



Private Companies Practice Section

# Familiar **challenges** in an **extraordinary** time

2021 PCPS CPA Firm Top Issues Survey

The Private Companies Practice Section (PCPS) supports CPA firms of all sizes in the everyday intricacies of running a practice by providing practical and customizable practice management tools.

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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# Familiar **challenges** in an **extraordinary** time

The COVID-19 pandemic has been an extraordinary time for CPA firms and their people, clients and communities. During this time, CPA firms found ways to tackle numerous challenges. In many cases, they switched to working remotely essentially overnight and helped clients through disruptions and uncertainties. Most were able to navigate the new practice management challenges during this unprecedented time with great agility. However, despite such change, there are familiar issues that continue to keep practitioners up at night.

The biennial PCPS CPA Firm Top Issues Survey asks firms to rank the challenges that are of greatest concern to them. To focus on the unique perspectives and experiences of different practices, the results are reported based on the number of professionals in a firm. There are separate lists of the top five issues 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 currently face but also the concerns they believe will have an impact on their practices over the next five years.

This commentary reviews the survey results for each firm size in detail. It focuses on the top five issues in each size, but also includes key insights on top 10 results that may enhance the understanding of firms' concerns.

## Some of the survey findings this year include:

- A significant pandemic-related impact. Keeping up with business relief programs was a top five issue for all firms and it was the number one issue for firms with two to five professionals.
- A variety of issues related to tax services were a major concern once again. As has been the case in past surveys, keeping up with tax changes and complexity continues to be a top five concern for all firms with 20 or fewer professionals, and it was No. 7 this year for the largest firms. Challenges when working with the Internal Revenue Service (IRS), a new option in the 2021 survey, was a top five issue for all firms with 20 or fewer professionals. Seasonality and the layering of deadlines was also a key issue for smaller firms.
- Finding qualified staff remained a significant concern for all firms with two or more professionals, and many of the top five issues for the largest firms relate to challenges in retaining and developing firm talent.
- Managing privacy and security risks was a top five issue for all firms in 2019. Cybersecurity risks/exposure of client data only made the top 10 lists for firms with 10 or fewer professionals.

CPAs can use the survey results and this commentary to take stock of where their firms stand in the midst of an extraordinary time. They can use it to consider and answer questions such as:

- Are we facing the same issues as CPAs in firms like our own?
- What issues have we neglected that should be given a higher priority?
- Do the concerns of slightly larger firms help reveal the next challenges for growing firms? If so, what proactive steps can growing firms take so they are prepared for potential future challenges?

Wherever your firm stands today, the survey can provide perspective at a time when many firms find themselves at a turning point on how to move forward in the “new normal.”

Use the **Resources** to address firm top issues and help you and your firm turn concerns into opportunities.

# Top concerns of sole practitioners



1. Keeping up with changes and complexity of tax laws
2. Keeping up with COVID relief programs, such as PPP, EIDL, ERC, etc.
3. Challenges when working with the IRS
4. Seasonality/layering of deadlines
5. Keeping up with changes in technology and managing associated costs (e.g., upgrading hardware, updating software, third-party IT vendor, moving to the cloud, etc.)

Dealing with complicated and ever-changing tax laws has consistently been the top concern for this segment in previous surveys, and seasonality has frequently appeared among the top five issues. It was not surprising to see both on the list again this year, since complexity only deepened during the pandemic amid shifting tax deadlines and changing tax laws around pandemic-related relief measures. Keeping up with business relief programs was another understandable concern, along with issues working with the IRS. The challenges and expense of new technologies, perhaps related to remote working protocols during the pandemic, were another key concern. That included worries about cybersecurity risks and exposure of client data, which came in at No. 7.

The 2021 top 10 list for sole practitioners also included meeting clients' expectations and need for real-time information (No. 6) and leveraging technology to enhance client service (No. 10), two concerns that may explain the perceived pressure to keep up with and invest in new technology tools. It's interesting to note that in 2015 and 2017, the top five lists included issues such as bringing in and retaining new clients. In recent years, sole practitioners' struggles moved almost entirely to complexity and seasonality concerns.

# Top concerns of firms with 2 to 5 professionals

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1. Keeping up with COVID relief programs, such as PPP, EIDL, ERC, etc.
2. Keeping up with changes and complexity of tax laws
3. Challenges when working with the IRS
4. Seasonality/layering of deadlines
5. Finding qualified staff

Issues related to tax and business relief programs dominated these firms' top five list. Finding qualified staff remained a key issue, although it dropped from the No. 1 issue in 2019, perhaps because the disruptions of the past year overshadowed staffing worries. Cybersecurity and privacy risks, which were a No. 3 issue for this group in 2019, fell to No. 9, an unexpected drop considering the pandemic-influenced move to remote work experienced by most firms. With cyberattacks and ransomware on the rise, firms of all sizes should remain diligent in protecting client data.

Succession—which was No. 5 in the last three surveys—slipped to No. 6 this year. However, other issues in this group's top 10 still indicate a focus on the future of the firm. Given the aging of owners/partners (No. 8), developing the next generation of leaders (No. 7) shows that firms acknowledge what's needed to make successful transitions in the future. While tax and business relief program concerns obviously took precedence in this extraordinary year, staffing and succession-related issues remain key considerations for this group.

# Top concerns of firms with 6 to 10 professionals

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1. Finding qualified staff
2. Keeping up with changes and complexity of tax laws
3. Keeping up with COVID relief programs, such as PPP, EIDL, ERC, etc.
4. Challenges when working with the IRS
5. Developing the next generation of firm leadership

Taken as a whole, this group's top five primarily reflected tax and pandemic-related challenges. Seasonality and the layering of deadlines, a related tax issue, came in at No. 6. However, as has been the case in the last three surveys, staffing is the No. 1 concern and the No. 5 issue—grooming future leaders—shows a renewed focus on the importance and need to prepare staff for future leadership roles. Diving deeper into this group's top 10 issues, it is clear that there are additional staffing concerns including the No. 8 issue, retaining qualified staff, and the No. 9 issue, effective staff utilization and management.

Succession planning, which has been in the segment's top five in the last three surveys, just missed this group's top 10 this year. It is possible, though, that their focus on developing future leaders is a critical step in proper succession planning. Other top 10 issues for this group included keeping up with technology (No. 7) and cybersecurity issues (No. 10).

# Top concerns of firms with 11 to 20 professionals

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1. Finding qualified staff
2. Developing the next generation of firm leadership
3. Keeping up with COVID relief programs, such as PPP, EIDL, ERC, etc.
4. Keeping up with changes and complexity of tax laws
5. Tie: Effective staff utilization and management; challenges when working with the IRS

While these firms clearly faced tax challenges (No. 4), issues with business relief programs (No. 3), and seasonality (No. 7), they also were focused on their people. Finding qualified staff was the No. 1 issue for this group, as it has been in the past three surveys and retention of staff was No. 8. Recruitment could have been more difficult for these firms in the pandemic, as they had to create new and different ways to find and onboard new employees and flexibility was no longer a way to differentiate. Firms also had to work harder in the retention space to create an inclusive culture and positive environment. This year's No. 2 issue, grooming future leadership, indicates a new focus that goes beyond keeping people on board and considers how to nurture the leadership qualities that will maintain continued firm success.

The other issues in this group's top 10, developing soft skills (No. 9) and developing and executing a succession plan (No. 10), also indicate an interest in investing more in staff development and preparing the firm for the future.

# Top concerns of

firms with 21+ professionals

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1. Finding qualified staff
2. Retaining qualified staff
3. Keeping up with COVID relief programs, such as PPP, EIDL, ERC, etc.
4. Developing the next generation of firm leadership
5. Tie: Effective staff utilization and management; managing work/life balance initiatives

Similar to other firm sizes, this segment had concerns about business relief programs (No. 3), tax complexity (No. 7) and seasonality and layering of deadlines (No. 9). However, issues related to staffing overshadowed all others for this group, representing a shift in the emphasis this year. This year's top five is almost entirely focused on staff: finding, keeping, developing and making the best use of their time. Another issue, employee mental health and well-being (No. 10) underscores the point. An unexpected departure from the top 5 in 2019, owner/partner accountability and unity, fell from No. 4 in 2019 to No. 14 in 2021. While the renewed focus on finding, keeping and developing staff is a move in the right direction, firms in this segment cannot overlook the importance of leadership accountability and unity especially in such a disruptive and transformative time.

This was also the only segment that included managing a remote workforce (No. 8) in its top 10. While switching to remote work was a challenge for many firms, managing a larger distributed team (while also completing necessary work) became a more complex assignment. As employees juggled an array of additional responsibilities such as online schooling, elder care and child care during their new workday routines, learning to empathize and manage appropriately, was a new challenge especially among those firms with more staff.

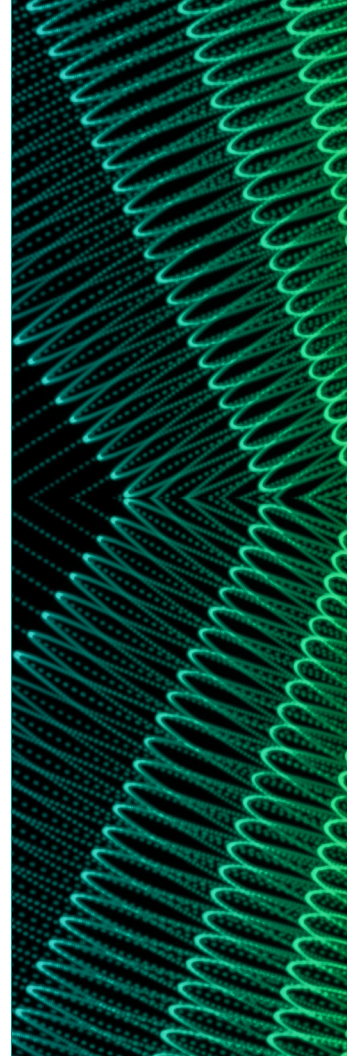
# Looking ahead:

## What issues will have the greatest impact over the next five years?

Survey participants were asked to select critical issues that will have the largest effect on their practice over the next five years. As the following chart shows, staffing remained the chief concern for most firms in the near term, as it was in 2019. Sole practitioners chose emerging technologies as their greatest expected challenge, and that topic was a consideration for all firms. In 2019, sole practitioners' top issue was adapting to changing client needs, which dropped to No. 3 this year. This concern, along with an uncertain regulatory environment, remained significant for all firm sizes. The smallest firms also included political instability among their concerns.

Managing a hybrid (remote and in-person) workforce was added to possible choices this year, and the largest three firm segments immediately added it in their top five expected future issues. It seems certain that decisions about where work will be performed will continue to evolve, as will firms' approaches to managing their people. Considerations include career paths for fully remote employees, compensation structures based on the geographic cost of living differences, onboarding remote employees, building or maintaining the firm's culture as well as how to train and develop skills.

Some issues that were on the top five future issues list in 2019 did not appear this year. They include competition from other firms, a key emerging issue chosen by most firm size segments two years ago. That concern may have faded during the pandemic as clients turned to their trusted firms for additional advice and services. The impact of mergers and consolidations in the profession was a choice for the two largest firm segments in 2019 but also did not appear this year.



# 2021 Top five issues that will have an impact over the next five years

|   | Sole practitioners  | 2–5 professionals   | 6–10 professionals  | 11–20 professionals   | 21+ professionals   |
|---|---|---|---|---|---|
| 1 | Emerging technologies<br>(e.g., data analytics, AI, blockchain, etc.) | Staffing<br>(recruitment and/or retention)                            | Staffing<br>(recruitment and/or retention)                            | Staffing<br>(recruitment and/or retention)                            | Staffing<br>(recruitment and/or retention)                            |
| 2 | Changes in regulatory environment                                     | Changes in regulatory environment                                     | Changes in regulatory environment                                     | Managing a hybrid workforce<br>(remote and in-person)                 | Managing a hybrid workforce<br>(remote and in-person)                 |
| 3 | Capability to adapt to changing client needs                          | Capability to adapt to changing client needs                          | Capability to adapt to changing client needs                          | Capability to adapt to changing client needs                          | Emerging technologies<br>(e.g., data analytics, AI, blockchain, etc.) |
| 4 | Political instability<br>(local, regional, global)                    | Emerging technologies<br>(e.g., data analytics, AI, blockchain, etc.) | Emerging technologies<br>(e.g., data analytics, AI, blockchain, etc.) | Emerging technologies<br>(e.g., data analytics, AI, blockchain, etc.) | Changes in regulatory environment                                     |
| 5 | Staffing<br>(recruitment and/or retention)                            | Political instability<br>(local, regional, global)                    | Managing a hybrid workforce<br>(remote and in-person)                 | Changes in regulatory environment                                     | Mergers/consolidations  |

# Survey takeaways

## Staffing concerns are not going away

Finding staff topped the list for all but the smallest firms this year, as was the case for most firms in the previous three surveys, going back to 2015. Staff recruitment and/or retention was also cited by firms of all sizes as an issue that will have an impact over the next five years. In 2021, related staff issues could also be found on the top five lists for firms with six or more professionals, including developing new leaders, effective staff utilization and management and managing work/life balance initiatives.

As these issues continue to present challenges, it may be time to try new solutions. The survey results themselves highlight approaches that firms may be failing to take or prioritize but that might help alleviate staffing issues. For example:

- Only the largest firm segment cited work/life balance initiatives among its top five, but managing work and family demands became a consideration for everyone throughout the pandemic. Firm leaders are finding that regularly communicating with staff about plans to reopen the office, offering flexibility when possible, acknowledging the stress of the past two years and working with individuals on the support they need to stay engaged can help with efforts to retain key talent.

- Increasing/advancing diversity of staff was surprisingly not selected as an issue for any firm group but could have been captured in the general recruitment and retention answers. Increasing/advancing diversity of staff can enhance a firm's retention among diverse hires and improve the firm's overall success. Firms incorporating diversity initiatives into their recruiting efforts will also expand their candidate pool and potentially minimize their staffing challenges.

## Firms should not neglect cybersecurity concerns

Managing privacy and security risks soared into the top five for every firm in 2019, but cybersecurity only made the top 10 list for firms with 10 or fewer professionals this year. In addition, firms cited emerging technologies as an issue that will have an impact over the next five years.

It's likely that tax complexity, shifting deadlines, and COVID concerns nudged this issue out of the top spots this year. However, given the wide range of attacks and other security challenges facing organizations of every size, cybersecurity should remain top of mind for all firms. Many firms moved to a remote environment essentially overnight, so it's crucial to review how processes and policies have changed to ensure that

# Survey takeaways (continued)

threats can still be identified and addressed and that data remains secure. That's particularly true as firms continue to manage hybrid workforces, given the new risks those environments can include.

## **Firms should keep succession on their agendas**

While developing and executing a succession plan has appeared on every firm size's top five list in the past, it slipped to the top 10 and beyond in this survey. Replacing it in the top 5 for firms with 6+ professionals was developing the next generation of firm leadership. It appears that even though succession may have slipped, preparing for the future is still on firms' radar.

Engaging in strategic planning to set long term goals can result in more effective and efficient processes and ultimately strengthen the practice. Proper succession planning will also help to find and keep good people who want to work for a firm where their career path is clear. Additionally, firms will be better able to attract merger or acquisition opportunities when there is a developed and frequently updated succession plan in place.

## **Complexity persists**

For the sixth survey in a row, going back to 2011, keeping up with changes and complexity of tax laws was the top issue for sole practitioners and was ranked in the top 5 for all firms with 20 or

fewer staff. Not to be left out, the 21+ group consistently ranks this in their top 10 issues as well. In addition to tax law complexity, challenges when working with the IRS, a new addition to the 2021 survey, also ranked in the top 5 concerns for all but the largest of firms and the layering of deadlines was a top issue for both sole practitioners and firms with 2-5 professionals. Keeping up with COVID relief programs, another new option for 2021, was ranked as a top 5 concern for all firm sizes as well. These four top issues signify a complex landscape for practitioners to navigate.

Practitioners of all firm sizes have options to mitigate the ever-growing complexities. This includes:

- Maximizing continuing professional education to ensure you and your staff are current on any changes that will impact your client base.
- Automatically extending complex clients to allow for more time to research their unique set of circumstances.
- Annually evaluating clients to determine if they are a fit for your firm.
- Better leveraging technology for greater efficiency and productivity.

# COVID-19: An unfolding story

Tax complexity and deadline changes, challenges working with the IRS, business relief programs, and related issues have all been challenging, but they also gave the profession the opportunity to shine. When worried clients came to their CPAs, firms offered the information and advice they needed. So how can your firm use this momentum when preparing for the “new normal”?

- **Maintain the goodwill that your firm has earned.** CPAs helped businesses and individuals navigate federal and state relief programs and offered innovative strategies to keep their businesses afloat. CPAs can now strengthen the close, positive relationships they created by continuing to act as their clients’ trusted adviser.
- **Make the most of the changes brought about by the pandemic.** Consider the benefits of the hybrid work environment (for both staff and client engagements) and keep those elements that best align with your firm’s philosophy. Make sure work/life balance and mental health are incorporated as you make changes to your previous business model and prepare your firm for future success.
- **Highlight the value of CPAs and your firm!** In recruitment and retention efforts, stress the important role that CPA firms have played as a driver in the economic recovery of many businesses and communities. Share stories, both internally and externally, about the way your firm has helped your clients in their most challenging seasons. And with opportunities for firms to get more involved in offering services in cybersecurity, data analytics and environmental, social and governance (ESG), calling out the growth in these areas can be a differentiator.





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