

SPRING 2023

AUDIT PARTNER PULSE SURVEY



May 2023

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.

Please note that this publication is intended as general information and should not be relied on as being definitive or all-inclusive. As with all other CAQ resources, this publication is not authoritative, and readers are urged to refer to relevant rules and standards. If legal advice or other expert assistance is required, the services of a competent professional should be sought. The CAQ makes no representations, warranties, or guarantees about, and assumes no responsibility for, the content or application of the material contained herein. The CAQ expressly disclaims all liability for any damages arising out of the use of, reference to, or reliance on this material. This publication does not represent an official position of the CAQ, its board, or its members.

Contents

4

Executive Summary

5

Executive Analysis

11

Appendix

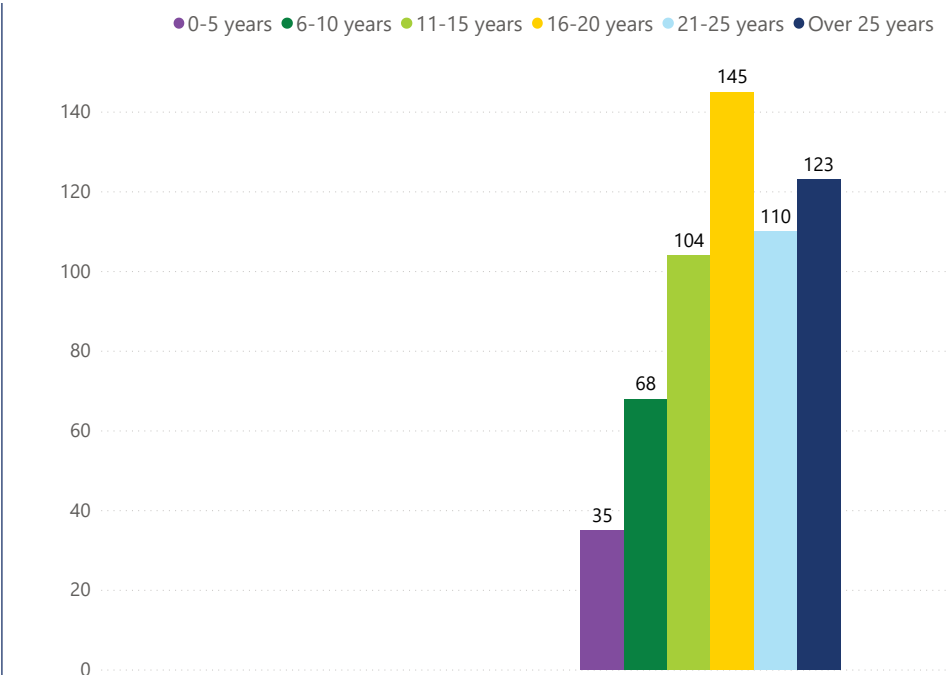
Executive Summary



AUDITORS POSITIONED TO SPOT ECONOMIC TRENDS

Over the course of their careers, audit partners spend decades honing industry-specific expertise on how companies across the economy operate. This provides auditors with a thorough understanding of the industries in which the companies they audit function, from financial services to oil and gas to healthcare. Coupled with audit partners’ deep understanding of the businesses they audit, the vast multidisciplinary skillsets within public accounting firms give audit partners and their teams a deep bench of experts and specialists to draw on when necessary. This allows audit partners to oversee the performance of high-quality audits for public companies within their industry sector and positions them with unique insights across businesses of all sizes, industries, and geographies in the U.S. and globally.

Figure 1 | For how many years have you specialized in your primary industry sector?



The Center for Audit Quality’s (CAQ) 2023 Spring Audit Partner Pulse Survey (see the [Spring 2022](#) and [Fall 2022](#) surveys), now in its second year, asked audit partners at the country’s leading public company audit 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. This survey also provides insight into audit partner perspectives on emerging opportunities and risks, including artificial intelligence, cryptocurrency, exposure to China, and the talent shortage.

Completed in the Spring amid continued fears of an economic recession, the CAQ continued to observe notable shifts in audit partners’ perspectives that suggest U.S. businesses are still bracing for an economic downturn.

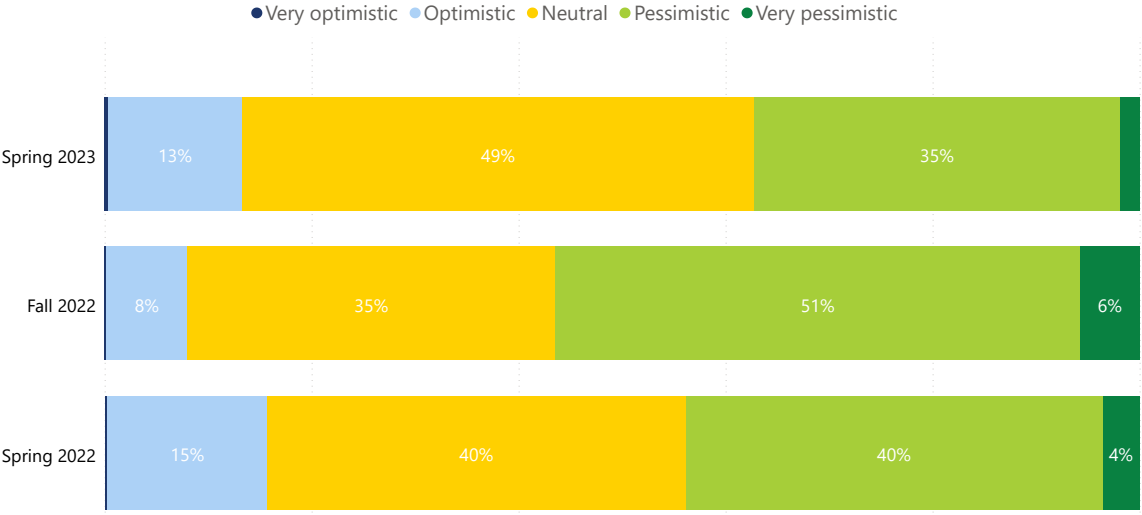
Executive Analysis



ECONOMIC OUTLOOK: LABOR IS A KEY CHALLENGE ACROSS INDUSTRIES AS INFLATION PERSISTS

Audit partners remain pessimistic on the outlook for the U.S. economy over the next 12 months. Fewer than 1 in 5 audit partners are optimistic about the economy. Given the Federal Reserve in May raised its target benchmark rate again – the fourth since November – and debt limit negotiators have made, as of this writing, limited progress on negotiating a deal, audit partners are likely less inclined to see an end in sight to the current economic environment.

Figure 2 | Overall, how would you characterize your outlook regarding the U.S. economy over the next 12 months?

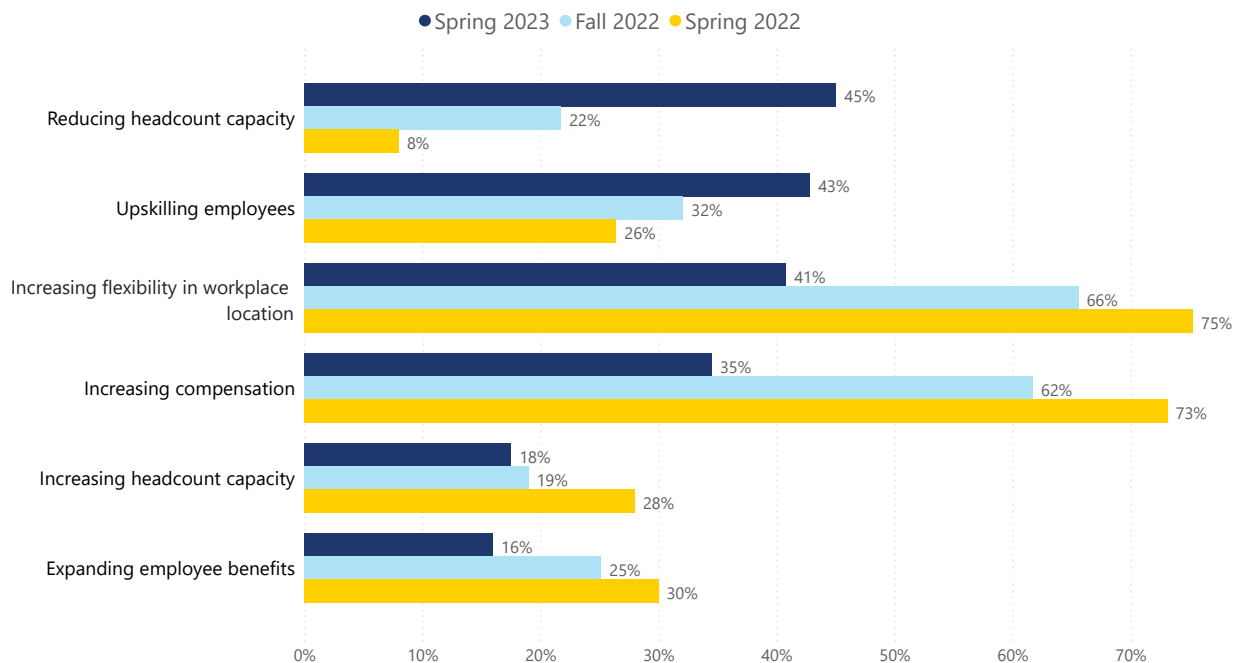


While inflation topped partners’ list of economic concerns (69%) for the third survey in a row, the real story this Spring is the shift in concerns over labor shortages (a drop to 35% from Spring 2022’s 53%) and supply chain disruptions (falling to 30% from Spring 2022’s high of 50% [see Appendix charts on page 11 and 12]). While the overarching story is one of easing pressure on access to labor, the story is uneven from industry to industry. According to the [U.S. Chamber of Commerce](#), the transportation, healthcare, retail, and food sectors were hit the hardest by the pandemic, and currently have the highest numbers of job openings. Audit partner concerns over labor shortages correlate to this, with partners from healthcare and consumer products industries categorizing this as a higher risk for companies in their industry, while partners in technology and financial services indicate that companies in their sector were less likely to focus on labor shortages.

SHIFTS IN TALENT STRATEGIES SUGGEST A FOCUS ON COST SAVINGS

As the labor market recovers and more people return to the workforce, continuing economic unease in the U.S. is affecting how public companies prioritize compensation and benefits. In fact, audit partners observed a steep drop in some human capital actions that companies in their primary industry sector were taking to improve or maintain their talent pipeline in 2022. The changes indicate a shift in power from employees to management in the current moment, with management’s focus shifting to reigning in costs and improving efficiency. Increasing workplace flexibility, a key action in 2022 in the wake of the pandemic, has dropped as a focus area by 34 points from 75% (Spring 2022) to 41% (Spring 2023). Similarly, while headlines highlighted increasing salaries and novel signing bonuses in 2022, audit partners see fewer employers prioritizing new salary increases (decreasing from a high of 73% in Spring 2022 to 35% in Spring 2023). Rather, organizations in their sectors appear focused on reducing headcount (a 37 percentage point increase) and upskilling existing employees (a 17 percentage point increase).

Figure 3 | What actions are companies in your primary industry sector taking with respect to human capital? (Select up to three from the list)



Audit partners within the technology industry were the most likely to observe reducing headcount as a top human capital action, which is corroborated by major layoff announcements at organizations like Amazon, Meta and Salesforce. Interestingly, industries experiencing the greatest demand for talent, including healthcare and consumer products, were no more likely to take actions to attract talent, like expanding employee benefits or increasing compensation, than their technology counterparts. Rather than talent, organizations in their industries are more focused on cost management and financial performance according to the audit partners.

THE ACCOUNTANT SHORTAGE'S INCONSISTENT EFFECT

Figure 4 | Accountant Shortage by Industry

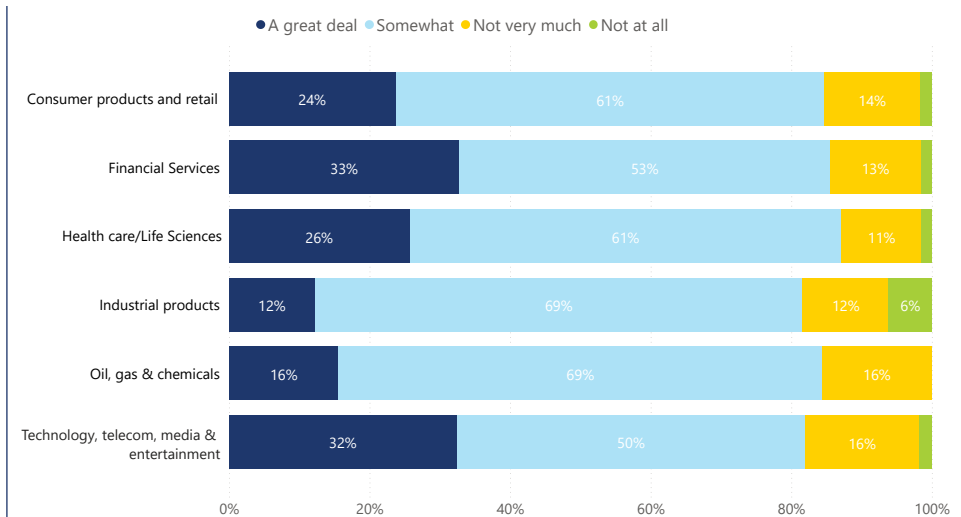
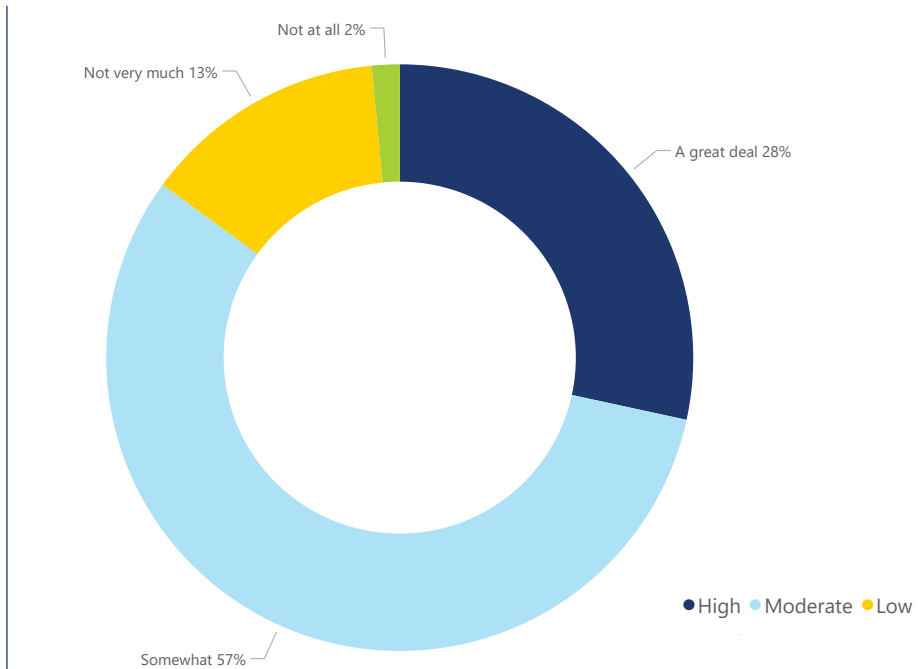


Figure 5 | To what extent have companies in your primary industry sector been affected by the shortage of accountants in the labor market?

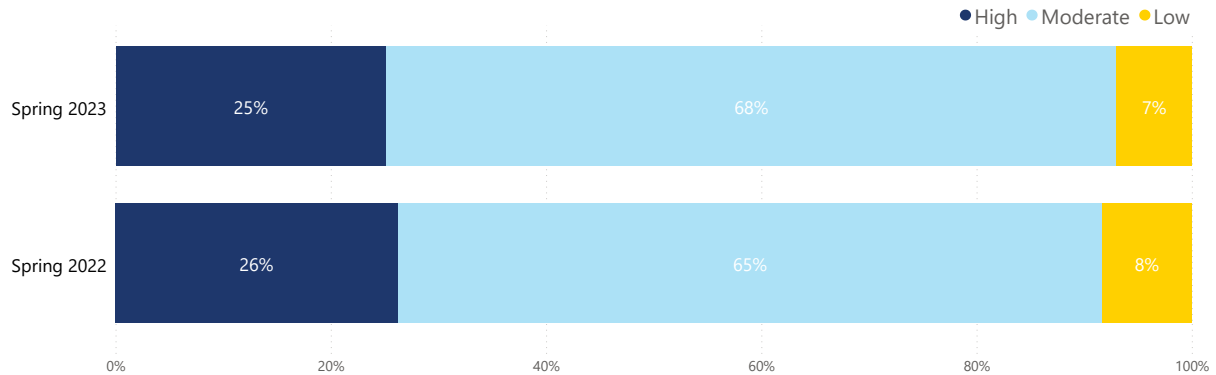


In a year of headlines about the accountant shortage and its potential impact on public accounting firms, it is important to remember that the issue affects businesses as well. When asked about concerns about the accounting pipeline, 85% of audit partners noted that businesses in their primary industry sector were somewhat to greatly affected by the accountant shortage. While this was a concern across all industries represented in the survey, the financial services and technology sectors were the most likely to have been affected by the shortage of accountants. Companies with a market capitalization of less than \$1 billion are affected more than larger companies. The challenges facing smaller companies may be a matter of relying more on employees to handle routine accounting functions that larger companies have been able to automate through investments in new technologies.

ECONOMIC RISKS: CYBERSECURITY REMAINS A TOP CONCERN

Concerns over cybersecurity have persisted since the CAQ’s survey in the Spring of 2022, ranking as the second highest risk audit partners see to industries within their sector after inflation. Despite the perceived risk, audit partners observed that there is still room for organizations to increase their preparedness for a cyberattack. One area auditors (54%) continue to see significant progress in is communications on cyber risk between the board and management.

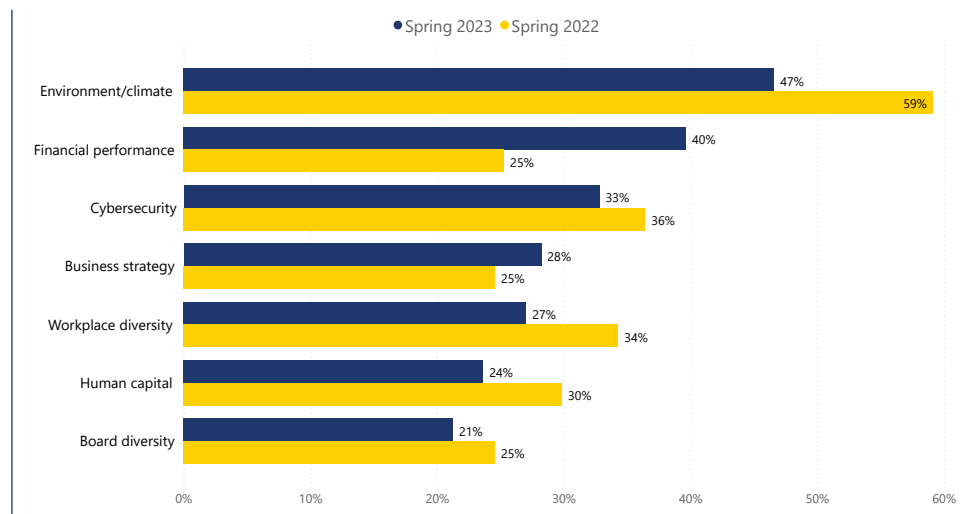
Figure 6 | What do you think is the level of preparedness for identifying and addressing a cyberattack at companies in your primary industry sector?



FOCUS OF VOLUNTARY DISCLOSURES IS SHIFTING

Organizations continue to voluntarily report on climate and other investor relevant information. The primary disclosures audit partners observed businesses enhancing or increasing included financial performance (up to 40% from 25% in the fall), cybersecurity, and climate. Audit partners observed that while there have been incremental improvements in companies’ ability to address challenges to ESG disclosure reporting, 40% of partners said that companies are still grappling with a lack of tools to collect the information, 41% said they were challenged by the diversity of standards and frameworks, and 37% face issues with aggregating and controlling the data needed for reporting purposes.

Figure 7 | What areas of disclosure do you see companies in your primary industry sector voluntarily increasing or enhancing over the next 12 months? (Please select all that apply)



EXPOSURE TO CHINA

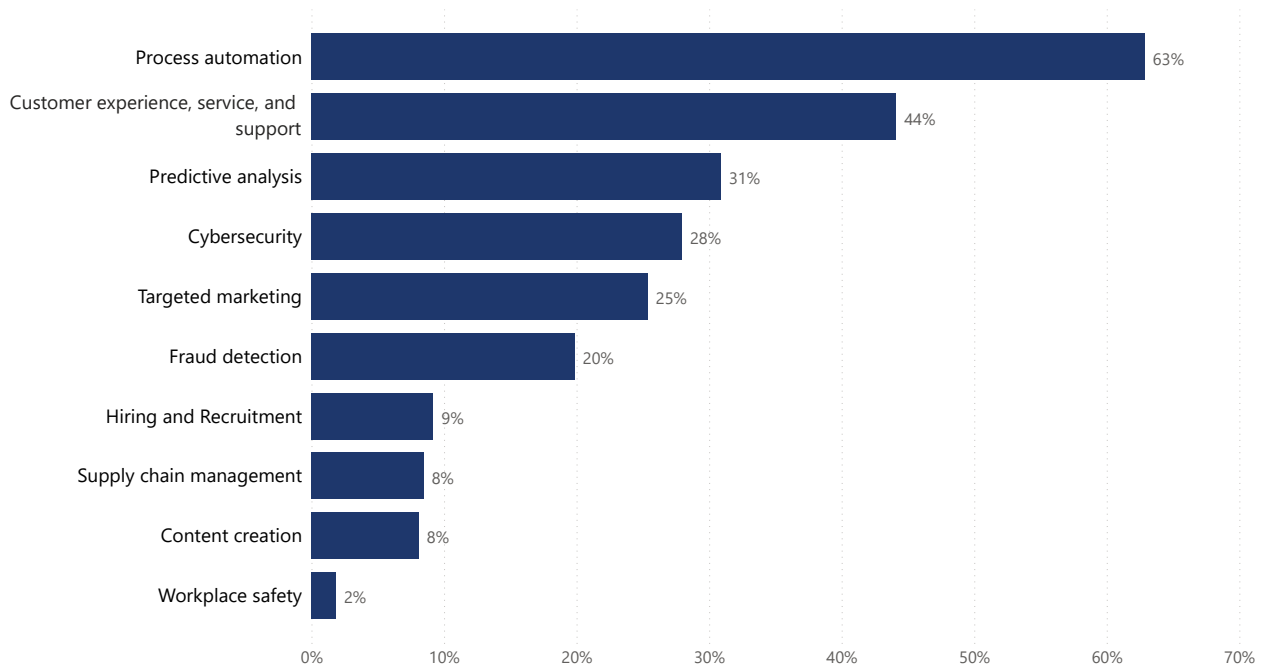
Given the increasingly fraught relations between the U.S. and China, the CAQ asked audit partners about their industry sector's exposure to China and associated risks. The good news is that most audit partners (69%) did not report any exposure to China. Of the audit partners saying that companies in their industry are exposed to China, they report that the risks faced as a result included supply chain disruption (59%), protection of intellectual property (43%), and risks from U.S.-government-imposed restrictions (39%).

OTHER OBSERVATIONS: FAVORABILITY TOWARDS CRYPTOCURRENCY WANES, WHILE AI ENTHUSIASM GROWS

Amid increased discussion around cryptocurrency and digital assets, the CAQ set out last Spring to better understand what industries, if any, had plans to adopt cryptocurrency as a form of payment. At the time, the financial services and technology industries appeared to be early adopters of cryptocurrency per the survey results and were slightly more likely to be considering or preparing for accepting crypto as a form of payment (51% and 43%, respectively). However, this is not the case today. Audit partners responded that cryptocurrency payment plans fell by 10% across industries with steeper drop-offs observed in financial services (18 percentage points), consumer products and retail (14 percentage points), and technology (13 percentage points) industries.

At the same time, a new survey question revealed that a different form of innovation is experiencing significant use among organizations across industry sectors. According to 47% of audit partners, organizations within their industry are already using artificial intelligence technology. Top uses observed include process automation (63%), customer experience, service and support (44%), and predictive analysis (31%).

Figure 8 | How have companies in your primary industry sector utilized AI technologies?



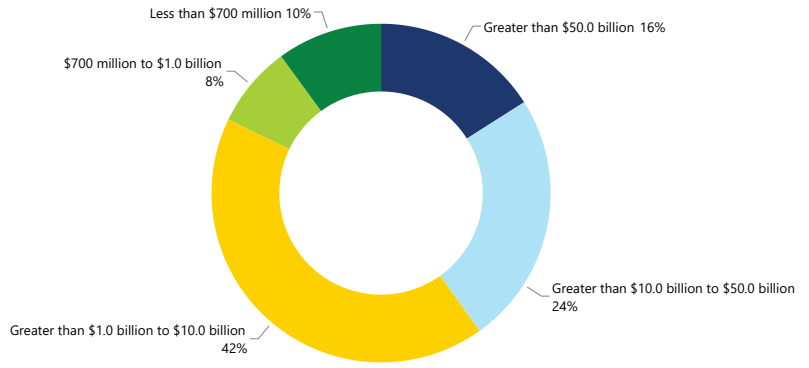
ABOUT THE SURVEY

The Center for Audit Quality's (CAQ) Audit Partner Pulse Survey presents findings from a survey distributed to audit partners at 8 of the largest public accounting firms in the U.S. There were 588 complete responses from audit partners with clients representing small, mid-level and large market capitalizations (less than \$700 million to greater than \$50 billion) across multiple industry sectors (transportation and hospitality, technology, telecom, media & entertainment, professional services, power, utilities & renewables, oil, gas and chemicals, non-profits, mining and metals, industrial products, health care and life sciences, government and public services, financial services, consumer products and retail and automotive). Survey results are presented for all 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 partner, or publicly traded company.

Appendix

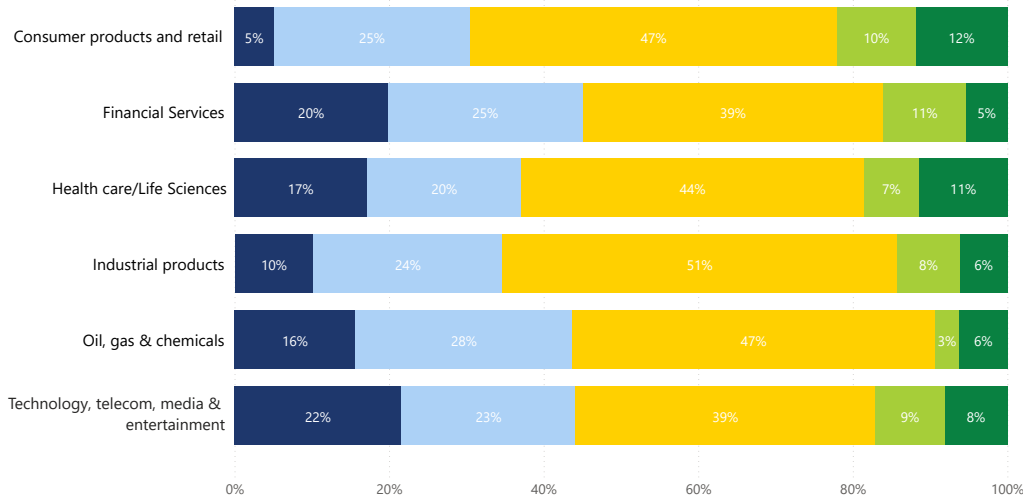
All survey questions and responses

What is your largest client's current market capitalization as of its most recent fiscal year-end?

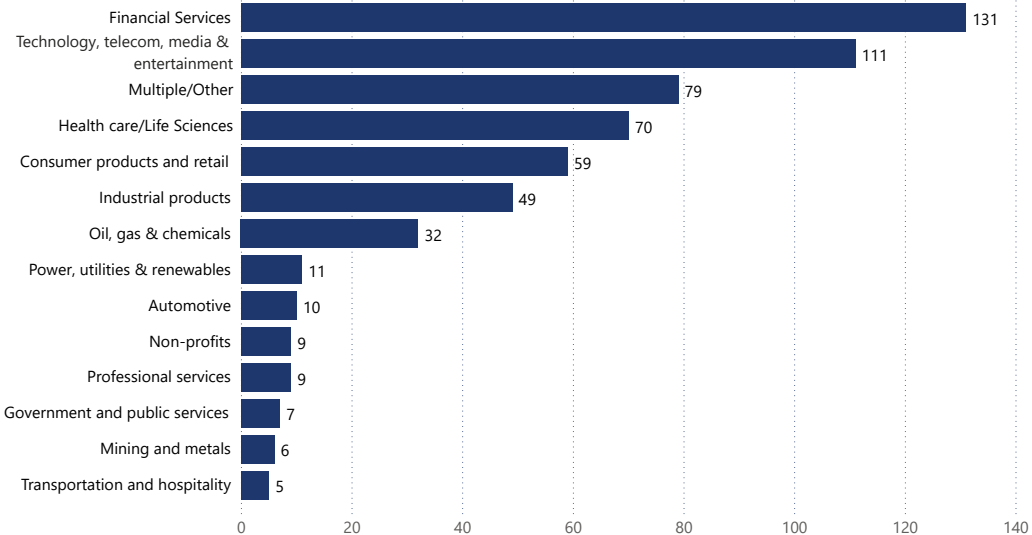


Respondents by Primary Industry and Market Cap

Legend: ● Greater than \$50.0 billion ● Greater than \$10.0 billion to \$50.0 billion ● Greater than \$1.0 billion to \$10.0 billion ● \$700 million to \$1.0 billion ● Less than \$700 million

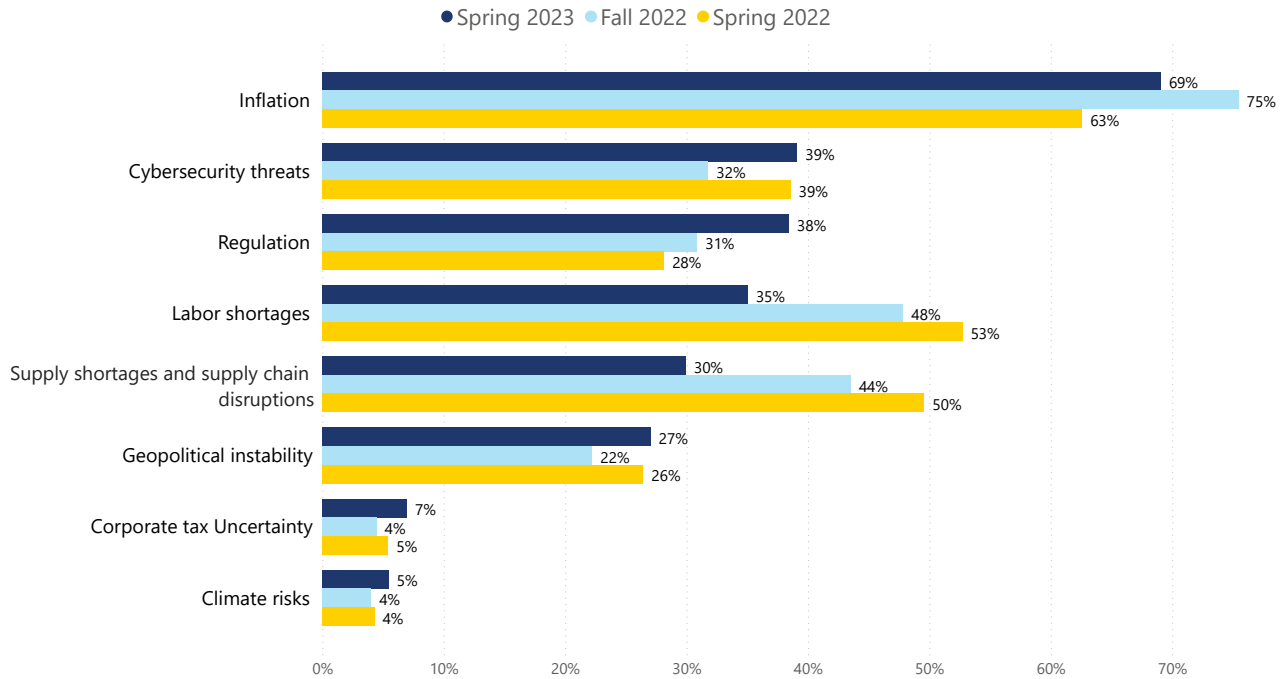


Respondents by Primary Industry

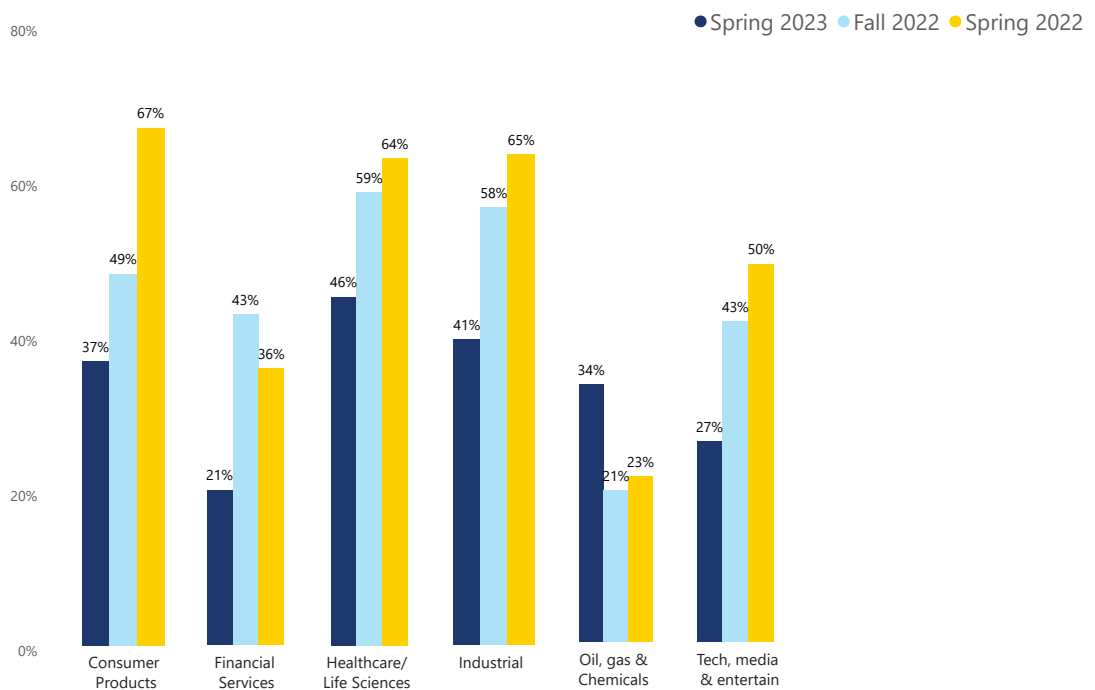


What do you believe are the largest economic risks facing companies in your primary industry sector over the next 12 months (Please select all that apply)?

Largest Economic Risks

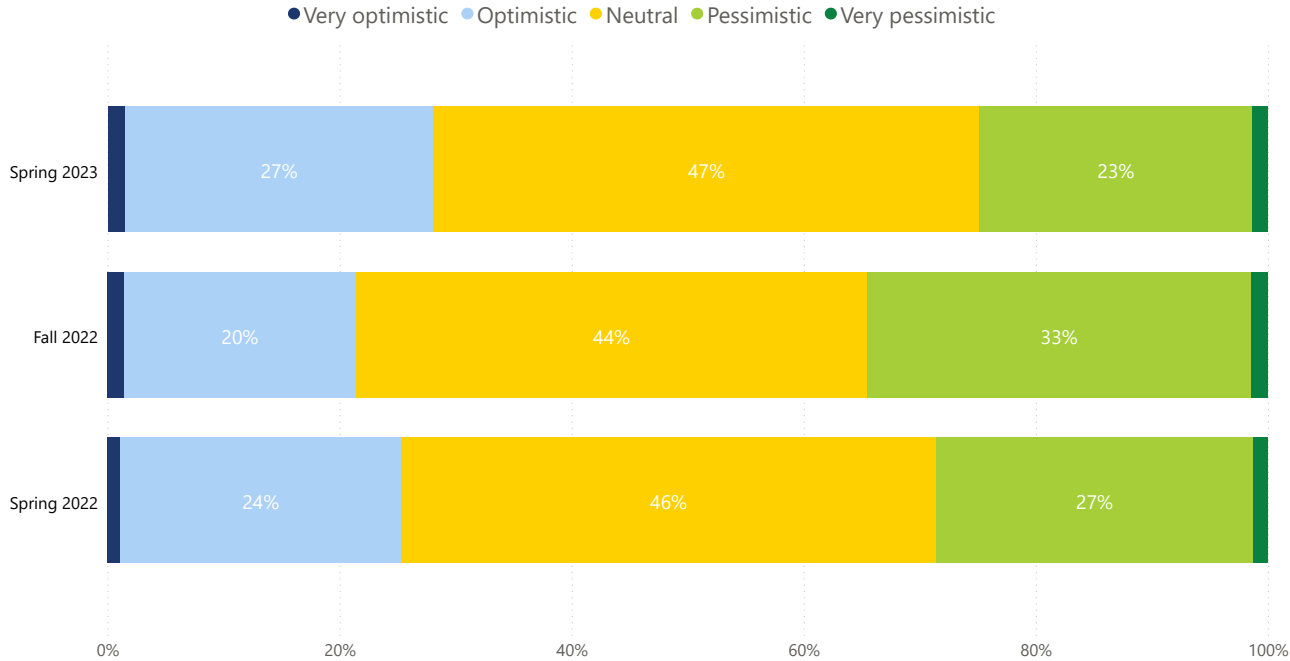


Largest Economic Risk - Labor Shortages, Top 6 Industries



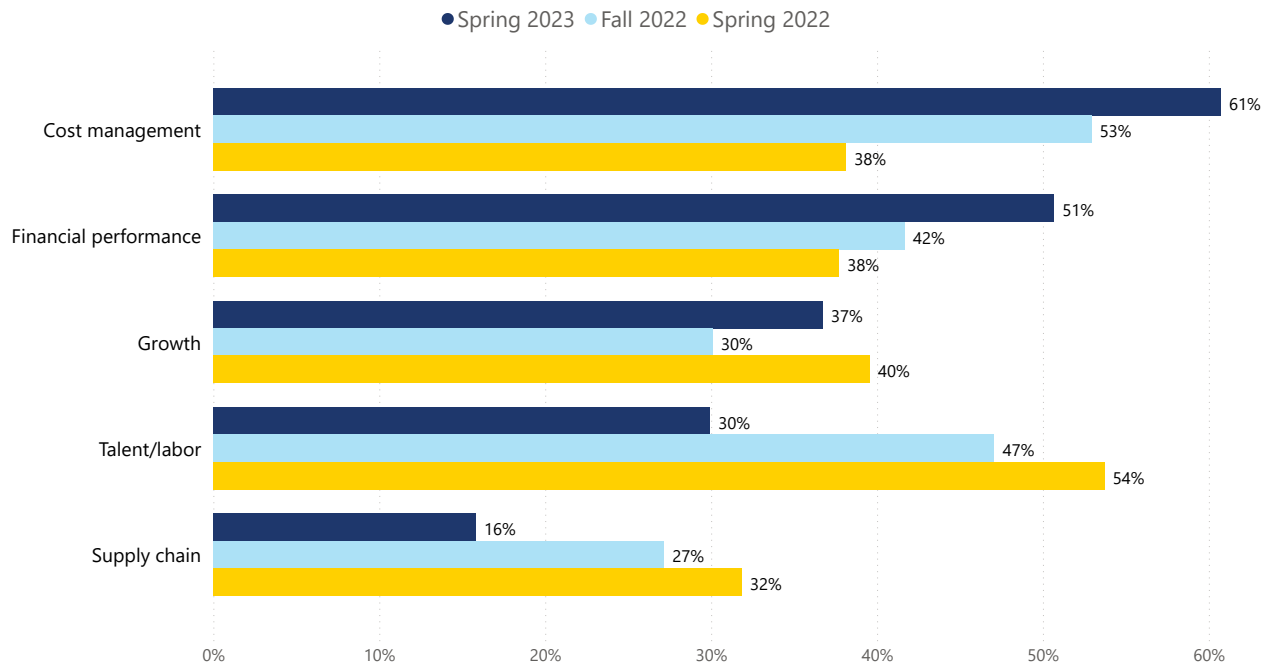
Compared to six months ago, how do you anticipate the future of financial prospects in your primary industry sector?

Financial Prospects



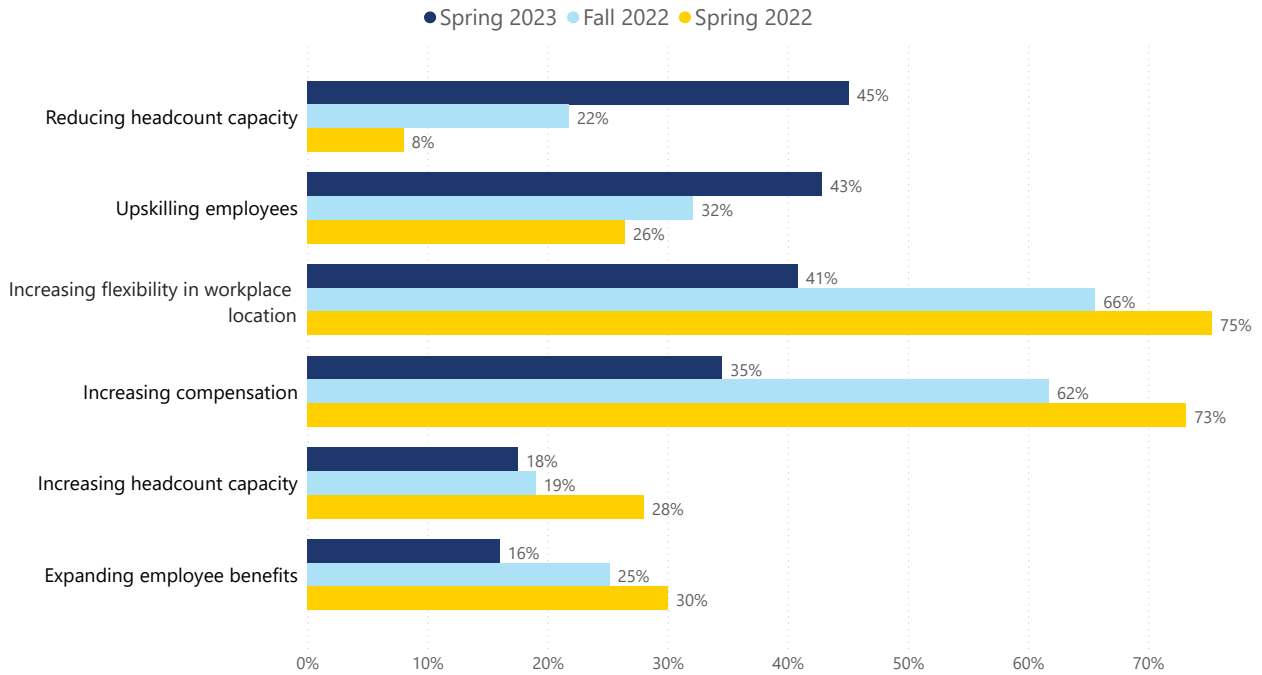
With respect to companies in your primary industry sector, what are their top three priorities for the next 12 months? (Select up to three from list below)

Top Priorities

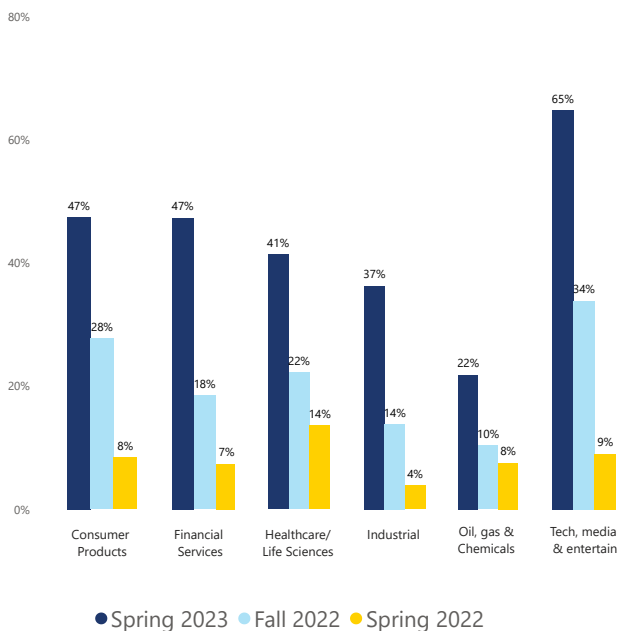


What actions are companies in your primary industry sector taking with respect to human capital? (Select up to three from the list below)

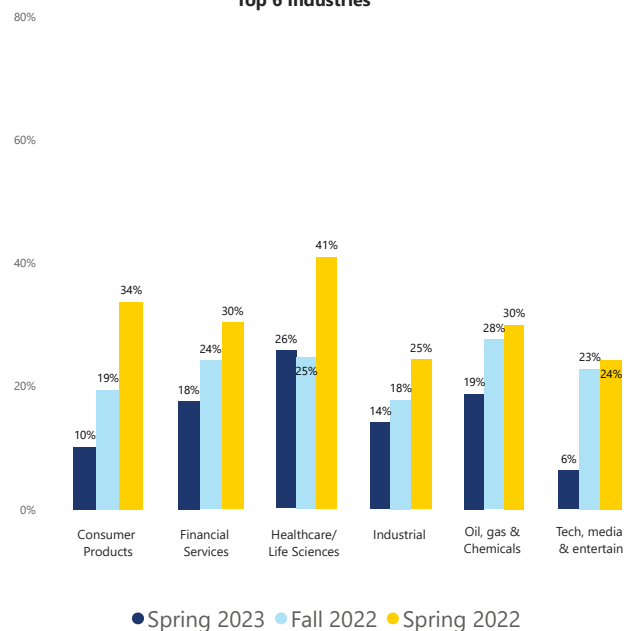
Human Capital Actions



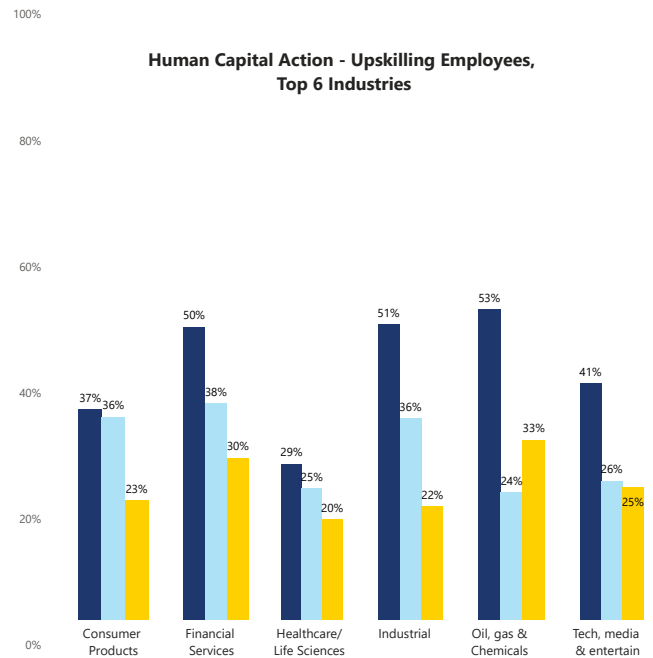
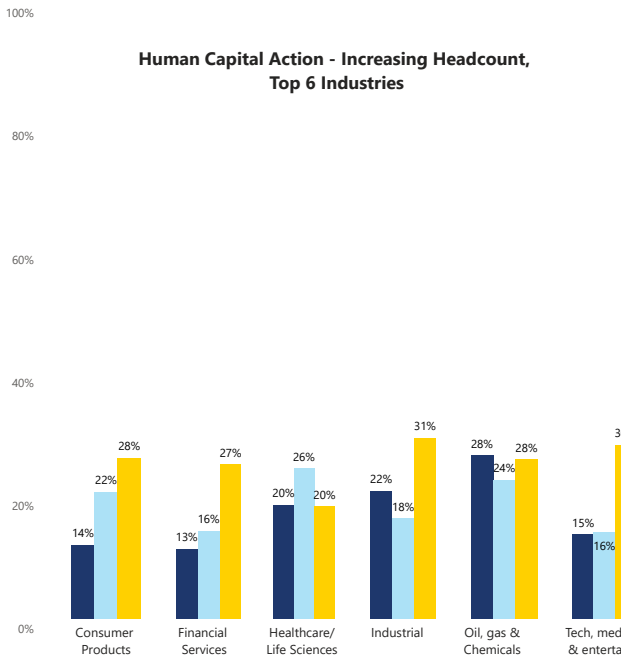
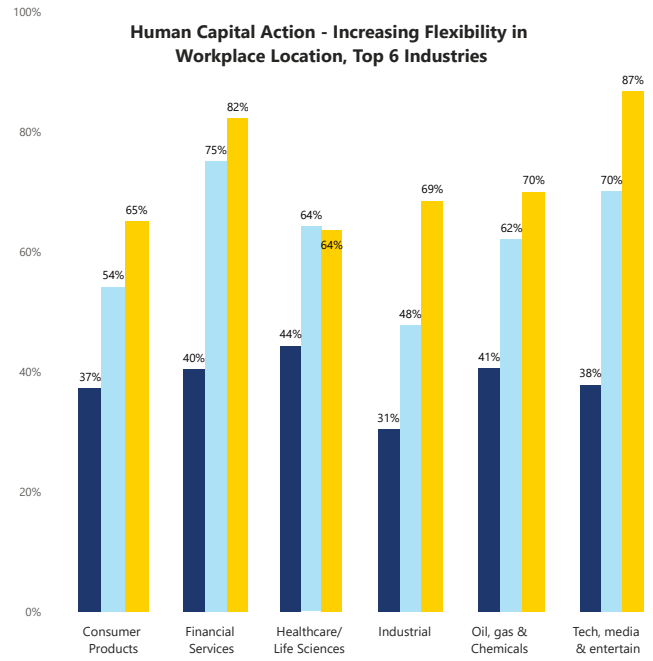
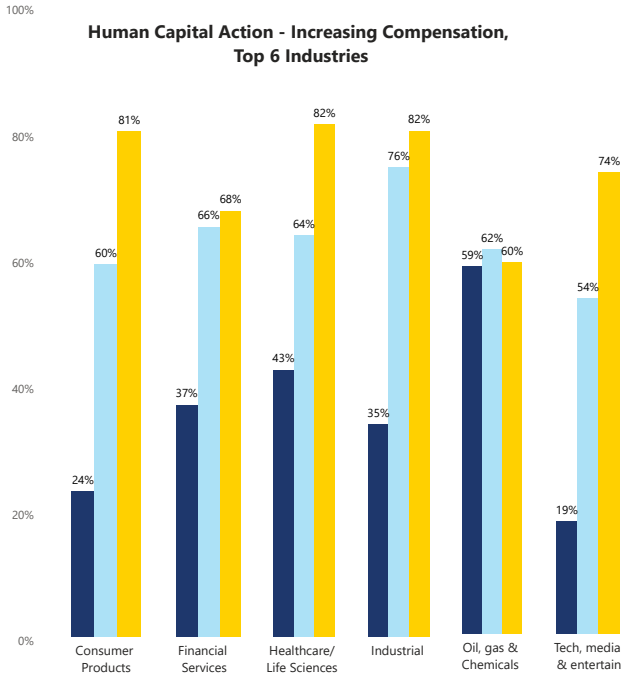
Human Capital Action - Reducing Headcount, Top 6 Industries



Human Capital Action - Expanding Employee Benefits, Top 6 Industries

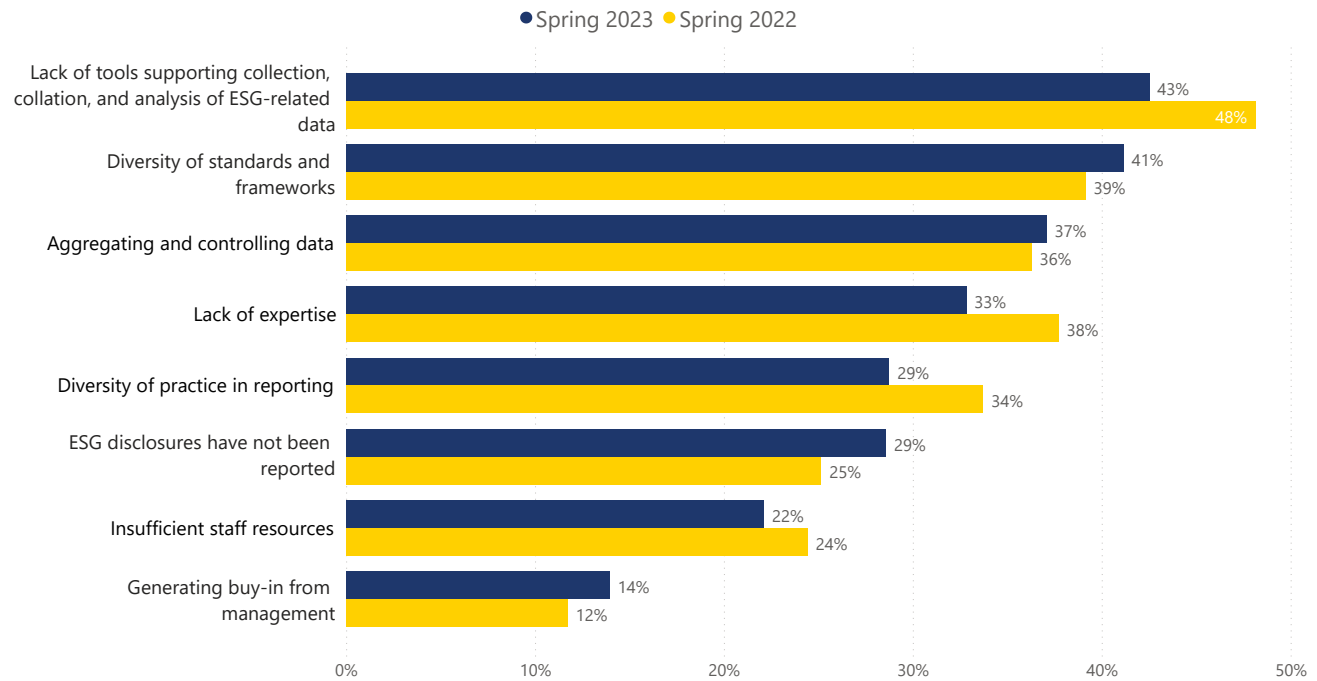


What actions are companies in your primary industry sector taking with respect to human capital? (Select up to three from the list below)



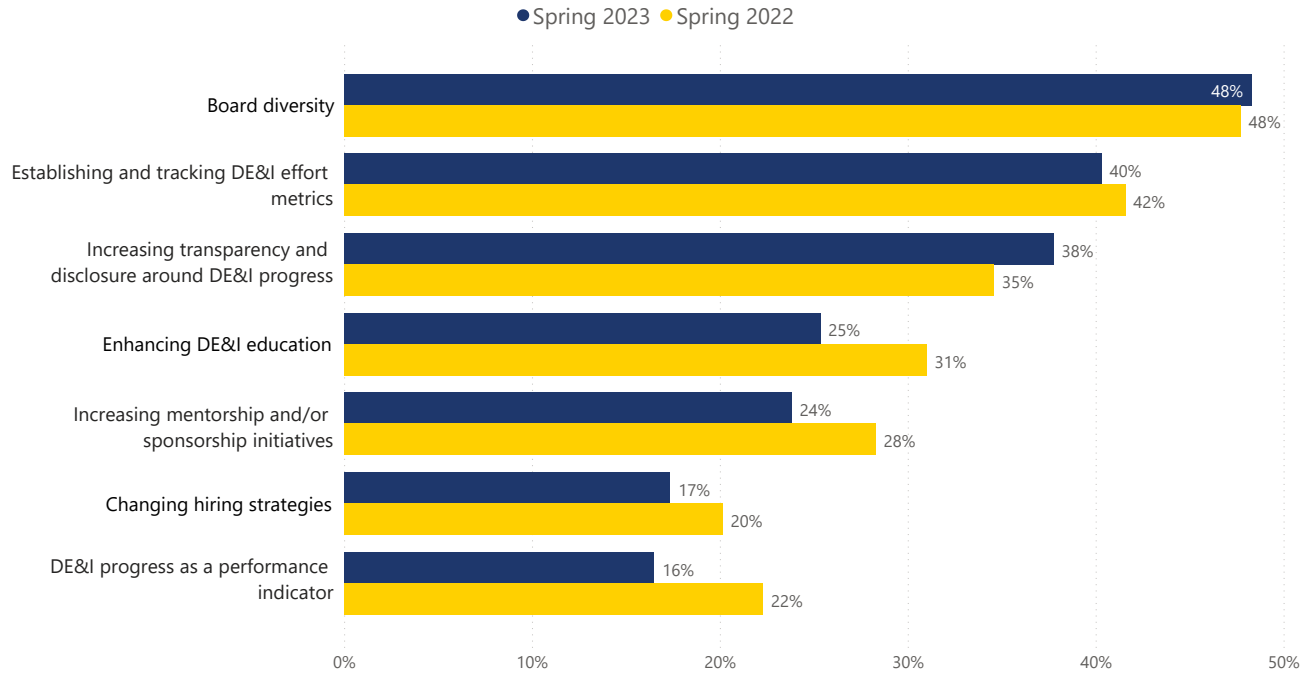
What are the top challenges that companies in your industry sector have faced in their ESG reporting process? (Select up to three from the list below)

ESG Reporting Challenges

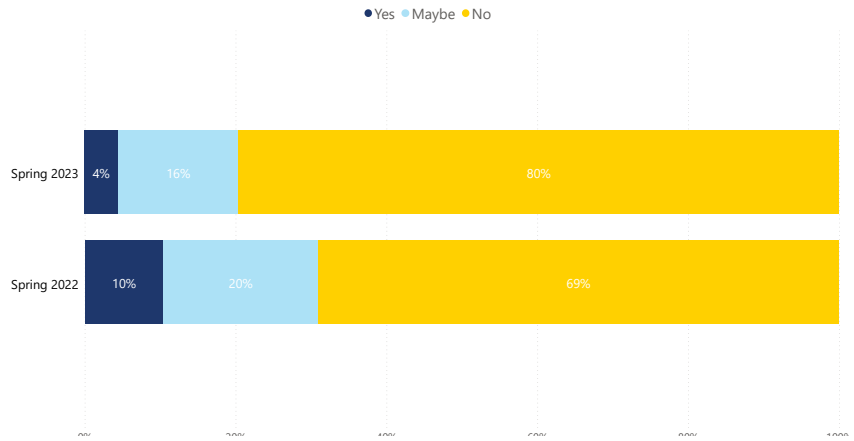


What are the top DE&I efforts that you are currently seeing among companies in your primary industry sector (Please select all that apply)?

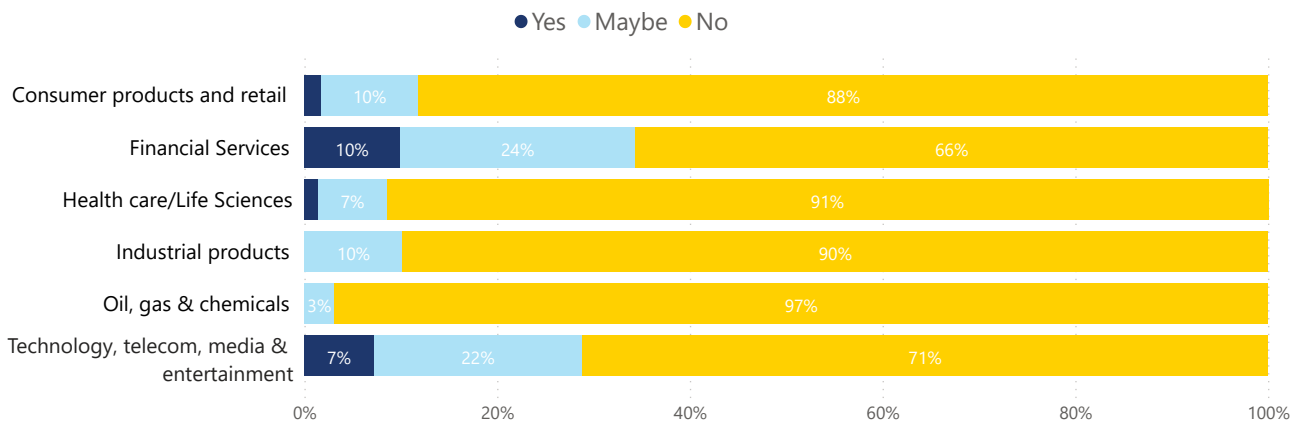
Top DE&I Efforts



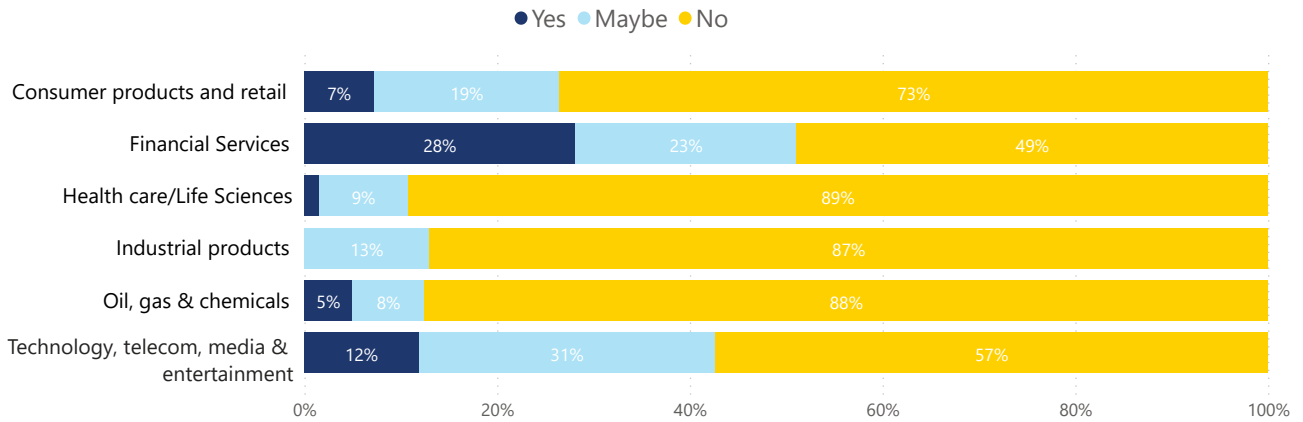
Are businesses in your primary industry sector investing in processes to accept cryptocurrency as a form of payment?



Cryptocurrency Payments - Spring 2023



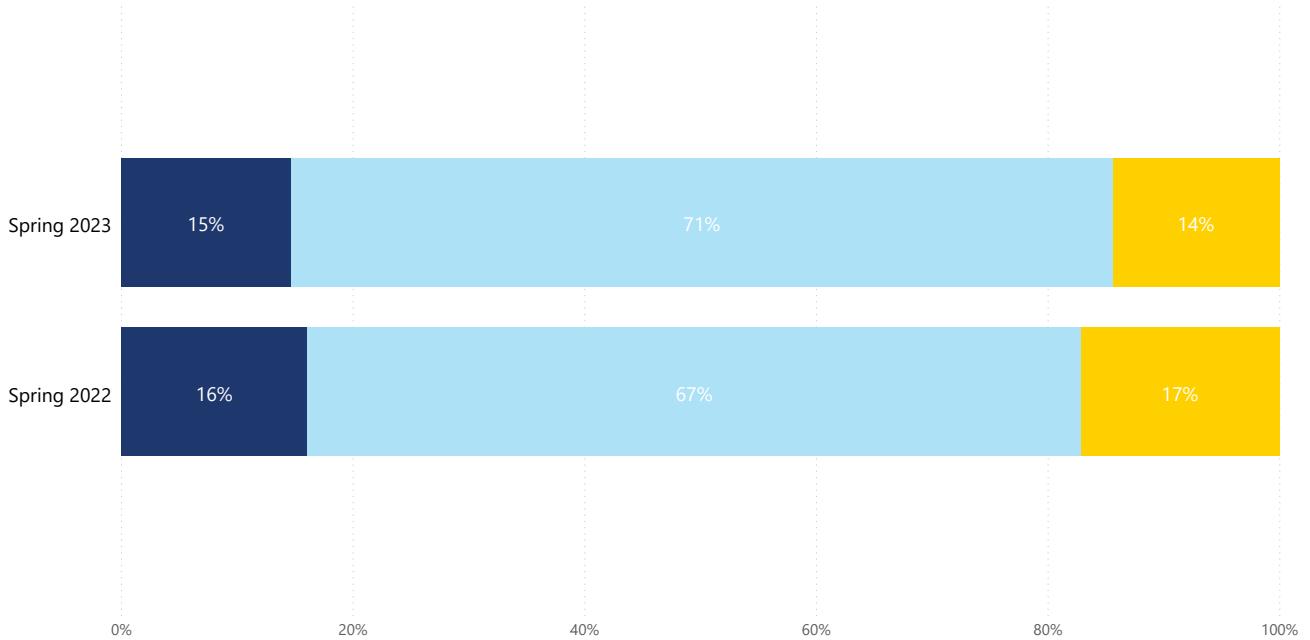
Cryptocurrency Payments - Spring 2022



How much progress are companies in your primary industry sector making in the following areas related to cybersecurity?

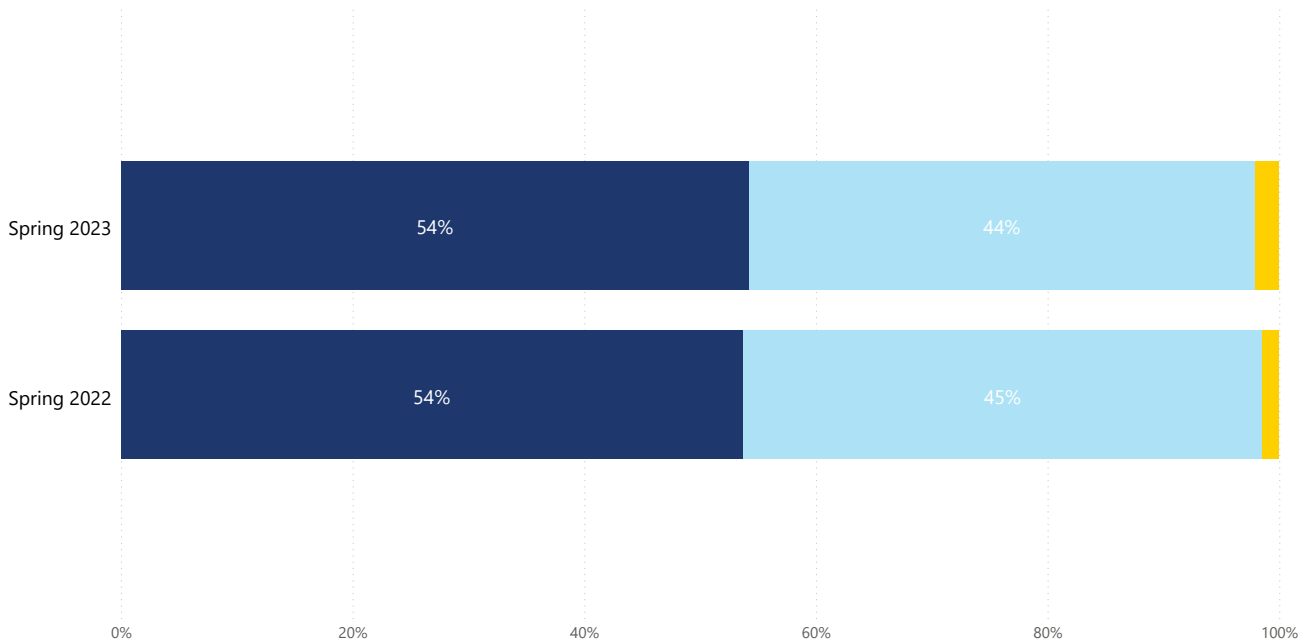
Cybersecurity Progress - Enhanced Disclosure

● Significant progress ● Some progress but more needs to be done ● No progress



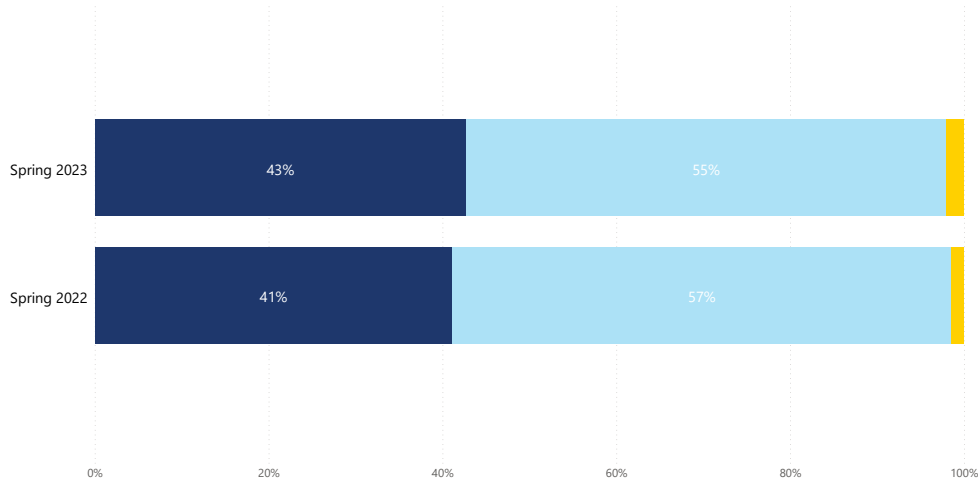
Cybersecurity Progress - Communications between Management and the Board

● Significant progress ● Some progress but more needs to be done ● No progress



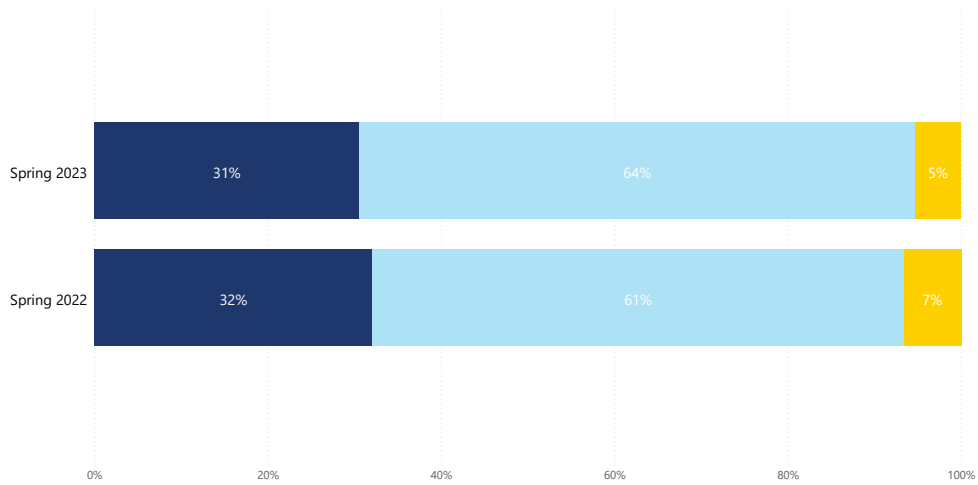
Cybersecurity Progress - Establishing a Culture of Cybersecurity

● Significant progress ● Some progress but more needs to be done ● No progress



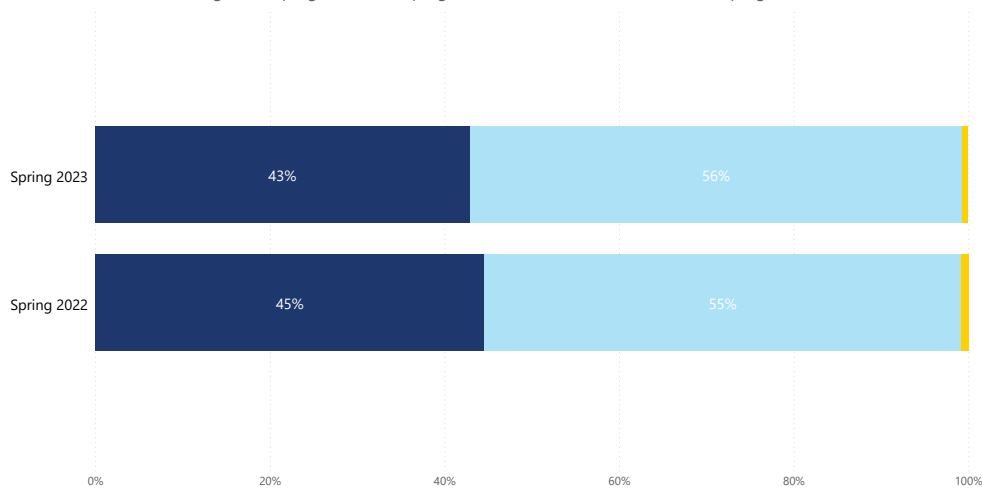
Cybersecurity Progress - Aligning Security with Overall Company Goals

● Significant progress ● Some progress but more needs to be done ● No progress



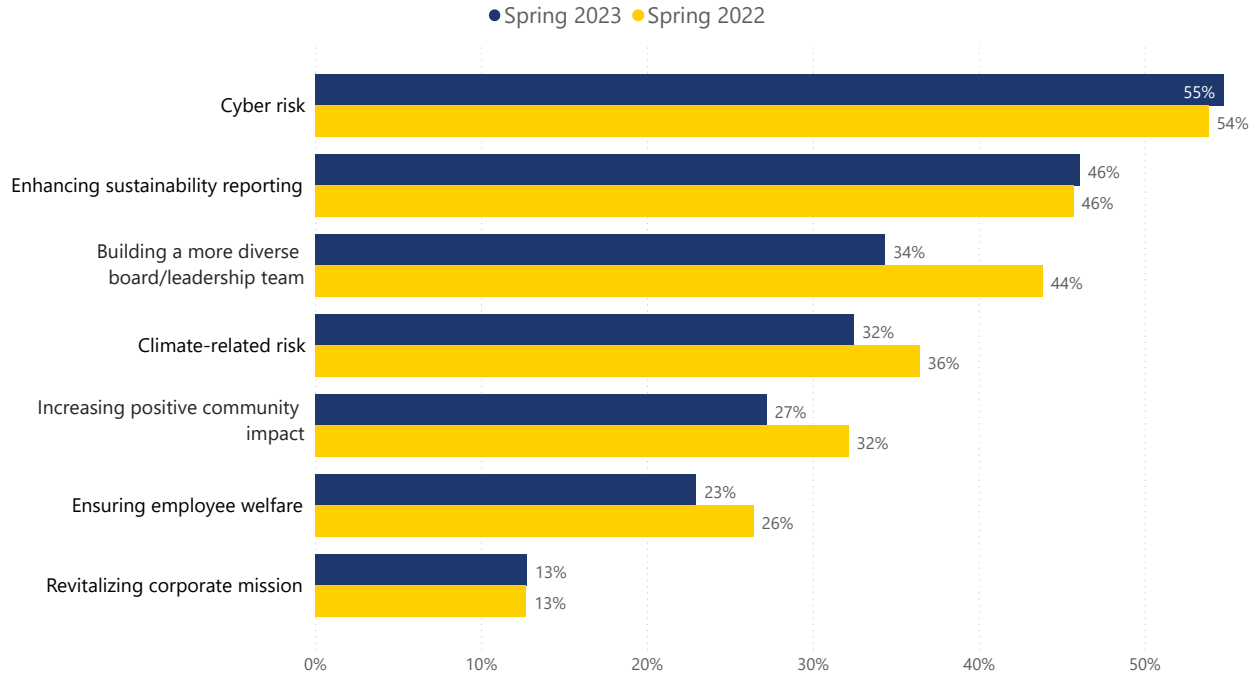
Cybersecurity Progress - Cyber Risk Management

● Significant progress ● Some progress but more needs to be done ● No progress



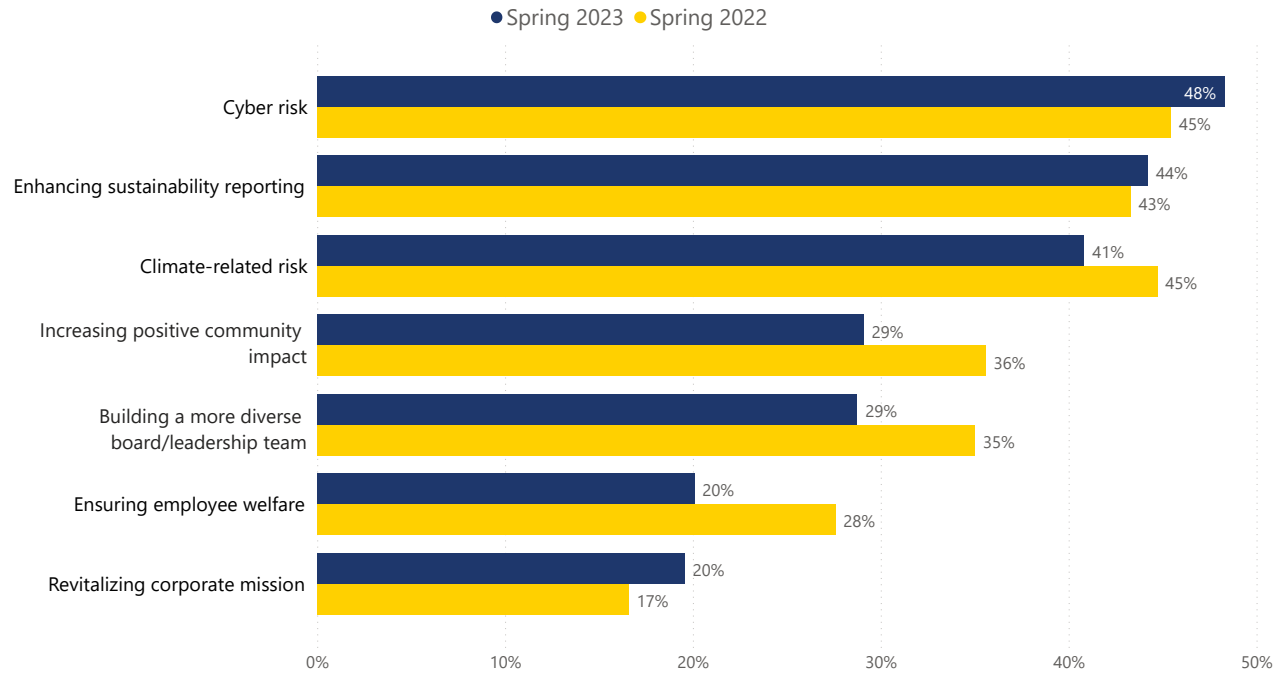
What are the top ESG priorities of most companies in your primary industry sector over the short-term (one-to-three years)?

Short-Term ESG Priorities



**What are the top ESG priorities of most companies in your primary industry sector over the long-term (Greater than three years)?
(Select up to three from the list below)**

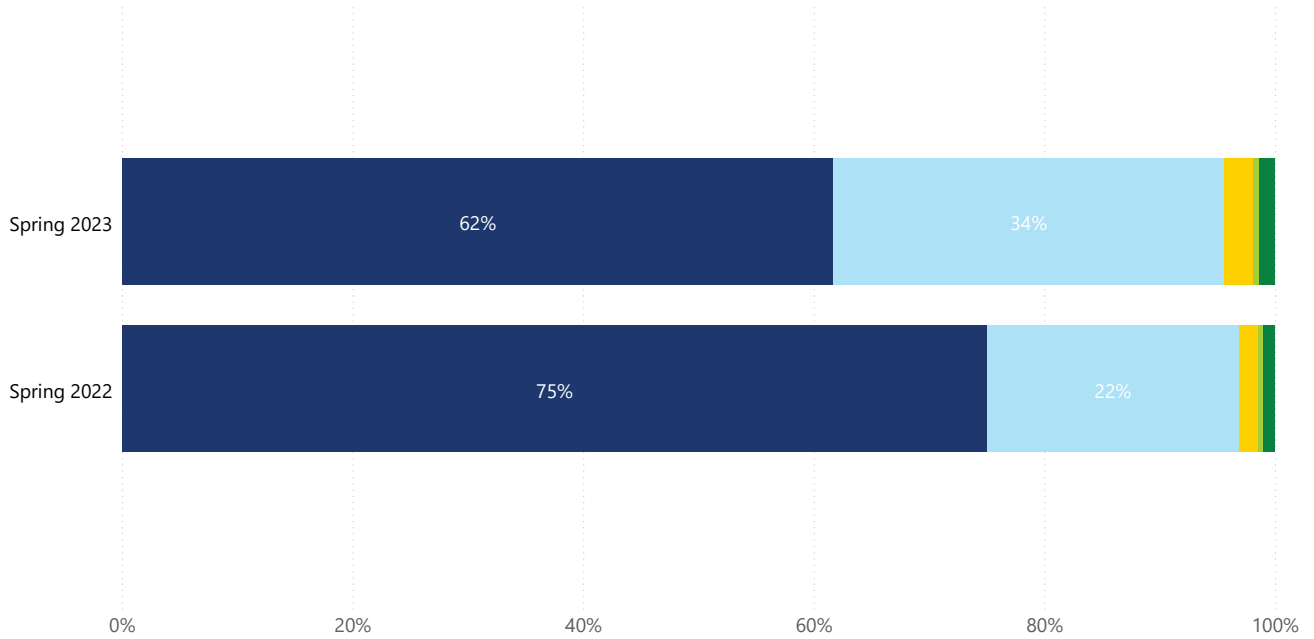
Long-Term ESG Priorities



How long, if at all, do you anticipate inflation to have an impact in your industry sector?

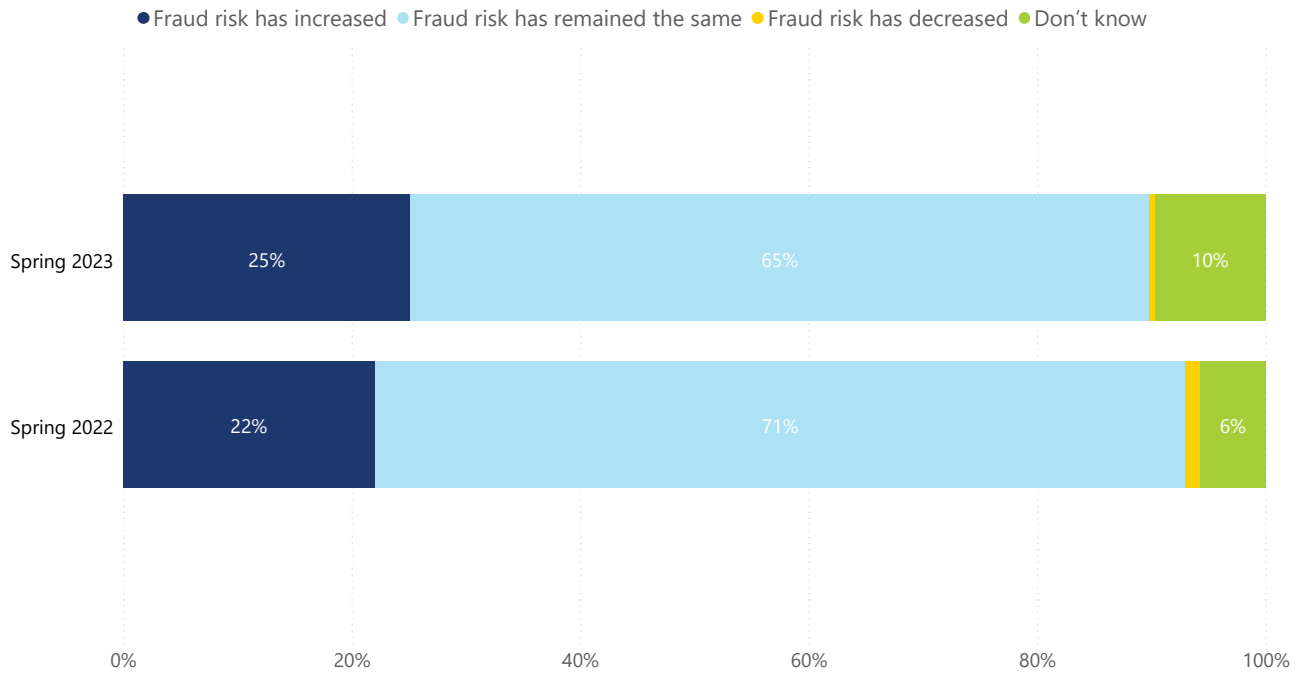
Inflation Cycle

● More than 12 months ● More than 6 but less than or equal to 12 months ● More than 3 but less than or equal to 6 months ● 0-3 months ● No impact



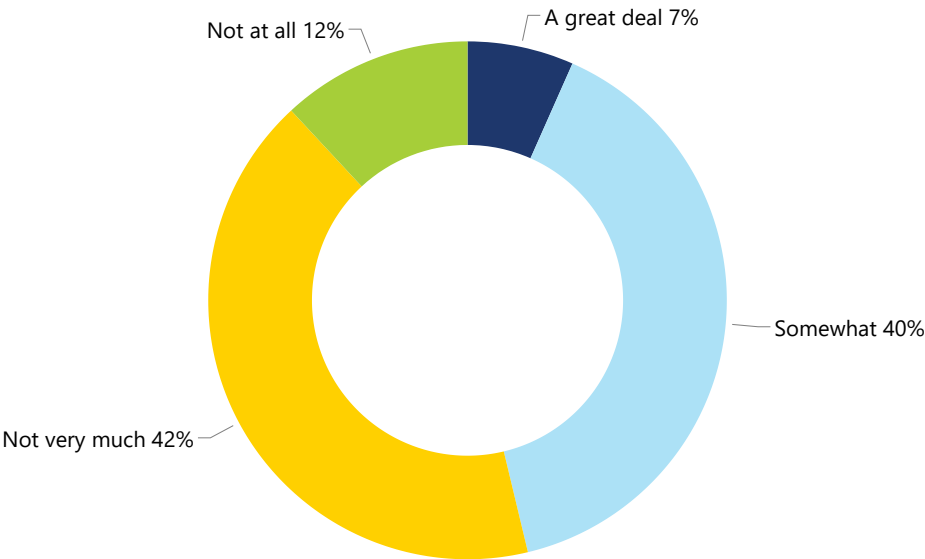
How have shifts to the business environment resulting from inflation and economic uncertainty generally impacted the fraud landscape of the companies in your primary industry sector?

Fraud Landscape

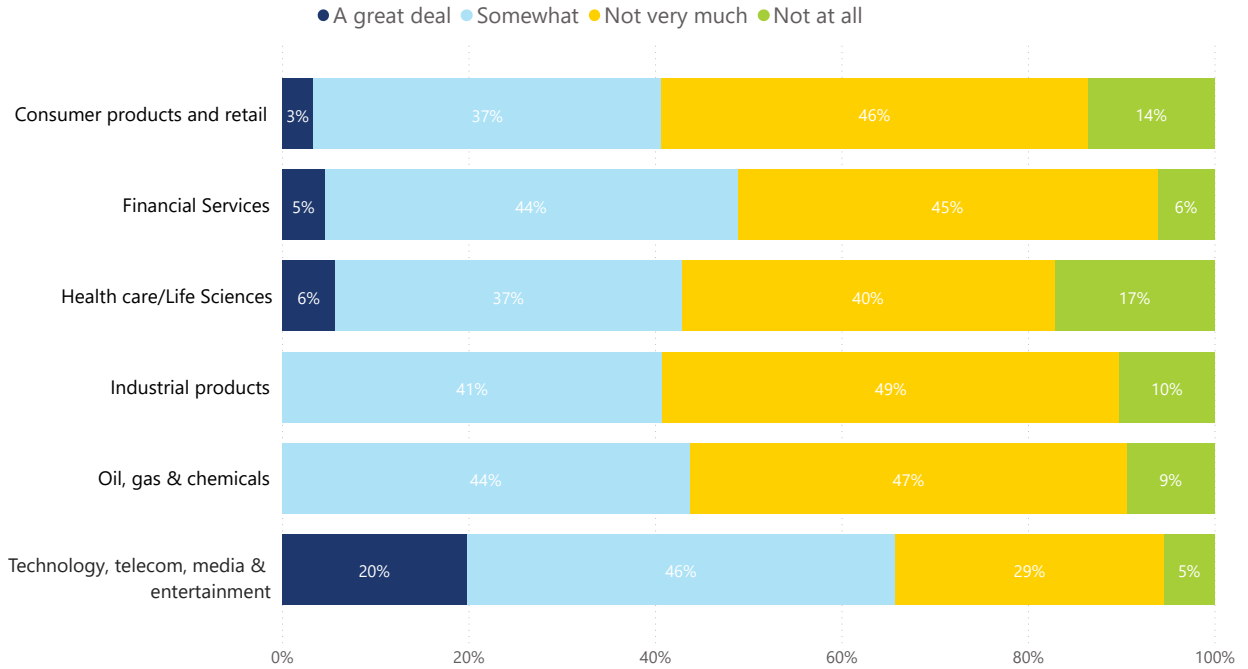


Some public companies are utilizing artificial intelligence (AI) technologies for business process automation, supply chain management, marketing, recruitment, etc. To what extent are companies in your primary industry investing in these or other AI technologies?

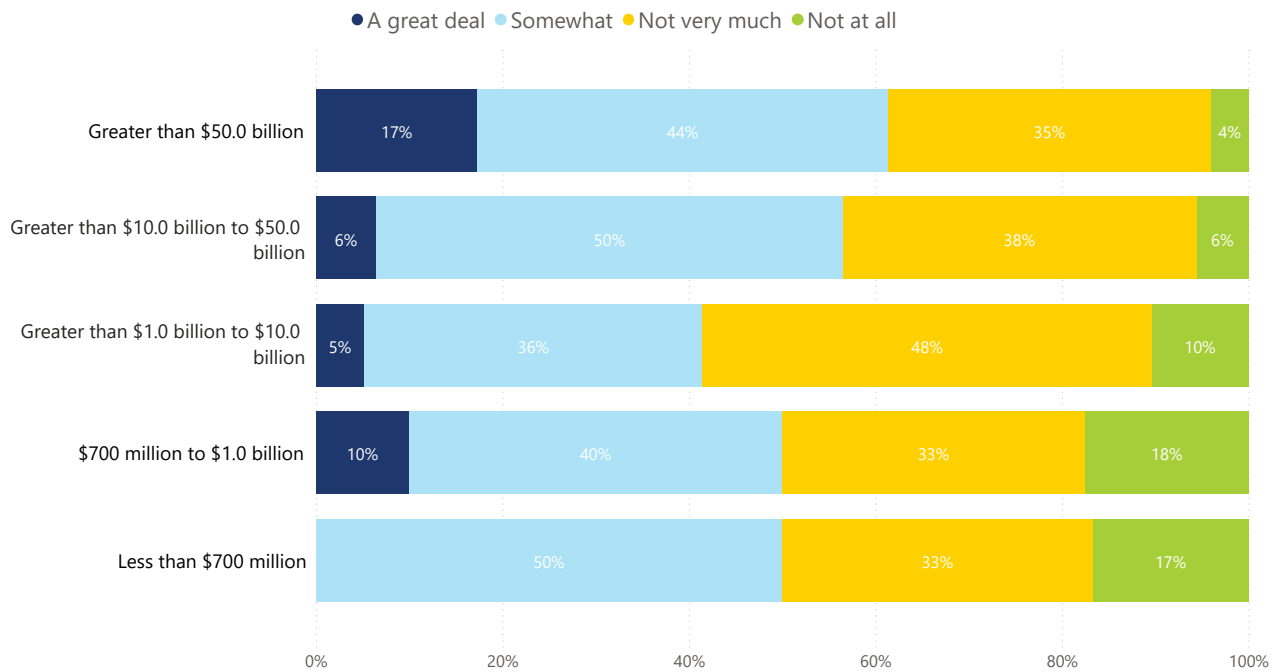
AI Technology Investments



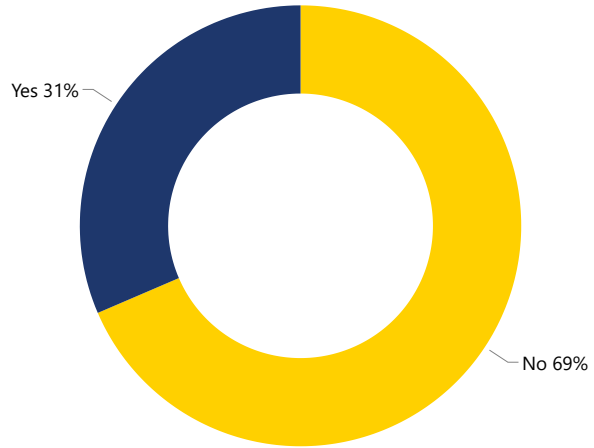
AI Technology Investments by Industry



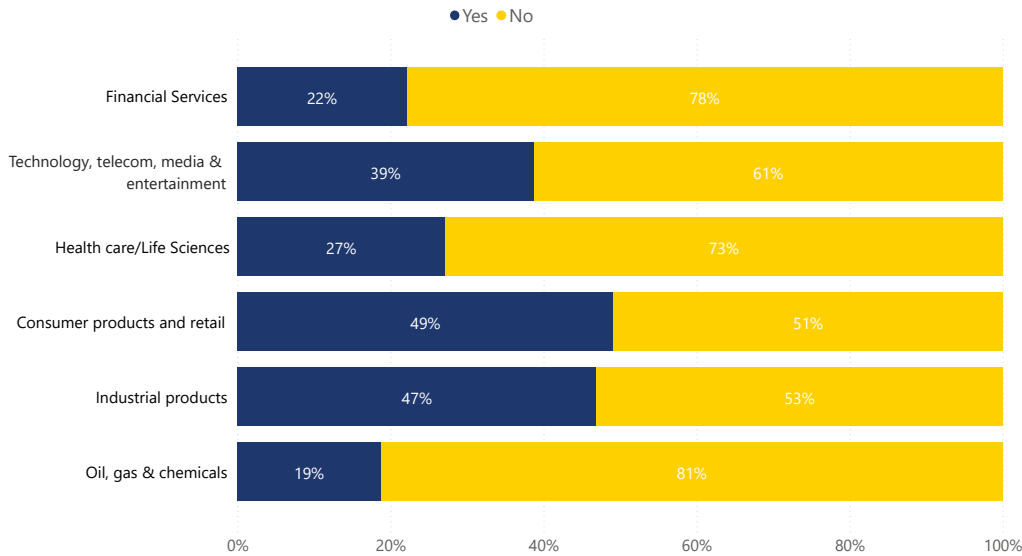
AI Technology Investments by Market Cap



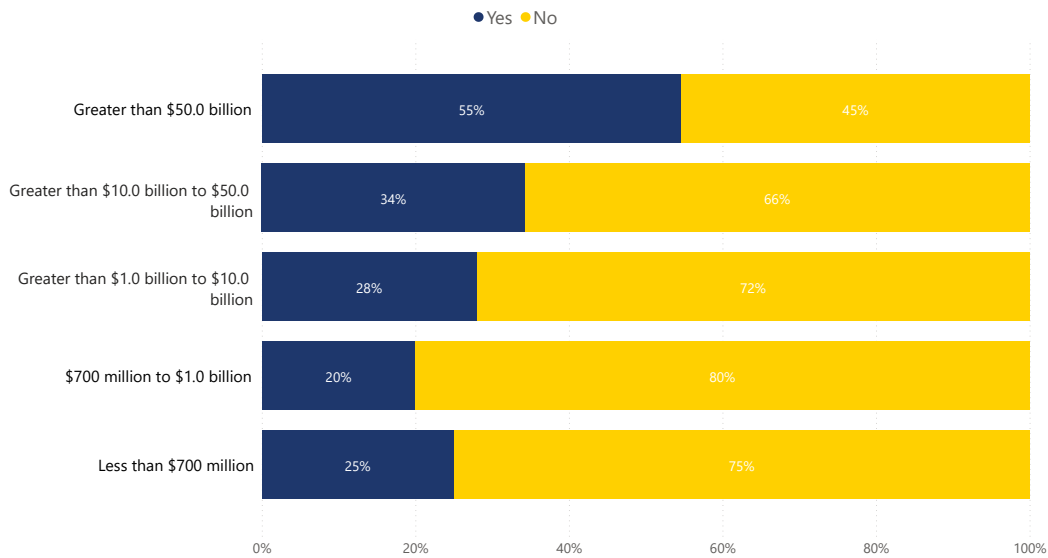
Do any companies in your primary industry have significant exposure to China?



Exposure to China by Industry

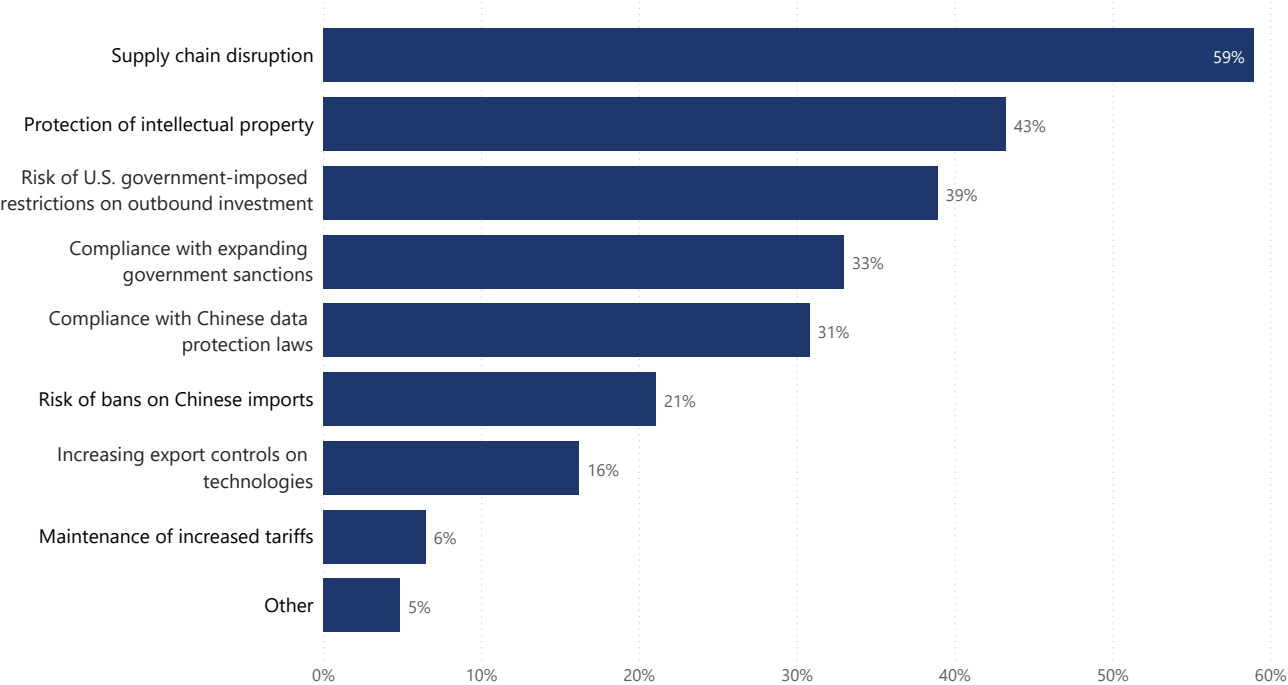


Exposure to China by Market Cap



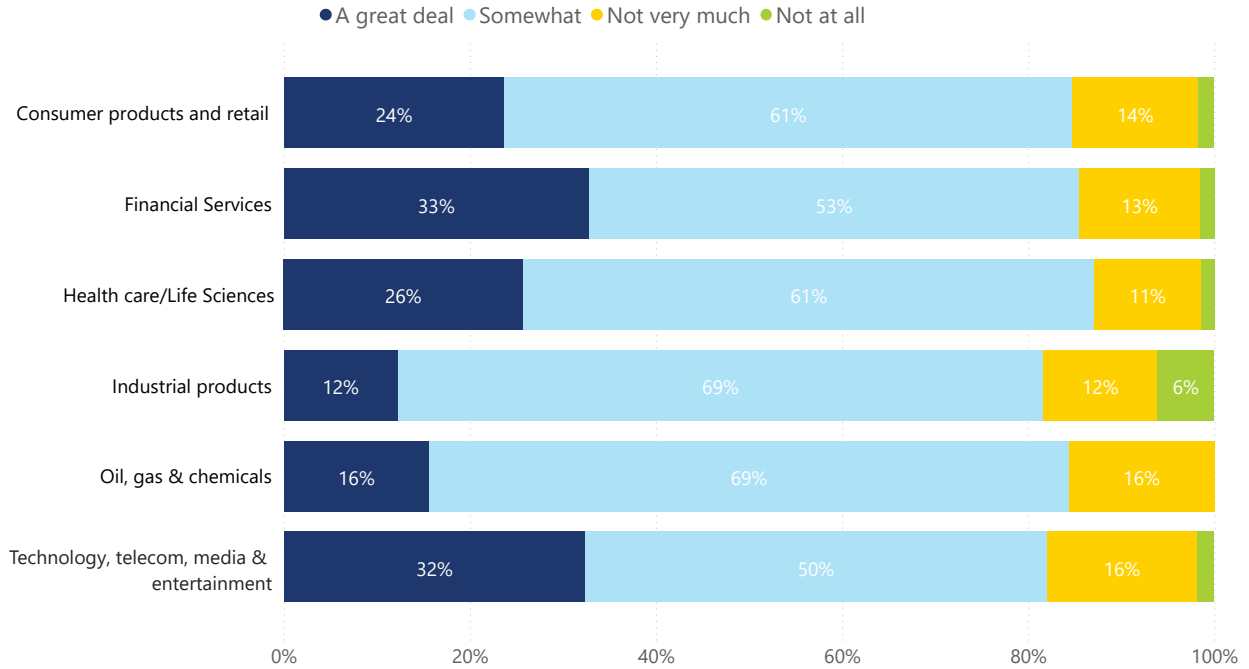
For companies in your primary industry with significant exposure to China, which of the following do you believe to be the greatest risk they will face over the next 12 months?

Risks Associated with Exposure to China

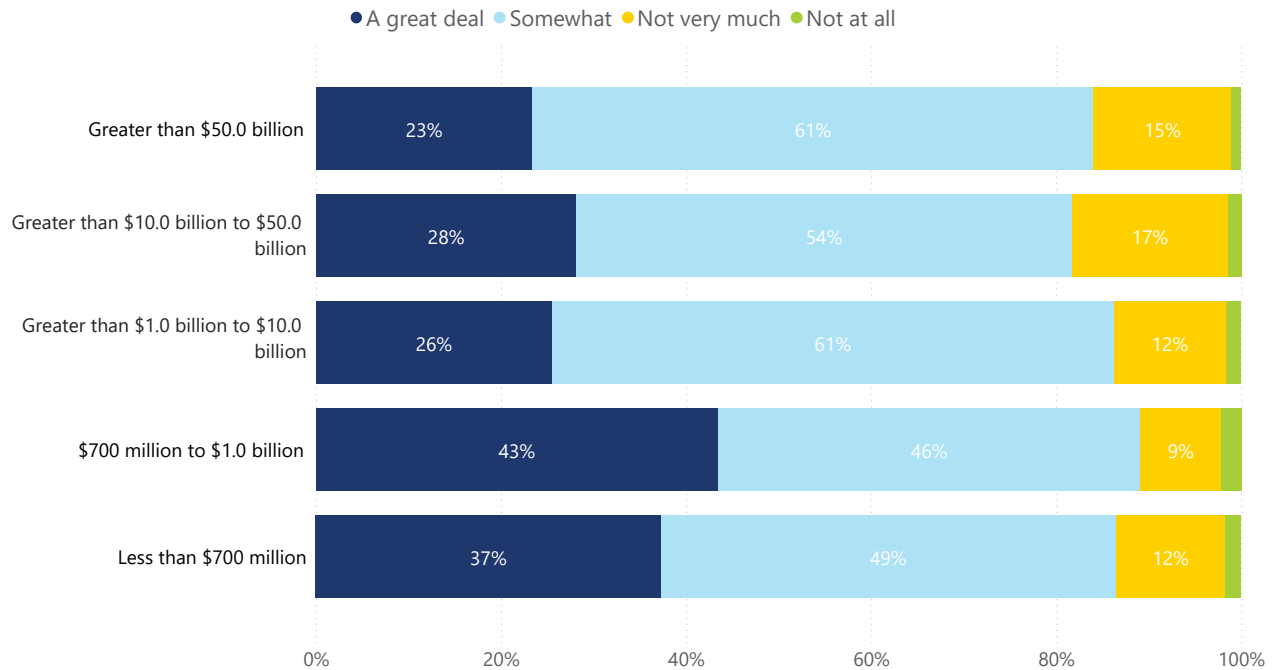


To what extent have companies in your primary industry sector been affected by the shortage of accountants in the labor market?

Accountant Shortage by Industry



Accountant Shortage by Market Cap



CAQ

www.thecaq.org

**We welcome
your feedback!**

Please send your comments or
questions to info@thecaq.org