SEIAG June 29, 2023 Meeting Breakout Discussions

Ranking of Importance of Emerging Issues by SEIAG Members

SEIAG Member Rankings of Selected Emerging Issues.
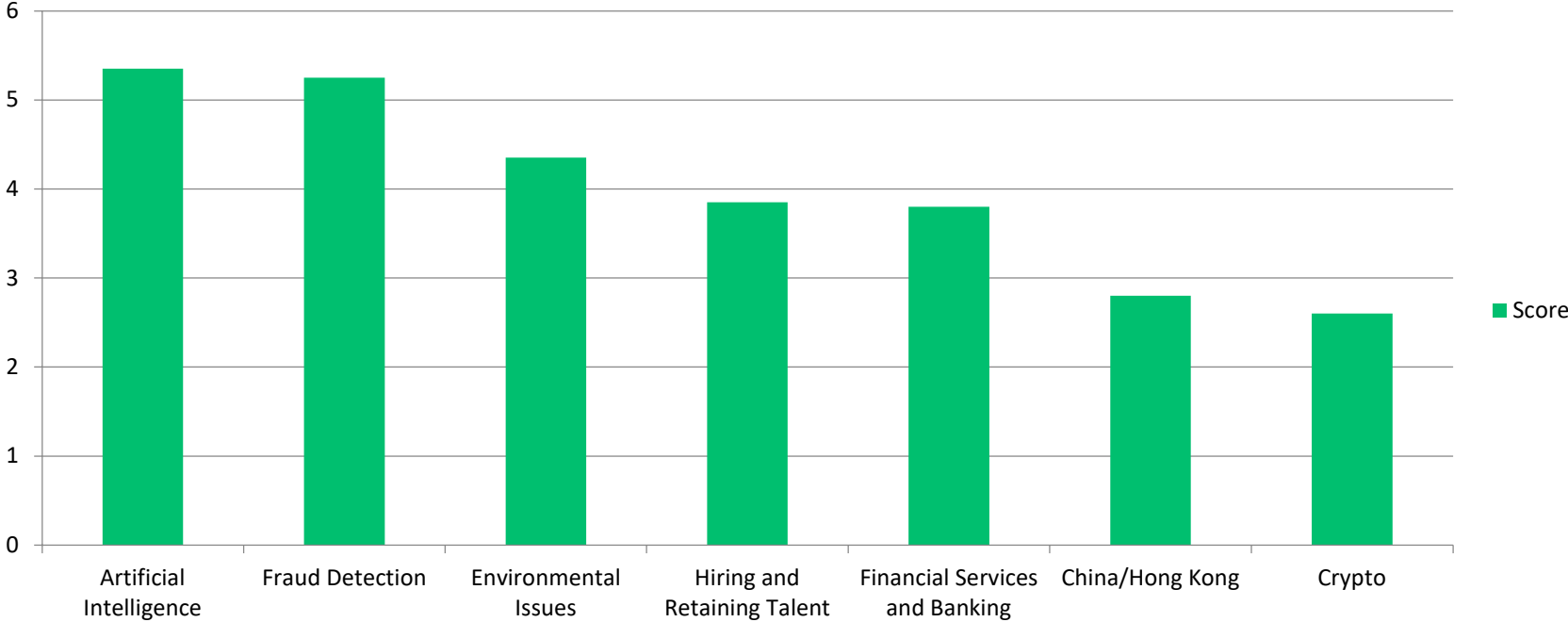
Breakout Session 1: The Talent Drain

Preeti Choudhary

SEIAG Breakout Session 1

The Problem

- Over 300,000 U.S. accountants and auditors have <u>left their jobs</u> in the past couple of years, a 17% decline in industry employment, according to the Bureau of Labor Statistics.

- The exodus is expected to worsen as baby boomers leave the workforce, with 75% of CPAs retiring or close to retiring in the next 15 years, according to the <u>AICPA.</u>

- Accounting programs across the country are also experiencing significant decline in students:
  - The number of U.S. students who completed a bachelor's degree in accounting declined nearly 9% to about 52,500 in 2020, down from almost 57,500 in 2012, according to the AICPA
  - Over the last 10 years, California's colleges and universities have experienced a 30-50 percent decline in the number of students majoring in accounting

Potential reasons

1) **Stagnant starting salaries -** Data show that median starting salaries for accounting jobs have gone up by 14% from 2010 to 2021, while median starting salaries for data science jumped by 30% and tech by 40% over the same period, according to Burning Glass Institute

2) **Onerous requirements** – 150 credit hours is 30 more than other degrees. The cost of tuition and time is high for 10 extra classes. Then there is the additional effort and time of taking the CPA exam too!

3) **Lack of diversity**

4) **Work/job appeal is lacking**

5) **Outdated business model**

Potential Earnings

Starting salaries for accountants haven't kept pace with those for other popular professions.

Starting annual salary, by year

■ Data Science   ■ Tech   ■ Accounting
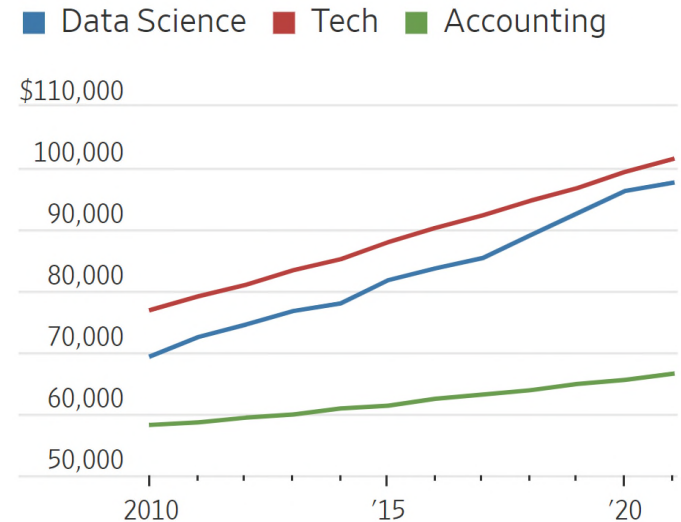
Source: Burning Glass Institute analysis of data from Lightcast and Glassdoor

Breakout Session 2: The Role of Accounting and Auditing in Environmental Issues

Jim Hunt

SEIAG Breakout Session 2

Environment Related Risks

1. Separating the disparate pieces of the ESG moniker

2. Audit Considerations
   - environment and climate matters as a risk factor currently
   - existing audit standards which may be considered applicable

3. Environmental discussion and disclosures ultimately required
   - financial statement footnotes
   - proxy
   - separate document

4. The Role of the PCAOB - investor protection, improved audit quality
   - standard setting, inspection, enforcement
   - implementation guidance
   - attestation standard on environmental limited assurance – voluntary

5. Timing dependencies
   - other regulatory considerations

Breakout Session 3: Auditor, Preparer, and Investor Perspectives on the Role of Artificial Intelligence in Auditing and Financial Reporting

David Fabricant, Brian Croteau and Dane Mott

SEIAG Breakout Session 3

Generative AI – Preparers Need to Prepare (David)

- GenAI will be a game changer for preparers, like the mass adoption of Excel spreadsheets

- The application and deployment of GenAI will substantially transform nearly every traditional accounting role

- Preparers will be challenged with ensuring an ICFR compliant implementation, developing continuous monitoring procedures and will need to upskill their talent

- Auditors will need to adapt their audit plan/procedures and consider expanding the use of specialists

Artificial Intelligence – Opportunities and risks to reliable financial reporting, audits and auditors (Brian C.)

- Preparers are exploring use cases to record transactions, prepare financial reports, and generate accounting memos and documentation among others

- New and emerging risks will require development and advancement of Internal Control over Financial Reporting (ICFR) and Disclosure Controls and Procedures (DC&P)

  - Governance over AI, accuracy, explainability, data bias, and version control are just some of the areas that will require attention by both management and auditors

- Upskilling of people, development of policies, advancement of methodology and tools is underway and will result in sizeable investments

- Initial use cases show the power and potential as well better understanding of the challenges and risks

An investor's view on AI's disruption potential (Dane)

- **First, do no harm:** Just as we need to be careful with the adoption of driverless autonomous vehicles, the adoption of AI to any part of the financial reporting, auditing, or investment process must first focus on safe adoption. Don't be in a rush to get rid of steering wheels, because we need people in the driver's seat.

- **Laymen will find it more difficult to navigate and differentiate between fact and fiction.** If you look at AI output in areas where you have expertise, you will often see compelling (*but highly inaccurate*) output.

- **AI's first role is as a semi-competent assistant:** AI is good at quickly summarizing information. Some of what it generates is signal and some is noise. AI can quickly bring information to decision makers for their consideration which has the potential to improve productivity, but it also takes time to sort out its many mistakes.
    - Hypothetical queries perhaps possible in the near future:
        - Review recent 10Ks, 10Qs, and 8Ks; summarize the company's key risks; and propose a list of questions about those risks to consider asking the CEO and CFO in an upcoming meeting.
        - Review all of the CAMs and company risks disclosed by all companies with SEC filings in industry X. Based on that review, what CAMs might the auditor have neglected to identify at company Y?

- **It might not take long for AI to surpass auditors in fraud discovery.** Today, external auditors identify only 4% of frauds[1]. I could foresee AI-assisted stakeholders identifying more than 4% of frauds in the near future. Whistleblowers will likely remain the dominant revealer of fraud for the foreseeable future (42%).

- **AI arms race:** If investors' proprietary AI evolves to become better at identifying frauds than auditors and their tech, then this dynamic could be a material risk to the credibility of the audit profession.

- **AI can analyze financial outputs, but it cannot analyze the minds of management.** Management judgement is perhaps the biggest source of fraud risk. A lot of audit risk is generated before the journal entry is made.

[1] Association of Certified Fraud Examiners, "Occupation Fraud 2022: A Report of the Nations" https://legacy.acfe.com/report-to-the-nations/2022/