

Sarbanes-Oxley Act: Strategic Roles for Marketing Directors

The AAM Advisory Council recently discussed how the Sarbanes-Oxley Act impacts the accounting profession, AAM member companies, and our members, namely marketing and sales professionals. This special issue of *MarketTrends* is designed to communicate some of the opportunities and strategic roles that marketing and sales professionals can play relative to the passage of Sarbanes-Oxley Act.

Highlights of The Act

On July 30, 2002, President Bush signed into law the Sarbanes-Oxley Act of 2002 which applies in general to publicly-held companies and their audit firms, but will likely have a significant impact on not only firms serving public companies, but on the entire accounting profession. The new law prohibits public company auditors from providing services in nine areas, including: bookkeeping; financial information systems design and implementation; appraisals or valuation services; actuarial services; internal audit outsourcing; management functions or human resources; broker/dealer and investment banking services; legal and expert services related to audit services; and any other services that the new Public Company Accounting Oversight Board determines by regulation to be impermissible.

Some other key changes of the Act include:

- **Auditors Report to the Audit Committee** — instead of being hired by and reporting directly to company management, the audit firm is now appointed by and responsible to the Audit Committee.

- **Audit Committees Must Pre-Approve Services** — all services provided by the external auditor must now be pre-approved by the Audit Committee.
- **Criminal Penalties and Protection For Whistleblowers** — the law creates tough penalties for individuals who fail to maintain audit or review workpapers, destroy records, commit securities fraud, and for failure to report fraud.
- **Management Certification of Financial Statements** — CEOs and CFOs must now certify that the financial reports are “materially correct” and “fairly present” the company (Section 302).
- **Management Assessment/Attestation to Internal Controls Testing** — management must now assess and make representations on the effectiveness of the internal control structure and procedures of the issuer for financial reporting. New standards will also be developed which require every audit report to attest to the assessment made by management on the company’s internal control structures, including a specific notation about any significant defects or material non-compliance found on the basis of such testing (Section 404).

In addition, the overall “crisis of confidence” in the accounting profession, driven by recent events such as Enron, WorldCom, Adelphia, and others, has increased the scrutiny on auditor independence, audit quality, the role of the financial statement audit in managing risk and detecting fraud, and the overall scope of services provided by the attest firm.

Implications

What does all this mean to marketing and sales professionals in accounting firms serving only privately-held companies? While the Act specifically applies to the auditors of public companies, the “trickle-down” effect to other companies has already begun and is likely to increase in the near future.

“One major concern is that the new legislation by Congress may become the template for parallel federal and state legislative or rule changes that directly affect both non-public companies and the accounting firms that provide attest services,” comments Gary Shamis, Managing Partner of SS&G Financial Services in Cleveland, and a member of the AAM Advisory Council. “Some state legislatures, such as California and New Jersey, for example, are taking a very restrictive view, limiting the ability of all accounting firms in a given state to sell services to clients.”

Privately-held companies are watching these federal and state developments carefully. “We’re starting to see some of the larger and more progressive privately-held companies adopt some of the restrictions of Sarbanes-Oxley,” explains Russ Molinar, Sales Leader for the Lake Erie Area Assurance practice of Ernst & Young, and Chairperson of the AAM Advisory Council. “Companies such as hospitals and non-profit organizations with corporate boards of directors, for example, are focusing on their fiduciary responsibility and are looking more closely at issues such as scope of audit work, quality control safeguards, and the type and scope of services being provided by the external audit firm.”

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All of the media attention on the accounting profession has also heightened awareness of the issues. “CEOs and CFOs of privately-held companies, as well as bankers, venture capitalists and other stakeholders who have a vested interest in the review or audit of financial statements read about recent developments and the restrictions placed on public companies from Sarbanes-Oxley, look at the audit failures, and begin to assess the relevance to their situation,” continues Molinar. “Over time, I think we’ll see more and more private companies analyzing whether the restrictions placed on public companies also make sense for them.”

Opportunities For Marketing & Sales

There are a number of specific opportunities where marketing and sales professionals can take immediate action to add value to their firm relative to the issues and implications of the Sarbanes-Oxley Act. Briefly outlined below are five of the most relevant issues and action areas.

Educate Clients

Perhaps the first action step is to educate your clients about the Act. In many cases, private companies are not aware of the details of the Act, and whether it applies to them. “This is a great opportunity for internal marketing,” comments Allan Boress, of Allan S. Boress & Associates, a sales and marketing consulting firm specializing in the accounting industry, based in Eustis, Florida. “The passage of the Act provides a tremendous opportunity to get in front of clients and share ideas and insights relative to the legislation, and to explain if and how it impacts their company and your services.”

Marketing directors can play a critical role in educating clients about Sarbanes-Oxley. “We need to first make sure our partners, managers and staff are familiar with the issues and implications of the Act – through internal communication vehicles, such as meetings, newsletters, and technical updates,” comments Leisa Gill, Marketing Director for LBMC in Nashville, Tennessee, and AAM President. “We then need to make sure that the communication flows to clients and prospects, through face-to-face meetings, niche newsletters, seminars and other client correspondence.”

Communicate Audit Value

A second action area is the corollary to educating clients. “It’s not enough to just educate clients about the Act,” says Jay Motsinger, Managing Partner of Dixon Odom in Greensboro, North Carolina, and a member of the AAM Advisory Council. “We now need to explain to clients in more detail what we actually do in a financial statement audit, and the value that we bring through our audit methodology and quality control procedures.”

Marketing professionals need to take a more active role in communicating the value of their firms audit approach. “Marketers need to help their firm’s broaden the perception and value of the audit function,” explains Gary Shamis. “Given the current environment and crisis of confidence in the accounting profession, now more than ever, marketing professionals in accounting firms need to help communicate value and convey confidence to clients.”

Pricing Strategy

Audit firms serving public companies are aggressively increasing audit fees, in response to scope changes and new regulatory requirements. Recent articles in *The Wall Street Journal* and other publications have cited that many Big Four and national firms are looking to increase their core audit fees 10-20% to cover increasing audit costs.

“Given recent events, there is an increased focus on audit quality,” comments Allan Koltin, CEO of Practice Development, Inc. and a member of the AAM Advisory Council. “This provides an incredible opportunity for all firms serving both public and private company clients to assess their overall audit pricing strategy and price the audit not as a ‘loss leader’ or as a commodity. Marketing and sales professionals can play an active and strategic role in packaging and pricing the firm’s assurance services to capitalize on this unique opportunity.”

Pursue Non-Attest Clients

Another key action area is meeting with target companies and non-audit clients of your firm to discuss the issues and implications of the Sarbanes-Oxley Act. “The Act provides a great opportunity to get in front of non-clients and position your firm,” says Allan Boress. “CEOs and CFOs

are interested in the topic and are typically willing to meet with you to hear what’s happening in the marketplace. This can be a great competitive weapon and enable you to get in front of target companies and position your firm as an alternative service provider to their current audit firm.”

Marketing directors and sales professionals need to quickly leverage this opportunity before it passes. “Marketers need to be able to quickly mobilize their firm to get out and talk to target companies before this issue becomes ‘old,’” offers August Aquila, Vice President of Mergers & Acquisitions at American Express Tax & Business Services and a member of the AAM Advisory Council. “Identifying the companies and specific individuals you want to meet with, preparing and coaching the team on how to facilitate a dialogue with prospective clients, and driving outbound activity should be key short-term objectives for business development professionals.”

Monitor Developments

The fifth and final action area is to stay on top of new developments. “Many of the provisions of the Sarbanes-Oxley Act are subject to and will be shaped by SEC rulemaking,” explains Valerie Rainey, Vice President of Strategic Alliances for the AICPA. “This is very fluid environment that we’re operating in right now. Many business publications and industry web sites can be useful sources of information for marketing and sales professionals to stay abreast of recent developments and more importantly to assess and analyze the implications and to identify additional opportunities for their firm.”

In addition, to effectively educate clients, pursue non-audit clients, as well as enhance audit pricing and communicate value, marketing professionals need to stay informed on changes impacting the profession. “Accounting marketers need to demonstrate to their partners and staff that they understand the business, and perhaps more importantly the trends and issues which impact clients and our firm’s operations,” comments Russ Molinar. “Put simply, the passage of the Sarbanes-Oxley Act provides a great opportunity for business development professionals to become even more strategic and play a vitally important role for their firm in a number of areas.” *AA*