



Small Firms Fill Holes In Market

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For those smaller CPA firms across the country who have taken the initiative, the boon of business from the passage of the Sarbanes-Oxley Act in 2002 has been nothing short of remarkable. Small firms have found innovative ways to be competitive—from offering staff to Big Four firms in exchange for training on Section 404 work, to combining resources with other member firms of accounting firm networks to compete for projects.

The work brought on by Section 404 of Sarbanes-Oxley—which requires management to report on its internal controls over financial reporting and independent auditors to attest to management’s evaluation—has been an opportunity for smaller firms to broaden the services they offer to clients.

“Public companies, who may have never done business with small firms, are now seeing the value, professionalism, and quality of the people and services that smaller firms can offer,” says Michael McCarthy, Senior Manager at Hancock Askew, Co., a CPA firm of 60 people based in Savannah Georgia.

Before McCarthy joined Hancock Askew in early 2004, the firm did not have the expertise or the training to provide Section 404 work. Having come from Ernst & Young with twelve years of experience, McCarthy was tapped to provide training and guidance on SOX for Hancock Askew, and eleven other southeastern U.S. firms who are all members of the BDO Seidman alliance.

McCarthy is coordinating the efforts of those firms in jointly proposing on SOX work. In some cases, he is the lead on a proposal and is using IT specialists from other alliance firms to help him staff the engagement. On other projects, other firms have the contacts and he is providing the expertise and some of Hancock Askew’s staff.

In marketing materials for its services, this group of BDO Seidman alliance firms refers to itself as a “twelve member group of firms across the southeast aligned cooperatively to provide SOX 404 consulting services.”

In late 2004, McCarthy’s firm was turning down work with accelerated filers—companies that have a public float of at least \$ 75 million and meet other criteria—because they had too much work and not enough people to staff it all. Accelerated filers must include Management’s Annual Report on internal control over financial reporting beginning with their annual report for the first fiscal year ended on or after November 15, 2004. For non-accelerated filers, the requirement applies beginning with the annual report for the first fiscal year ended on or after July 15, 2005.

The cost/benefit to public companies is tremendous as they are getting a high quality service for lower average rates. The cost/benefit to the small firms is a new stream of revenue from new clients at a time of year when they are generally slower.

At Levine, Katz, Nannis, & Solomon (LKNS), a firm with fifty-plus total staff located in the Massachusetts technology belt, the firm collaborated with one of the Big Four firms in their market to complete Section 404 work. With the shortage in the industry of staff, they trained and continue to use some of LKNS’s staff to complete projects for some of their Fortune 500 and 1,000 clients.

“It was a win-win situation for them and for us,” says LKNS partner, Jeffrey D. Solomon. “They used our staff over the summer months and those projects are just finishing up. They are absolutely thrilled with our people.”

The Big Four firm, who Solomon declined to name, was using staff from South America and India to staff the engagements in their market. Solomon knew the situation and approached the national firm to talk about lending his staff out for six-week periods. Because of the availability of LKNS staff and the lack of a language barrier, the response was overwhelmingly positive from the Big Four firm.

"Based on what we've seen, if you want to get that skill set, there are opportunities to learn along side of firms that already have it," says Solomon. "Big Four firms are shedding smaller public companies like crazy so you are not a threat to them."

Each employee LKNS lends out attends a two-day training course before starting work and the experience they are gaining is invaluable.

"We now have about ten people who can do this work all the way from the senior manager level down to the semi level," says Solomon.

Solomon feels the firm now has the confidence internally to go out and sell this type of work. Debriefing sessions are being conducted with the staff in which they are being asked a series of questions—what was good, what was bad, how should the firm market it externally? The plan in 2005 is to package the service, connect with LKNS's high net worth clients who work in public companies to market it, and try some direct mail to other public companies in their market.

Two years ago, *Public Accounting Report (PAR)* put Atlanta-based Porter Keadle Moore, LLP (PKM) in the top 25 of firms in the country serving public companies, tenth on the list of non Big Four firms.

PKM, a firm of 50 staff members, audits thirty-two public companies and provides other assurance services for twelve others including SAS reports, network vulnerability reports, and internal auditing. Seventy-five percent of the firm's revenue comes from the banking industry.

Banks have been required since 1991 to do FDICIA—a kind of light 404 requirement—so PKM had the experience and the confidence to become proactive in marketing Section 404 work.

When SOX was passed, PKM expanded its reach in its most successful niche and developed a database of banks in the southeastern U.S. They have been hitting this database every month for the last two years with letters and seminar invitations to build name recognition.

Very early on, PKM partnered with a law firm and an investment banker and started educating people on what was going to be required by SOX.

"Two years later, because people are realizing how painful this is going to be, they are trying to figure out if they should de-register or not," says Laura Snyder, director of marketing for PKM.

The firm is trying to help clients analyze the cost versus the benefits of remaining public. According to PKM's analysis, the cost to their clients due to SOX averages around 125% of their existing audit fee.

Snyder says most of the business due to SOX is yet to come because they have only helped three clients who are accelerated filers so far with Section 404 work. The firm has turned away business and is wondering how they are going to staff it for the non-accelerated filers in 2005. Snyder spends half of her time recruiting and the firm expects to be very aggressive in finding qualified personnel in the next six months.

Currently, PKM is swapping work with other regional CPA firms that serve public banks, they are using a super regional to staff an engagement in another state, and they are jointly proposing on work with another small firm that they are training to provide Section 404 work.

Some of PKM's clients do not want to give up the firm's consulting services so the firm has been working with clients to make the best decision as to what to use the firm for and helping them find another firm to

provide the other work. They estimate they've lost about \$ 500,000 in business they are now restricted from providing, but have gained \$ 1.2 million in revenue as a result of SOX.

In the past three to six months, PKM has spoken to all of the Big Four firms in the Atlanta market, as well as the majority of southeastern firms that provide services to public banks.

"We are also contacting other publicly held companies to say that their audit firms can no longer do their tax provisions because of SOX and we are available," says Snyder. "It is really convenient for us because we are trying to build up our tax practice."

Smaller firms that have wanted to capitalize on the stream of new revenue available due to Sarbanes-Oxley can take away several lessons from other smaller firms who have been quite successful—offer staffing to other firms for a set time period during slower times of the year, recruit experienced personnel to ramp up your Section 404 services, join forces with others in your accounting firm network to provide group training, staffing and marketing, and look for other firms, as well as the Big Four, who serve public companies and are in desperate need of the help or are looking for other firms to refer their clients to for the services they are restricted from providing.

Once a smaller firm gains the new skill set, they can package and market their services to smaller public companies that want high quality service for lower fees.

"The biggest benefit to a small firm is to have the resources ready to go when needed," says McCarthy. "I have found that there are firms out there that can do this type of work to fill some holes."

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