Tackling familiar and emerging challenges

2019 PCPS CPA Firm Top Issues Survey
The Private Companies Practice Section (PCPS) partners with CPA firms of all sizes nationwide and provides targeted and customizable practice management tools in the areas of strategic planning, business development, human resources, benchmarking, technical developments and succession planning.

This section is overseen by the PCPS Executive Committee, made up of CPA volunteer practitioners, which steers programs to help improve the quality of services and operating success of PCPS member firms.

PCPS is a voluntary add-on firm membership section of the AICPA. At only $35 per CPA annually (capped at $700), PCPS is a small investment to move your firm forward.

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At a time of tremendous change within and outside the profession, this year’s Private Companies Practice Section (PCPS) CPA Firm Top Issues Survey reveals that many significant challenges for practitioners in 2019 are familiar ones. At the same time, however, the results underscore how important it is for firms to remain aware of emerging developments that could have an impact on their practices, especially those related to technology and cyberthreats.

To reflect the perspectives and experiences of different size firms, the survey, conducted every two years, reports results based on the number of professionals in a practice. Separate findings are given for solo owners and for firms with 2 to 5, 6 to 10, 11 to 20 and 21 or more professionals. Participants are asked to identify not only the top issues they face but also those they expect will have an impact on their practices over the next five years.
This year’s survey results reveal surprising uniformity across firm sizes.

• One issue that has not been prominent on the top issues lists in recent surveys — managing privacy and security risks — made the top five for all firms. The focus on privacy and security may reflect CPAs’ increased awareness of the frequency of cyberattacks, ransomware demands and data breaches, including those targeting the accounting profession directly.

• Seasonality/workload compression is in the top five for every segment, which is not surprising due to the first filing season dealing with the Tax Cuts and Jobs Act of 2017 (TCJA) having just finished.

This commentary reviews the results and offers insights on key takeaways and offers solutions for CPAs to tackle their own top issues.

A note on comparisons to previous surveys

This year’s survey included a record 1,203 respondents. Respondents were asked to rank the impact of a host of issues on a scale of one to five, with one being minimal and five being extreme. The results are based on a weighted average of the number of respondents.

Putting the survey to work

The survey offers valuable insights into the state of firms today and going forward that can be used:

• In-firm strategic planning
• By firms seeking insights into challenges they may face as they grow
• For the AICPA and its PCPS team in creating new tools and resources for practitioners to use to address their most pressing concerns
Top concerns of sole practitioners

1. Keeping up with changes and complexity of tax laws
2. Managing privacy/security risks
3. Keeping up with changes in technology and managing associated costs
4. Technical training of owners/partners and staff
5. Seasonality/workload compression

The top five list for sole practitioners is all about delivering quality service. Tax law complexity and modifications have been chief concerns for sole practitioners in virtually every survey in recent years. It’s no surprise, then, that this issue would head the list once again in a year when CPAs were implementing TCJA. As in many recent years, workload compression, a related concern, was once again top of mind. Another challenge related to quality service — technical training of firm members — jumped into the top five this year, underscoring concerns about maintaining technical excellence in the midst of frequent revisions to tax laws and regulations but also changes in accounting standards like revenue recognition and leases.

A significant change this year was the presence of a new concern for sole practitioners (and all other firms): Managing privacy and security risks. These CPAs also worried about keeping up with and paying for rapid changes in technology.

Some of the concerns that just missed the top five might underscore why these issues are so important for sole practitioners, including:

- Client perception of value and willingness to pay for additional work (e.g., additional procedures related to new standards/regulations)
- Meeting clients’ expectations and need for real-time information.
- Fee pressure/pricing of services.

These CPAs clearly seem to be concerned about clients’ reaction to ever more complicated — and costly — services and about their firms’ ability to meet their needs.
Top concerns of firms with 2 to 5 professionals

1. Finding qualified staff
2. Keeping up with changes and complexity of tax laws
3. Managing privacy/security risks
4. Seasonality/workload compression
5. Developing and executing a succession plan

As has been the case the last several surveys, staffing was a significant concern in 2019 for all firms with two or more professionals. Finding staff was the top issue for this segment, and although retaining staff slipped off their top five list this year, it did appear in their top 10, indicating that it remains on their minds.

This segment was one of only two that included developing and executing a succession plan on their list. It may be that this important consideration didn’t make the list for other firm sizes because other issues took priority for those practitioners this year.

The choices in this group’s top-10 issues showed that they, like sole practitioners, worried about keeping up with technology and its costs and maintaining technical training. Other challenges for them included leveraging technology to enhance client service — possibly in response to seasonality pressures — and keeping up with and implementing new accounting and attest standards.
The top five issues were identical (except for some ranking differences) for this segment and for firms with two to five professionals, demonstrating that smaller firms continue to focus on concerns that are central to their livelihood: staffing, complexity and workload compression. The fact that retaining staff and work/life balance just missed this group’s top five list underscored the importance of staffing. As was the case with all other firm sizes, privacy and security has soared into a prominent place on their radar screen. Keeping up with technology changes and costs was also on their top-10 list.

In addition to being among the few that cited succession planning as a top five issue, these firms were also interested in developing an entrepreneurial spirit among staff to enhance their client- and industry-specific knowledge indicating a desire to plan for the future and nurture a strong staff that can maintain the firm’s success.

Top concerns of firms with 6 to 10 professionals

1. Finding qualified staff
2. Keeping up with changes and complexity of tax laws
3. Seasonality/workload compression
4. Managing privacy/security risks
5. Developing and executing a succession plan
Top concerns of firms with 11 to 20 professionals

1. Finding qualified staff
2. Keeping up with changes and complexity of tax laws
3. Seasonality/workload compression
4. Retaining qualified staff
5. Managing privacy/security risks

These firms’ top five choices were largely about staffing. Several of the issues that came in just below this group’s top five list also related to people:

- Effective utilization and management of staff
- Managing work/life balance initiatives.
- Lack of staff interest in being on partner track

Not only are they trying to attract and keep the best people, they are also wrestling with making the best use of them and addressing their work/life balance. And while succession planning did not make their top-10 issues, their focus on having a strong leadership bench shows that they are concerned about the future of their firms. They also may be worried about keeping up with market expectations and pressures, citing client perception of value and willingness to pay for additional work as one of their top-10 concerns.
Top concerns of firms with 21+ professionals

1. Finding qualified staff
2. Retaining qualified staff
3. Managing work/life balance initiatives
4. Owner/partner accountability and unity
5. (tie): Seasonality/workload compression and Managing privacy/security risks

With the exception of managing privacy and security risks, which tied for No. 5, every item on this list relates to people. These CPAs’ focus on concerns about attracting and keeping staff, having unified leadership, and creating a culture that supports work/life integration all underscore the importance of maintaining top talent. One of their top-10 issues, effective utilization and management of staff, is another indication of the emphasis on people.

Dipping down further into the issues that came in just below their top five, it’s clear that these firms are also dealing with shifting client needs and expectations and seeking the best ways to address them:

- Fee pressures/pricing
- Modifying the firm’s business model to maintain relevancy into the future
- Leveraging technology to enhance client service
What’s next? Looking ahead for CPA firms

The survey asked respondents to identify how much they expect certain issues to affect the way their practices operate over the next five years. As the chart below shows, for sole practitioners, change was the headline, relating directly to three of their four top choices (and arguably to rising competition, as well). All other practice sizes expect staffing to remain their biggest challenge, although they also cited changes in client expectations, regulations and technology as future issues. Among firms with 11 or more professionals, M&A activity across the profession was also expected to have an impact.
## 2019 PCPS CPA Firm Top Issues — Impact over the next five years

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Survey takeaways

**Firms continue to worry about getting and keeping great people.**

Staffing is a major issue for firms of almost every size. In addition to leading the list for most firm sizes in 2019, retention and recruitment were also chosen by all firm sizes with two or more professionals as the issue most likely to affect their practice in the next five years.

As you brainstorm ways to find and keep good people, consider the impact that your client selection policies may have on staffing. Making the work less stressful and the firm more efficient are important factors in being a great place to work. With that in mind, consider evaluating your clients every year and ranking them as A, B, C or D clients. Focus your time on A and B clients, seeking ways to enhance and expand your service to them. With B and C clients, identify why they got these rankings and find ways to improve your relationships. Finally, decide whether another practice might be a better fit for your D clients. You may find that by focusing on your A and B clients through deeper conversations you’ll identify additional opportunities to serve this group, generating a lot more revenue than you’ll lose by letting go of D clients. Since your staff may have frequent contacts with clients, remember to include them (including administrative staff) in this evaluation to gain their perspective. The overall result may be a more productive firm and more engaged staff.
Complexity and workload compression continue to be challenging.

The 2019 busy season was a tough one for many CPAs dealing with a sweeping and complicated piece of tax legislation. PCPS has gathered some ideas for taking the stress out of future tax seasons include removing clients who aren’t a good fit for the firm through insights from PCPS Networking Groups and the PCPS Executive Committee. Their solutions include:

• Set up automatic extensions for certain clients, especially those whose documentation tends to arrive late.
• Enforce deadlines for client data. Get extensions or take other measures for those who run late.
• Set a “busy season premium.” Charge more for work done at peak times.
• Augment your staff with:
  – Interns
  – Seasonal help
  – Remote employees
  – Onshoring (creating/using a skilled talent pool in a lower cost area)
• Use automation tools to capture and input data.

Cyber risks are top of mind.

The results clearly indicate growing awareness of cybersecurity concerns and the fact that CPA firms of any size can be a target. Best practices include:

• Be proactive. Don’t wait to respond to an attack. Assume your firm is at risk, then identify and address the possible sources and impact of a data breach, equipment failure, denial of service or other cyber event. Strategize now on the best ways to prevent and manage potential threats.

• Take an organization-wide approach. Draft comprehensive cybersecurity policies and train your people on how to follow them and why they are important.

• Focus on cyber resilience: Be ready to maintain operations as well as possible despite an adverse cyber event.
Don’t put succession planning on the back burner.

Only firms with two to five and six to 10 professionals chose succession as a top issue, but it should be on every firm’s agenda. Beyond nuts-and-bolts concerns about partner buyouts, it’s also about having the leadership and capacity to ensure a successful future, or about being prepared for a successful transition in a merger or acquisition down the road. Strategic succession planning can also address one top issue for firms with 21 or more professionals: owner/partner accountability and unity. Initial steps for any firm include:

• Determine what you want the future of your practice to look like. Is your best choice to sell, buy, grow or stay the same with new leadership?

• Identify and train potential future leaders. Offer emerging leaders the chance to take on greater responsibilities.

• If you’re leaning toward an M&A solution, will your firm be attractive to buyers? What can you do now and in the future to enhance the firm’s value in their eyes?
Business is strong, but CPAs are bracing for change.

In the second half of their top-10 lists, some firm segments worried about keeping up with client expectations or perceptions of value, or about delivering timely information. Most were concerned about competition over the next five years. However, bringing in or keeping new clients were not on any segment’s top-10 list. Relationships with clients appear to be solid for now, and CPAs are focused on keeping them that way.

As the home for firms at the AICPA, the Private Companies Practice Section (PCPS) supports CPA firms in the everyday intricacies of running a practice, providing PCPS member-exclusive resources to help tackle common challenges. With its spectrum of practice management resources, PCPS can help you and others in your firm address changing trends in the profession, plan for the future and move your firm forward.

Find out more at aicpa.org/PCPS/topissues.