



## Challenges Facing the Audit Industry

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Accounting firms are adjusting their business strategies to tackle structural challenges created by **staff shortages**, which include **growth, profitability, fee pressure** and **regulation**. The steps being taken by firms across the industry vary and include recapitalizing their equity structure, expanding into new lines of business and embracing AI and technology. This report delves into how accounting clients are working with Convergence to support their efforts.

Convergence is a data and analytics firm that generates data-driven insights into how you can improve your top and bottom line and identify and manage risk. We do this through our data as a service model (DaaS) that combines subject matter experts, high-quality data and artificial intelligence to deliver you a rich set of data-driven choices and options to consider as you meet the challenges that lie ahead.

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### Managing Staff Shortages

**The Challenge** – The audit industry is struggling to attract and retain staff. Attracting staff is difficult as the supply of accounting students declines, and the retirement of audit partners is worsening the shortage and creating greater burdens on partner pension plans. The American Institute of Certified Public Accountants (AICPA) predicts that 75% of current public accountants and CPAs will retire in the next 15 years.

**The Impact on You** – Capacity challenges impact your ability to support existing clients and add new ones and your ability to meet current and new regulations. When asked about this, many of our accounting firm clients state, “we have to learn how to do more with fewer staff.” Partners have historically been the main revenue generators for their firms, so the decline in Partners cited by the AICPA over the next 15 years impacts growth.

**Convergence Solutions** – We help you “do more with less” in several ways:

- **Improve Efficiency** – means lowering the unit costs
- **Improve Fees** – means increasing client profitability
- **Grow Revenue** – means increasing cross-selling and adding new clients
- **Adding Capacity** – means reducing non-billable hours for relevant staff

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## Improving Client Management and Adding New Clients

**The Challenge** – Your existing clients need more attention from you, yet you are constrained by the staff challenges. How can you do more for your clients with your existing staff?

**The Impact on You** – Client satisfaction levels are directly tied to the quality of the work you do, your responsiveness to your clients' needs and the thought leadership you provide on industry issues.

**Convergence Solutions** - Our “Client Management Support Service” can i) lower your unit costs and increase gross margins, ii) increase client satisfaction, iii) reduce client attrition and iv) add new clients.

- **Lowers Unit Costs** – Our “Change Monitoring and Alerts Service” solution reduces the time spent by existing staff to identify relevant events taking place at their client and increases the number of relevant conversations with each client.
- **Increases Client Satisfaction** – We increase the number of proactive and relevant calls that your staff can make to clients to increase client satisfaction at a lower unit cost. We provide ongoing training and coaching to develop confidence and comfort to reach out to existing and new clients.
- **Reduces Client Losses** – Our “Clients at Risk Services” identify conditions in a client’s business that have led other RIAs to move existing and new business to competitors. We leverage proprietary predictive analytics and advanced data science to identify these clients and report them to you. Please go to <https://youtu.be/Z4VQkXTZBDA> to learn more about our Clients at Risk predictive analytics.
- **Adds New Clients** – Our “Sales Support Services” identify new business opportunities in the market that are best suited for your firm. We use proprietary data and technology to power competitive analysis, unearth new growth opportunities and identify potential strategic partners. Best suited means they meet your definition of what constitutes a great client, which could include growth, complexity and branding factors.

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## Improving Your Ability to Deal with Fee Pressures

**The Challenge** – Your clients expect flat-to-lower fees because they face the same pressures from their investors and the cost of their business is increasing in light of greater regulation and a more difficult investing environment. We often hear that assurance services have become somewhat “commoditized,” which diminishes your pricing power.

**The Impact on You** – If you are unable to increase fees to maintain service quality and meet your compliance obligations, then your margins will decline unless you can offset them with efficiency gains.

**Convergence Solutions** – Our “Client Operational Risk” insights strengthen your ability to negotiate fees using our risk-adjusted arguments. Our view is based on the proposition that when a client’s risk profile increases, the risk inherent in the service you provide increases. Our

risk insights can supplement your pre-audit planning work and give you the upper hand in discussing changes in the client's company before you begin your discussion.

- **Improve Negotiation Leverage** – Use Operational Risk Profiles, where we track, monitor and report 60+ operational risk factors in a RIA's business that can impact the cost of a fund or surprise custody audit. We provide absolute and relative risk analyses that you can use when performing your pre-audit planning activities, which can help justify fee increases.

**Increase Cross-Selling** – Because we track and report changes in your client's operational risk, changes often create opportunities for you to offer them services to manage the risk. Improving revenue per client and client profitability is another way to address constant fee pressure. Knowing the amount of additional work that your client can generate for you is another way to deal with the need for fee increases. These changes are also available in **Improving Client Management and Adding New Clients**.

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### **Improving the Efficiency and Effectiveness of Internal Compliance Work**

**The Challenge** – Audit firms continue to experience increased regulatory scrutiny from the PCAOB and SEC. In September 2023, the PCAOB proposed a new rule intended to deter auditor misconduct more effectively by fully using the enforcement authority granted by the Sarbanes-Oxley Act of 2002. The rule lowers the board's auditor contributory liability standard from "recklessness" to "negligence," which is in line with the SEC's liability standards.

The PCAOB is increasing the fines resulting from enforcement actions. Between 2022 and 2023, fines nearly doubled from \$11 million to \$20 million. In one case, a firm was fined \$3 million due to audit quality deficiencies in hundreds of SPAC audits, and the SEC imposed a \$10 million fine on top of the PCAOB's fines. The trend continues in 2024 with the PCAOB fining firms for failing to ensure that their personnel remained independent of audit clients.

**The Impact on You** – The risk and cost of failure to maintain independence and audit quality is higher than ever because 1) the amount of regulation is increasing, 2) regulatory tolerance for errors is declining and 3) your capacity to meet greater compliance burdens is strained by staff shortages and higher costs.

**Convergence Solutions** – Our "Independence Testing and Compliance Support Services" will i) lower your unit costs, ii) improve the quality of your current program and iii) reduce the risk of error. These services are designed to proactively search the market for entities that "touch you and your affiliates." We alert you to the entity's domiciliation and the business entities that it controls. Our "Compliance Support Services" point out errors in regulatory filings that you may rely on for internal compliance testing, particularly in the area of employee investments in non-diversified funds found in Form NCEN/NPORT.

- **Lowers Unit Costs** – Our solutions reduce the time spent by existing staff on independence testing.
- **Improves Quality of Your Current Program** – Our solutions bring greater independence to your existing process and provide data verification and validation processes at scale.

- **Reduces the Risk of Errors** – Our “Regulatory Filing Quality Service” identifies errors in 6 key regulatory filings that you may use to perform internal compliance activities and possibly to sell additional non-assurance services to your clients.
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## **Conclusion**

Accounting firms are dealing with the structural changes brought on by staff shortages, growth challenges, client demands and regulatory requirements. Many have taken on private equity investors who are helping them to reinvent and scale their businesses. For example, we have seen more than one Auditor firm begin offering services historically provided by Fund Administrators. Some are opting to go it alone and work with firms like Convergence to liberate more profit margins meticulously and thoughtfully from their traditional partnership models, which favored more expensive, decentralized control over basic business processes. We encourage you to explore the opportunities to work with Convergence.

To learn more about any of these solutions, please contact George Gainer at [ggainer@convergenceinc.com](mailto:ggainer@convergenceinc.com) or 856-287-1681 to learn more about how you can use our data and managed services to help you on your journey.