



The background of the slide features a dark, semi-transparent overlay on a photograph of a desk. On the desk, there is a calculator with a grid of numbers, a pair of glasses, and a pen. The overall aesthetic is professional and business-oriented.

The Highlight Reel

Top Risks Facing Accounting Firms Today

Presented by: Kelly Geary, Esq., CIPP/US
Natalia Greene, Esq., CFE

AGENDA



Introductions



Regulatory Environment



Private Equity & Accounting Firms



Talent Crisis



Cyber & Privacy Related Risks

Introductions



Kelly Geary is a Managing Principal with EPIC Insurance Brokers and Consultants based in the New York City area. She serves as the National Practice Leader for Professional, Executive & Cyber Solutions team within the Insurance Capital Solutions division. Kelly also serves as the Divisional Leader for Lemme, a Division of EPIC.

Kelly has spent approximately 30 years in the insurance industry. She is licensed to practice law in the State of New York and is certified by the International Association of Privacy Professionals as a U.S. Information Privacy Professional (CIPP/US). Kelly is also a certified Cyber Claims Professional (CCP) and Advance Claims Professional (ACP)

Kelly Geary, Esq., CIPP US

Natalia Greene is a Senior Vice President with Lemme, a Division of EPIC Insurance Brokers and Consultants, based in the Los Angeles area. She currently serves as the Claims Advocacy and Risk Management professional for the Lemme Division.

Prior to joining the Lemme Division in July 2022, Natalia was an insurance defense and litigation partner at a California-based law firm for over 20 years, focusing on accountants' liability cases. In addition to being licensed to practice law in California, Natalia holds a Certified Fraud Examiner (CFE) credential from the Association of Certified Fraud Examiners.



Natalia Greene, Esq., CFE

Regulatory Environment

IRS Dirty Dozen: CPA Risks

2023

- Employee Retention Credit disallowance letters and audits
 - Withdrawal process
 - Amended tax returns
- Syndicated conservation easements

2024

- 2023 focus continues
- May 8, 2024 – “IRS statement on proposed regs that address foreign trust information reporting” – working group assembled to evaluate its penalty process related to Forms 3520 and 3520-A



PCAOB Enforcement

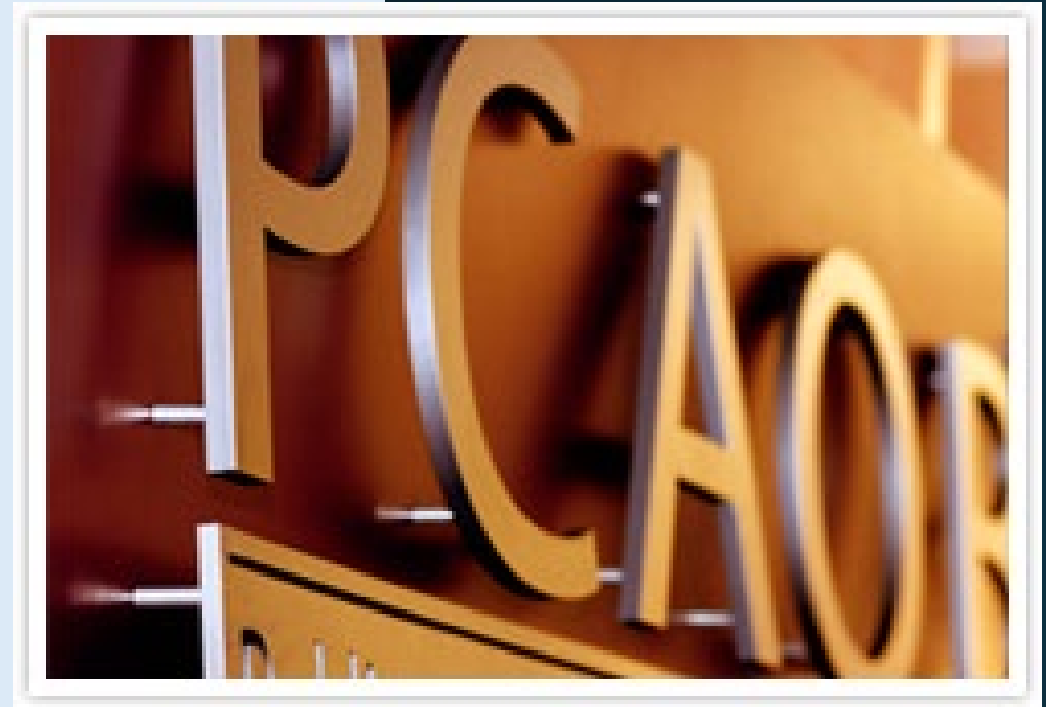
2023

- 2023 Enforcement Orders (Effective Date)
- 50/50 International v. Domestic
- Domestic (U.S.) – 23 Orders
 - 21 Settled Disciplinary Orders
 - 2 Adjudicated Disciplinary Orders
 - Areas of Focus
 - \$3 million penalty

2024 (as of June 3, 2024)

- 2024 Enforcement Orders (Effective Date)
- 40/60 International v. Domestic
- Domestic (U.S.) – 18 Orders
 - 18 Settled Disciplinary Orders
 - Areas of Focus
 - \$2 million penalty

Lessons and Risk Mitigation



Private Equity & Accounting Industry

Capital Infusion Needed to:

- Fund long-term **growth** plans
- Invest in **technological** innovation
- Offer **expanded services** to a broader client base
- **Talent retention**
- Buyout **retirement** obligations to former partners



PE Structure and Related Risks

Splitting accounting firm into separate entities

- Audit firms cannot be majority owned by non-CPAs

Private equity transaction structure due diligence

- Limitations on attest services for current and future portfolio companies

Regulatory oversight – auditor independence requirements

- “Accounting firm” includes “the organization’s departments, divisions, parents, subsidiaries and associated entities, including those outside of the United States” and the organization’s pension, retirement, investment, or similar plans
- “Associated Entity” focuses on what a reasonable investor would believe the entity has a financial interest in the accounting firm or influence over the accounting firm

Divestitures

- Actions to be considered
 - Independence in appearance – No co- or joint- advertising and branding, including naming and logos
 - Separate corporate governance and financial structures and revenue and profit sharing

Talent Crisis

Talent Shortage

- The Accounting Profession is experiencing a **talent shortage** in the US.
- There is a **steady decrease** in new students majoring in accounting, firms are facing a significant **talent shortage** and struggling to **retain talent**.
 - In 2022, there were 1.6 million Accountants/Auditors in the profession.
 - Of the 1.6 million, 300,000 left the profession and only 47,000 entered it.

Key Reasons for the Shortage

Voluntary Resignations: Fallout from the Great Resignation

Licensure Requirements: High credit hours + 40-60% pass rate for each section of the exam: significant deterrent to enter the profession

Retirement of Baby Boomers: AICPA estimates that about 75% of CPAs would have reached retirement eligibility by 2020

Brand Problem: Lack of interest among young people due to misconceptions about the profession

Addressing the Crisis



Rebranding: Need to create new narratives and embrace social media used by the younger generations to promote a new image



Widen Recruitment Search: look to data analytics, AI and Cybersecurity; offshore affiliates' talent recruitment efforts; PE talent



Proactively address **work/life balance** issues



Focus on **talent development** and **retention**

Cyber & Privacy Risk

Top Cyber & Privacy Risks Today



PRIVACY REGULATION,
ENFORCEMENT AND LITIGATION



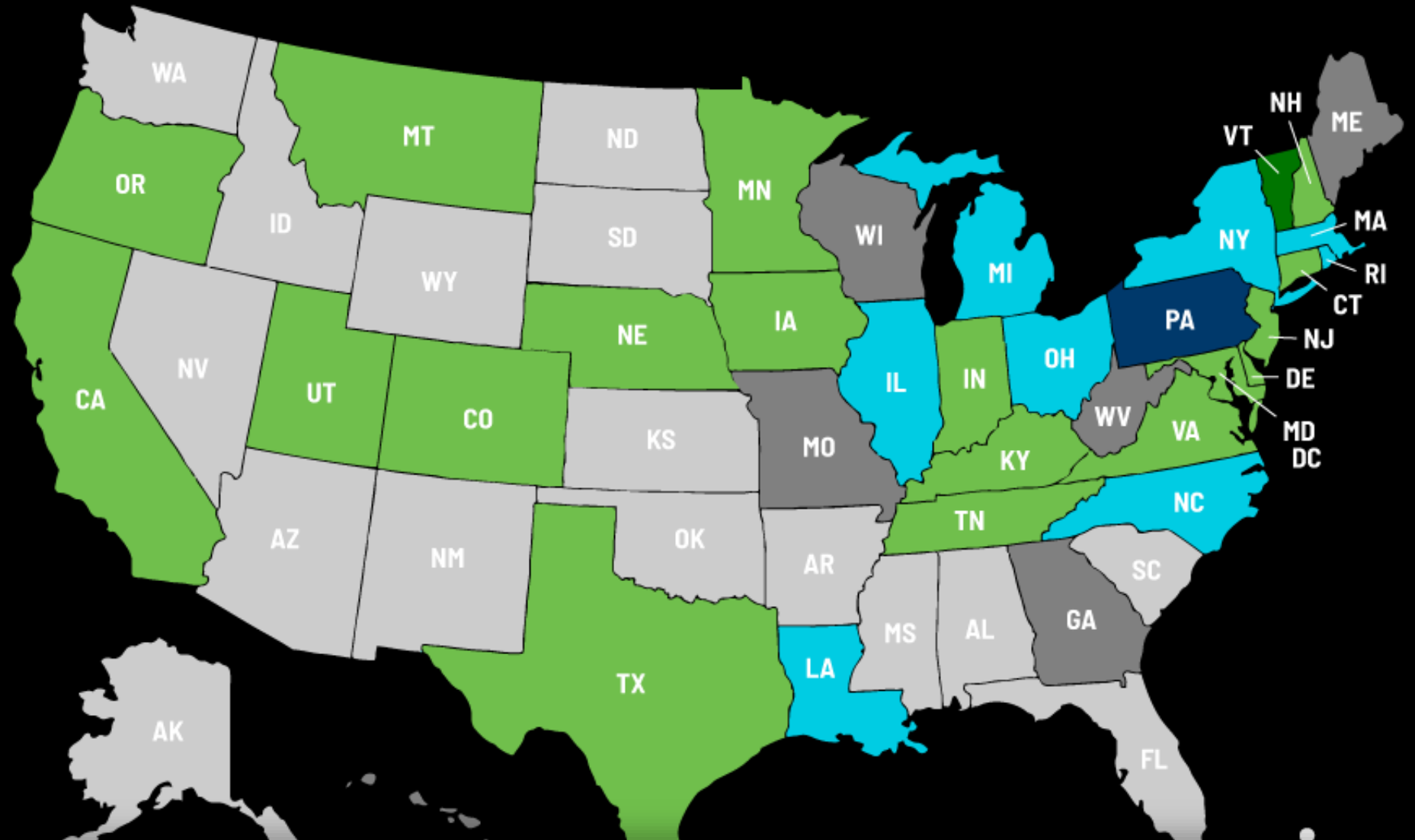
IMPACT OF GENERATIVE AI ON RISK

Privacy Regulation, Enforcement & Litigation



Statute/bill in legislative process

- Introduced
- In committee
- In cross chamber
- In cross committee
- Passed
- Signed
- Inactive bills
- No comprehensive bills introduced



State Privacy Laws

There are **18 Comprehensive State Privacy Laws** ready for enforcement (or close)

American Privacy Rights Act of 2024

- Establish national consumer data privacy rights
- Govern **Artificial Intelligence** and automated decision-making,
- Impose additional obligations on high-impact social media companies and large data holders,
- Supersede State Privacy Laws, and
- Allow **private right of action**
- No official date set for voting or approving the bill into law.



Impact of Generative AI on Risk



Generative AI: Key Areas of Concern



ACCURACY/HALLUCINATIONS



BIAS



DATA
PRIVACY/CONFIDENTIALITY



NETWORK SECURITY



INTELLECTUAL PROPERTY

Impact of Generative AI on Cyber Crime



AI Powered Deep Fake Audio/Video – Increasing efficiency and profitability of Social Engineering & Invoice Manipulation Fraud



Use of Generative AI in Ransomware Attacks – Improve frequency, severity and return on investment for cyber criminals

AI Washing

In March 2024, the SEC settled charges against two investment advisers for making **false and misleading statements about their purported use of AI in their investment process**, that included \$400,000 in civil penalties

Important that when you are working with issuer clients that you consider the **SEC's focus on AI issues** that could impact the public and investors



AI Powered Transcription Tools



Impact on Liability: Discoverability of the transcribed recordings and risk of inaccuracies



Network Security/Privacy: Consider international and domestic privacy laws and contractual obligations.



Consent: Clients, Vendors, Business Partners, Employees.



HR Related Issues: Peer Pressure etc.

AI Regulation



State/Federal AI Regulation

- In current legislative session, **40 U.S. States plus Puerto Rico and DC**, have introduced AI Bills and **6 U.S. States** have enacted or adopted regulations and/or resolutions around governing AI.
- Focus on “**foundational**” moves around AI, establishing **frameworks** for managing AI:
 - Creating AI Standards of Use
 - Creating AI Oversight Agencies, Governing Bodies, Committees, Task Forces
- Key themes in U.S. State Laws: Prevention of **Bias and Disinformation** in AI
 - **CO – Discrimination**: First of its kind law targeted **discrimination** by “high-risk” AI systems; similar to EU AI Act (would be effective in 2026).
 - **NH – Disinformation/Media**: Targets and defines “**synthetic media**” as any form of media partially or completely created or modified by an AI algorithm.

EU AI Act

- On March 13, 2024, the **European Parliament** adopted the **Artificial Intelligence Act**.
- The **world's first comprehensive horizontal legal framework for AI**. It provides for EU-wide rules on data quality, transparency, human oversight and accountability.
- The Act will have **extraterritorial effect**, and **fin**es of up to 35 million euros or 7% of global annual revenue (whichever is higher).
- The Act will enter into force sometime in **June 2024**.
- Most of its provisions will **become applicable** sometime in **2026**.

QUESTIONS