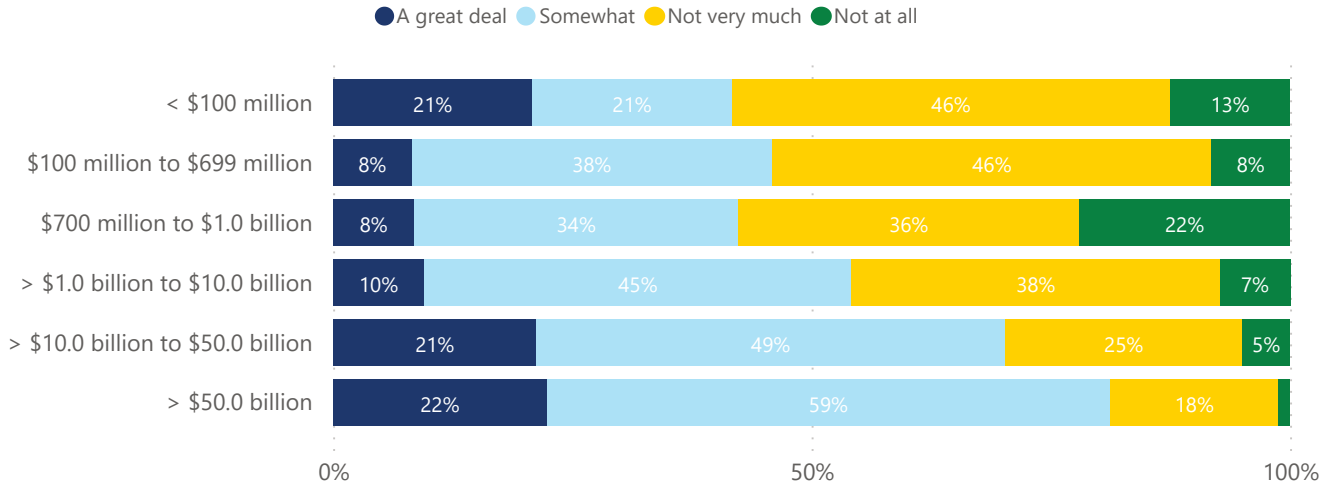
Emerging Tech by Industry



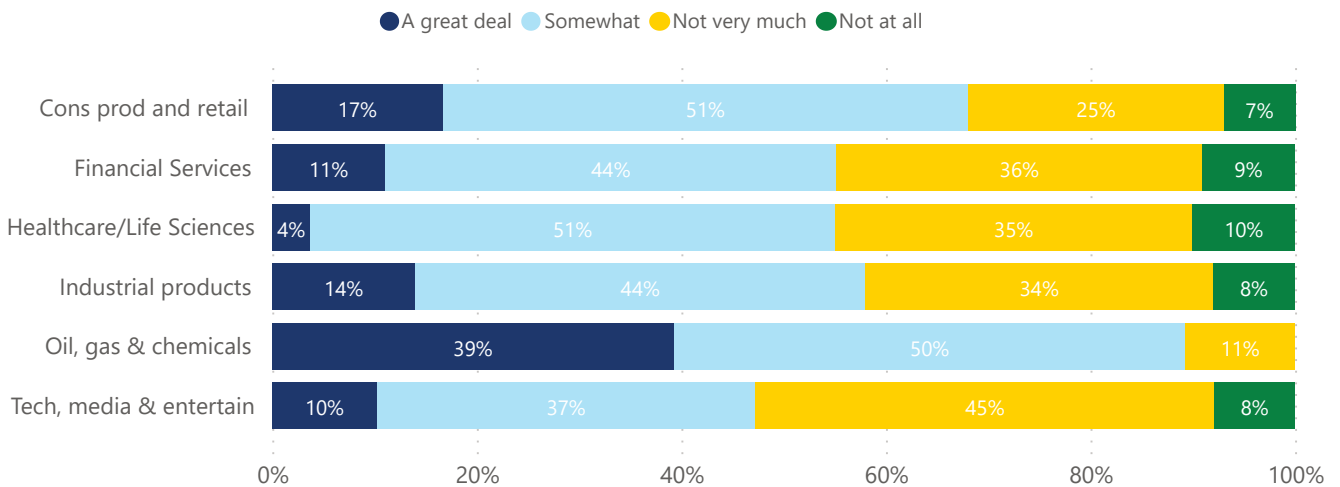
To what extent are companies in your primary industry sector taking 'Climate Change' into account when developing their corporate strategies?



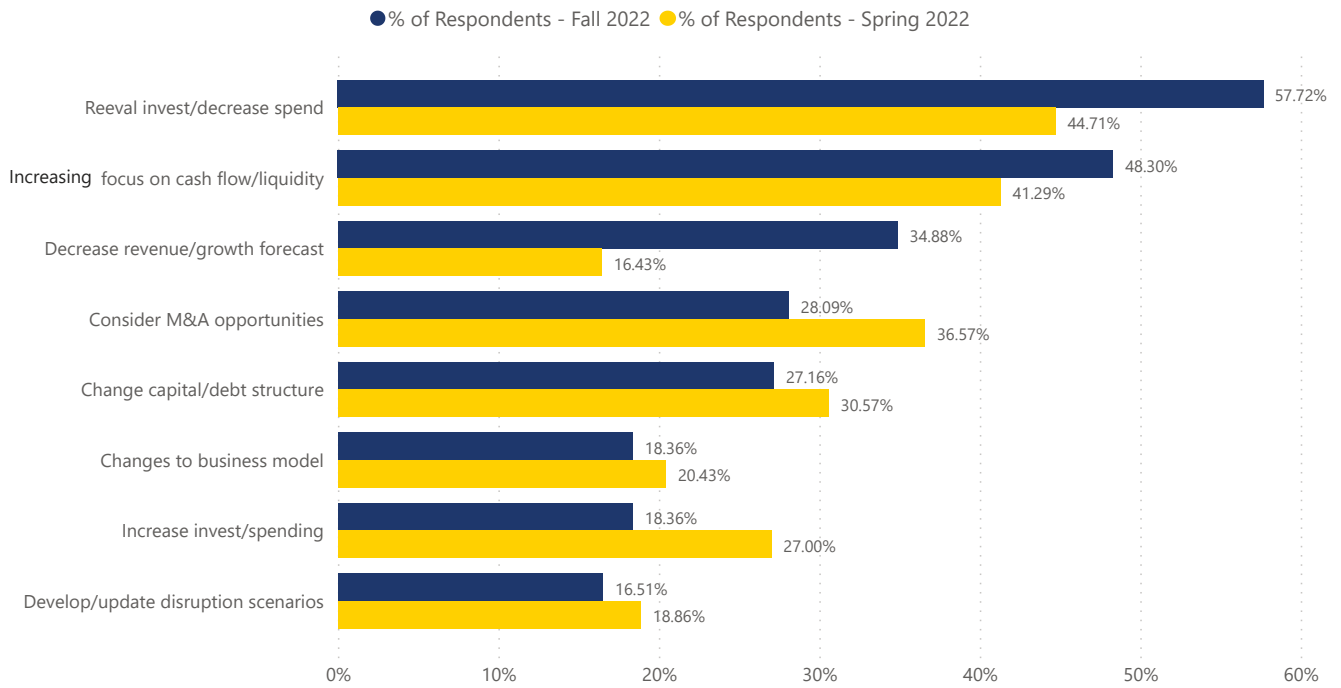
Climate Change by Market Cap



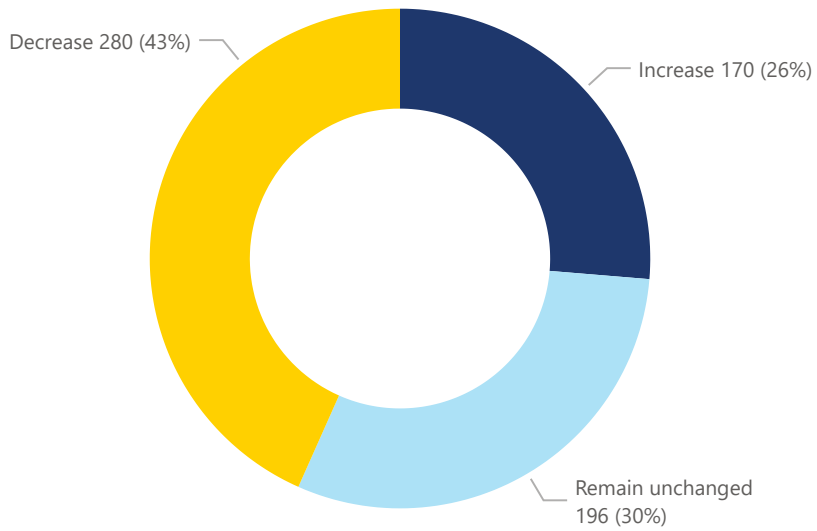
Climate Change by Industry



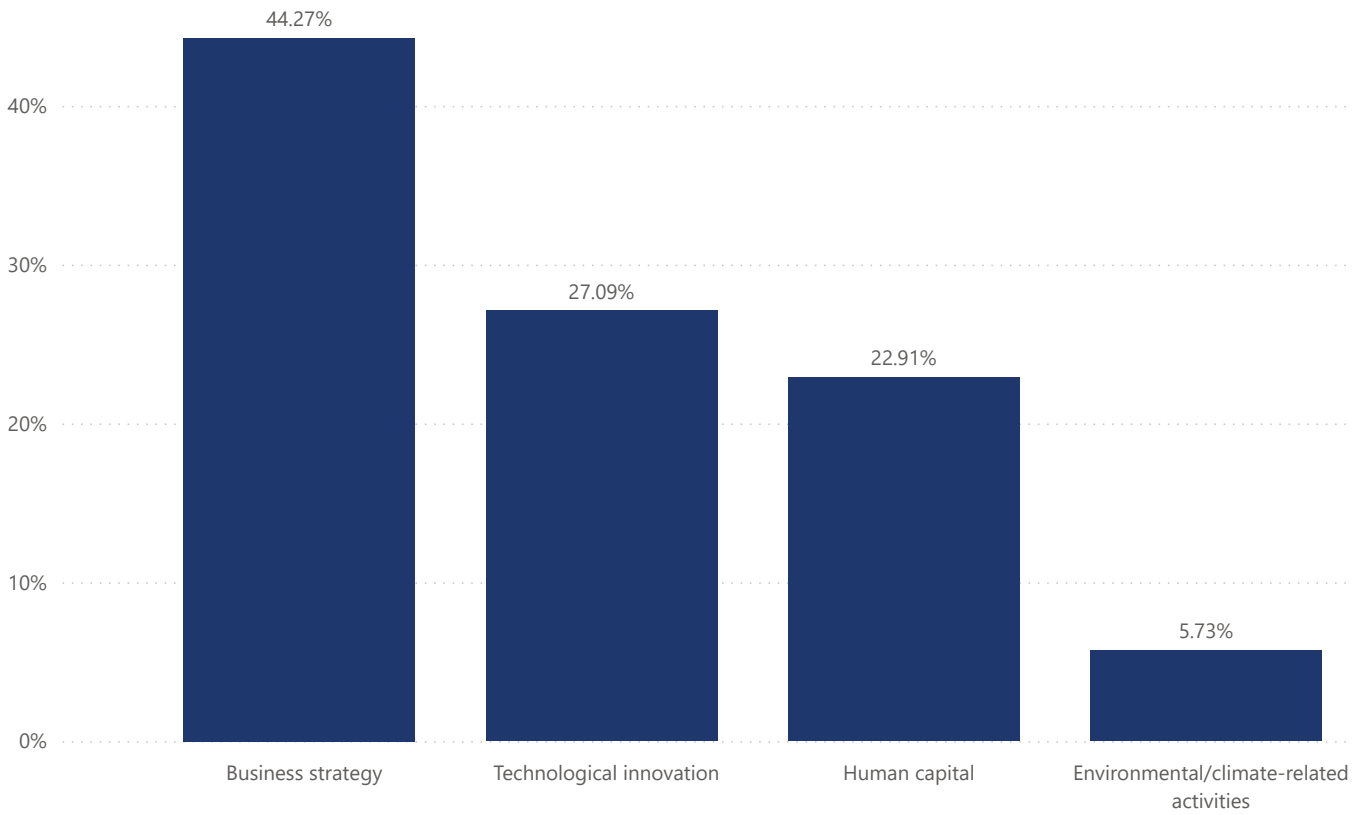
What actions are most companies in your primary industry sector taking to mitigate negative impacts to business strategy? (Select up to three from list below)



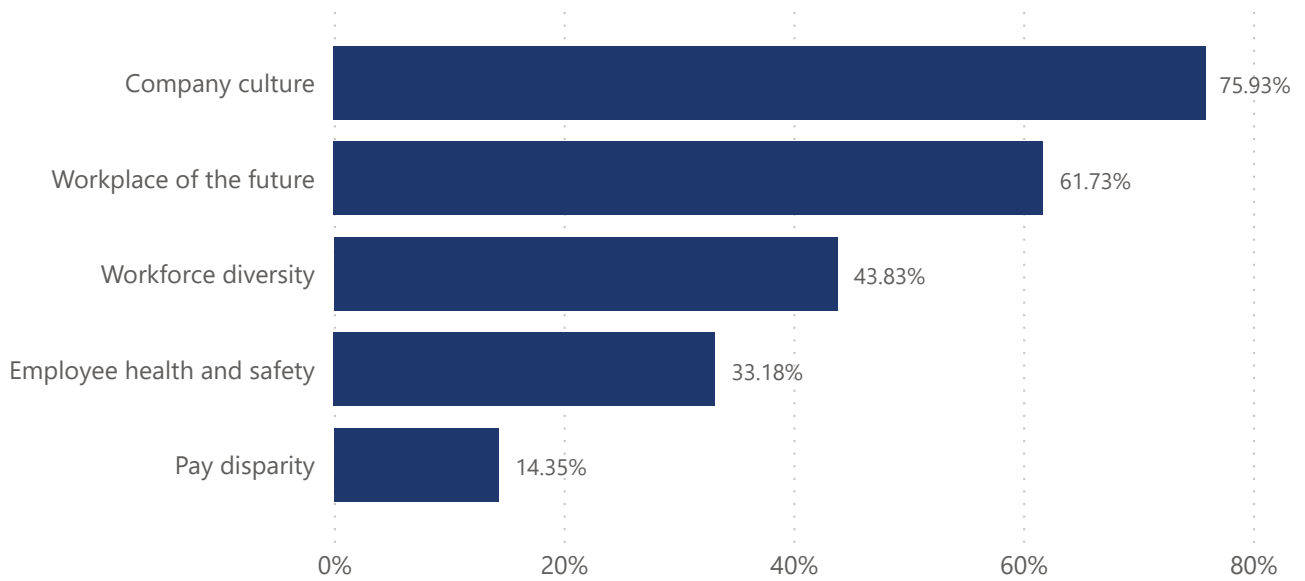
Which of the following best describes your view on mergers and acquisitions over the next 12 months?



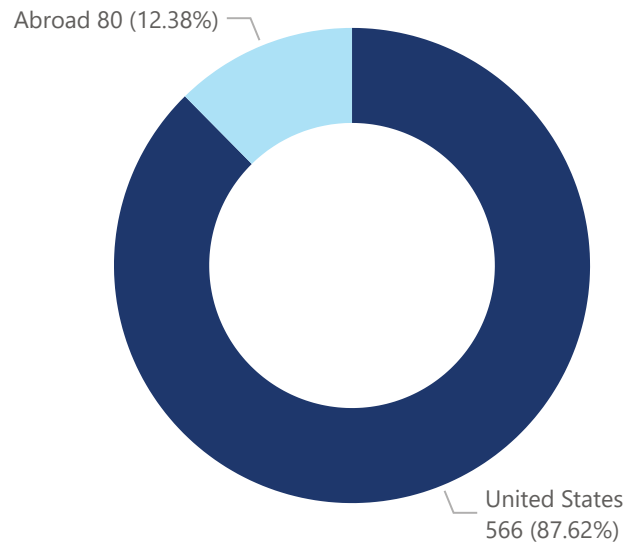
Rank order the changes you see most companies in your primary industry sector making over the next 12 months.



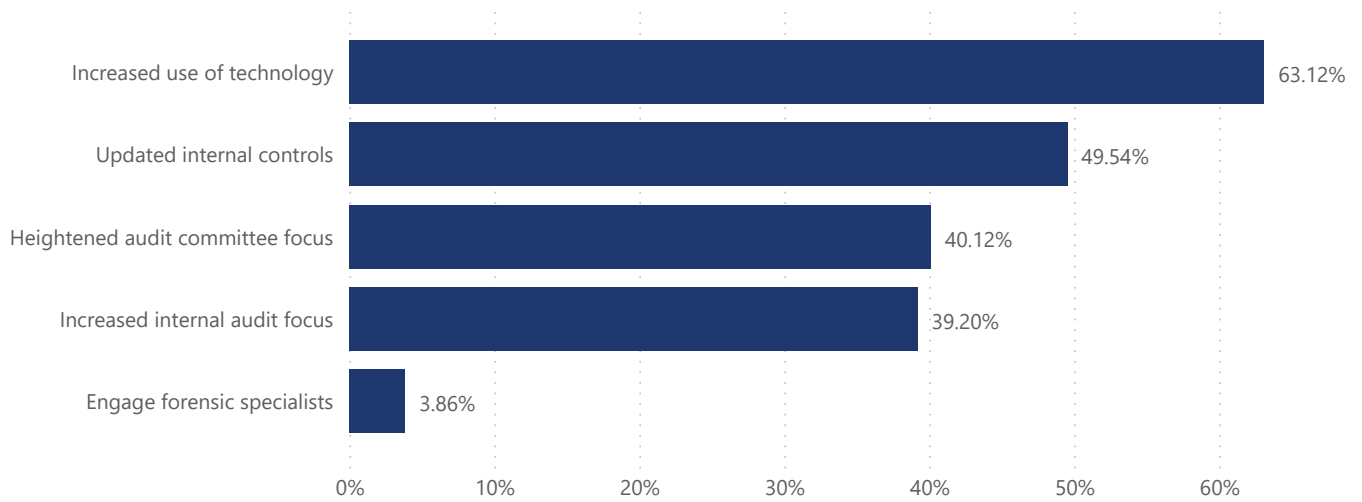
Regarding human capital decisions, what areas have the greatest focus of most of the companies in your primary industry sector?
(Select up to three from list below)



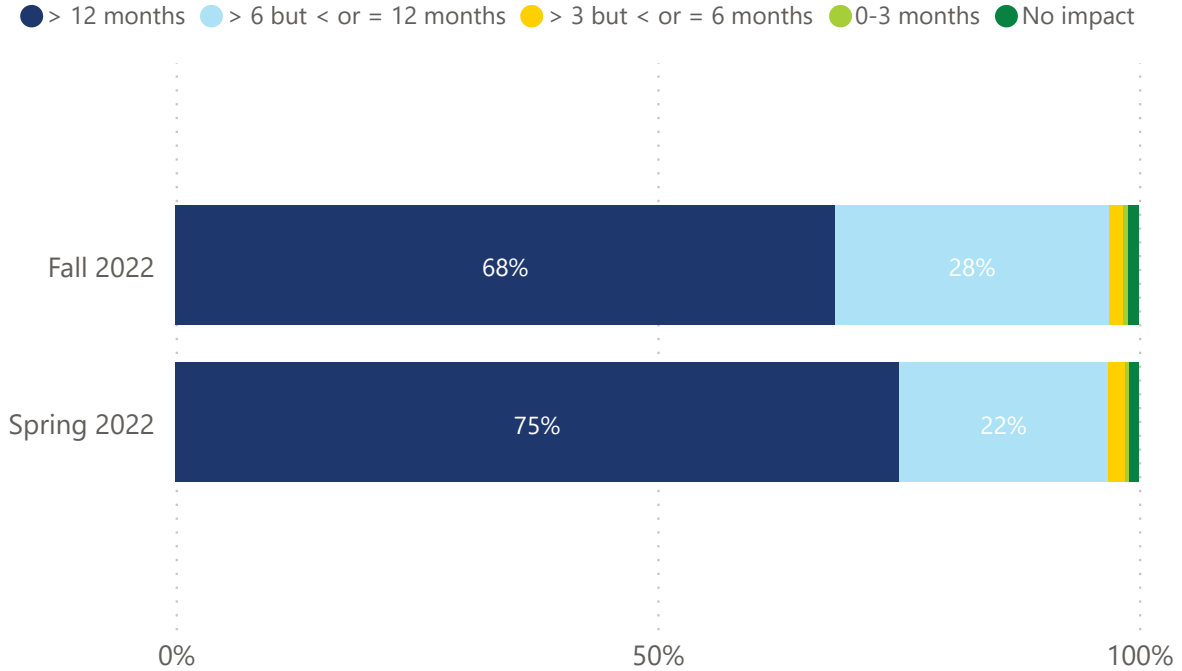
Where are businesses in your primary industry sector focusing their growth strategy?



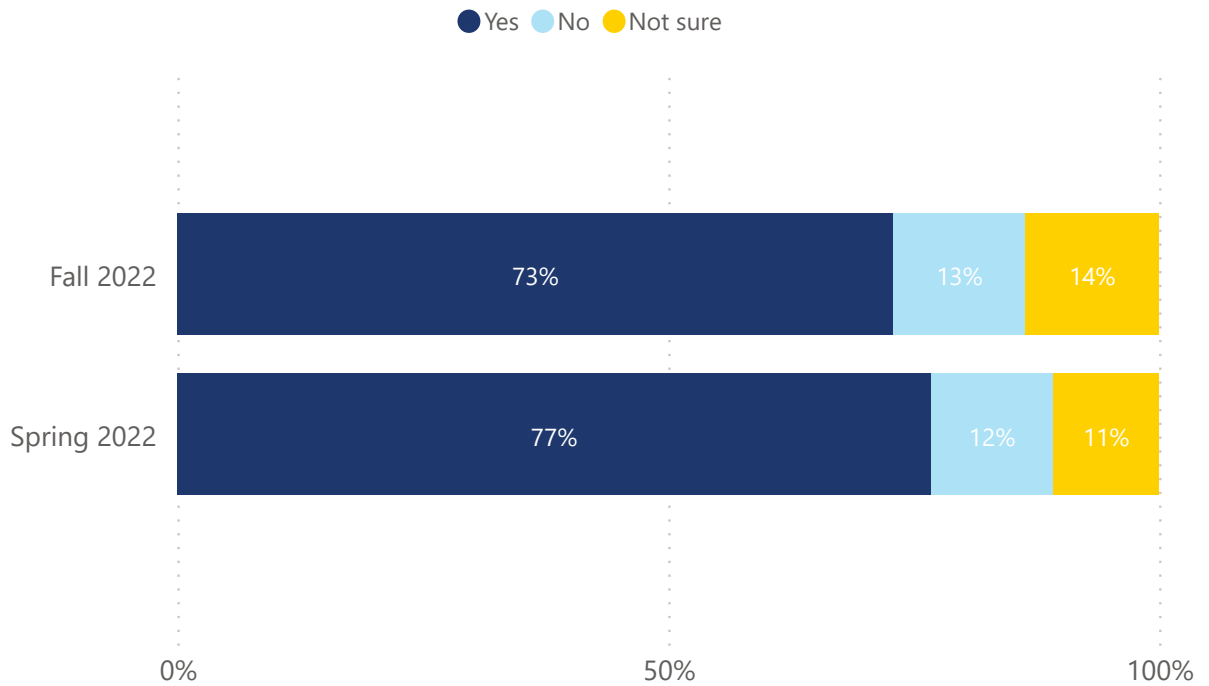
What measures have been instituted by most of the companies in your primary industry sector to increase deterrence and detection of corporate fraud and misconduct over the last 12 months? (Select up to three from list below)



How long, if at all, do you anticipate the current inflation cycle to have an impact on your primary industry sector?



Do you anticipate companies in your primary industry sector to raise prices for customers more than historical trends because of inflation?



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your feedback!**

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questions to info@thecaq.org