

Practicing in an APS with PE: CPA experiences



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What's changed since restructuring as an APS?

PE investment benefits in attest firm / nonattest services entity

Audit quality

Perception of PE in accounting profession

Insulating the attest firm and enhancing public protection

Q&A

Overview

Changes since PE investment

- Structured as an alternative practice structure
- Minimal impact on day-to-day responsibilities and client service
- Administrative Services Agreement did not result in significant operational changes
- Significant influence vs. control
- Budgetary and compensation



Attest firm benefits

- Heightened awareness of independence and other ethics requirements in the attest firm, nonattest entity, governing body of nonattest entity, and investor
- Increased resources for compliance with regulations and standards
- Resources for improved professional services, such as leased staff with subject matter expertise
- Access to improved technology
- Talent acquisition
- Growth and entrance into new markets
- Centralization of operational functions (via the Administrative Services Agreement)

Nonattest entity (network firm) benefits

- Allows for expansion of nonattest services
- Capital provides for:
 - innovation
 - technology
 - resources for improved professional services, such as leased staff with subject matter expertise
 - talent acquisition and retention by making it broader and more incentivizing
 - Growth through roll-ups
 - succession planning
- Staff through partner may have stake in firm's growth now

Audit quality

- Access to talent from M&A activities has enabled us to improve audit quality by adding SMEs in specialized areas
- Quality group increases (including subject matter experts)
- Implement new tools such as conflict checking tool to streamline processes and reduce risk (or enhance existing tools)
- Dynamic Audit Solution implementation

Perception of private equity in the accounting profession

Perception is that PE will negatively impact audit quality and prioritize profits over public interest; this is a misconception:

- PE firms recognize that the success of their investment is closely tied to their investee's ability to maintain its reputation, integrity, and independence
- PE investors do not have the expertise nor desire to manage the nonattest entity's operations
- Pressure on the attest practice is not a novel issue and is not necessarily increased in an APS with PE
- PE firms are responsive to requests regarding compliance
- ASA is a safeguard to ensure attest firm gets what they need

Insulating the attest firm to enhance public protection

Attest partners remain responsible for the entire attest function Responsibility for professional liability insurance Independence education for members and PE investor Formulation and operation of robust Administrative Services Agreement Establishment of an independence framework and monitoring procedures Separation of decision-making authority, including compensation determination Clear disclosures regarding firm licensure, etc

Examples of practices firms have in place

Updated policies, procedures and guidance reflecting the APS transaction with the PE investor

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Sharing of relevant information between the attest firm and PE investor to monitor independence

Periodic confirmations of compliance with applicable independence requirements by the PE investor and individuals associated with the investor

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Monitoring applicable entities within the PE structure in the *firm's* database and inclusion of such entities in conflict checks for prospective client engagements

Monitoring and performing conflict checks on new nonattest entity lenders



Robust administrative services agreements that address the provision of sufficient future resources to the attest firm



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