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ACCOUNTING & AUDIT

Audit Partners Pessimistic on U.S. Economic Outlook

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Isaac M. O'Bannon • May. 22, 2023



Audit partners are pessimistic about the outlook for the U.S. economy as U.S. businesses continue to face inflation, cybersecurity risks, and increased regulation, according to the Center for Audit Quality (CAQ's), *Audit Partner Pulse Survey*, a biannual survey of US public company audit partners. The survey provides independent and objective perspectives on a range of topics, including the overall health of the economy and business transformation.

The survey found that organizations are prioritizing cost management and financial performance over other areas like talent and labor. “We have observed a very significant shift, especially with regards to talent and labor,” said Julie Bell Lindsay, Chief Executive Officer, CAQ. “While organizations were focused on attracting and retaining talent a year ago at the height of ‘The Great Resignation,’ reducing headcount is the top human capital action audit partners are observing within US businesses today.”

The nature of their work gives audit partners unique insights across a broad spectrum of industries and corporate trends. Below are key findings from their observations.

Audit partners’ outlook for the economy remains pessimistic

- Fewer than 1 in 5 audit partners are optimistic about the economy.
- Top audit partner concerns driving this pessimism include inflation (the top concern for the second year in a row), cybersecurity threats, and regulation (a 10-point increase since May 2022).

Attracting new talent no longer a focus

- Notably, concerns over labor shortages significantly decreased since May 2022 (falling by 18 percentage points).
- While top human capital actions observed by audit partners a year ago were increasing flexibility in the workplace and increasing compensation, these steeply declined as priority human capital actions by May 2023 (a drop in 34 and 38 points, respectively).
- Rather, U.S. businesses reported reducing headcount as the top human capital action taken in May 2023 (a 37-point increase since May 2022). Audit partners in the financial services and technology sectors most frequently observed this human capital action.
- Top priorities at U.S. organizations in May 2023 were cost management (61%) and financial performance (51%).

Emerging risks and technology shifts

- Cybersecurity remains a top risk at U.S. organizations according to 39% of audit partners surveyed. The partners observed that organizations remain only moderately prepared for a cyberattack, though 54% of partners did note that communication between boards and public company management on this topic is improving.
- Cybersecurity was also reported as a top ESG priority for U.S. businesses, with 55% of partners ranking it as the top short-term priority, and 48% of partners ranking it as the top long-term priority at organizations.
- Most US businesses are not exposed to risks associated with China, according to 69% of the audit partners surveyed. Of the partners who did report that organizations in their industry sector had exposure to China, top risks included supply chain disruption (59%), protection of intellectual property (43%) and risks from U.S.-government-imposed restrictions (39%).
- Audit partners observed that plans to adopt cryptocurrency as a form of payment fell by 10 points across industries since Spring 2022.
- A new survey question revealed that 47% of U.S. businesses are already using artificial intelligence (AI) to some extent. Key uses observed include process automation (63%), customer experience, service and support (44%) and predictive analysis (31%).

The accountant shortage

- Amid resignations and pipeline challenges, 89% of audit partners reported companies were greatly to somewhat concerned about the accountant shortage. Audit partners in financial services and technologies, as well as audit partners working with companies valued at less than \$1 billion, were more likely to report being affected than other audit partners working within different industries and larger organizations.

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