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Accountants figure law to benefit them

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BY SEAN CALLAHAN

The Sarbanes-Oxley Act might as well be called the Enron-Andersen Act, says Peggy Zagel, an attorney with Chicago law firm Altheimer & Gray.

The law, which Congress adopted in July in the wake of corporate scandals at Enron, WorldCom, Tyco and other prominent companies, is intended to make corporate fraud more difficult to commit and conceal.

The law probably will have some potent side effects, too. Many Chicago area businesses--including law, accounting, and consulting firms--see the new accounting and financial reporting rules mandated by Sarbanes-Oxley as an opportunity to boost revenue.

"It can almost be seen as the Lawyer and Accountant Full Employment Act," wisecracked Zagel, who recently was hired by Altheimer & Gray to generate business by helping companies comply with Sarbanes-Oxley.

Another Chicago-based company, Parson Consulting, is licking its chops over the opportunities presented by the law.

The rainmaker

Here are the winners in the wake of Sarbanes-Oxley:

Law firms

Potential new revenue: Representing corporate directors, audit committees

Consulting firms

Implementing Sarbanes-Oxley compliance programs

Accounting firms

Potential new revenue: Internal audit outsourcing.

Financial printers

Potential new revenue: Additional fees for Web-based filing.

"This is a radical transformation of corporate governance," said Dan Weinfurter, president of Parson Consulting.

Among the main provisions of Sarbanes-Oxley:

* Top management must certify corporate financial results.

* Deadlines were tightened for filing results.

* Regulations regarding potential conflicts of interests for accounting firms were tightened. For instance, an auditor of record is now barred from handling work other than tax and auditing responsibilities for a single client.

* Financial resources must be provided to key board committees so they can hire outside counsel to advise on issues such as compensation and audit functions.

Weinfurter sees a large opportunity for Parson Consulting, a firm that specializes in financial and accounting consulting, in helping corporations adhere to the law. Companies will need help not only in setting up programs to comply with the law, but in executing those programs on a daily basis.

"Our focus has been on Fortune 1000 companies," he said. "We feel that we're very well positioned. We don't do tax and audit work for anyone. We're completely conflict free."

Additionally, Weinfurter pointed out that the accelerated filing deadlines with the SEC probably will force many companies to rely on consultants, rather than adding employees, to process the welter of complex financial data more quickly. Processes will also have to be updated, Weinfurter said. "When you're used to closing your books in 45 days, and you now have to get that down to 20, you just can't work harder.

You have to fundamentally change the process," he said.

It is too early to gauge the exact impact the new law will have on the company's revenues, Weinfurter said, but what he has seen so far is encouraging.

"We've noticed a big change in our corporate clients," he said. Corporate financial officers who were difficult to reach in the past now return calls, he said.

Altheimer & Gray's Zagel agreed that pinpointing the amount of new business the law might generate is difficult.

Zagel expects corporate boards and audit committees to hire outside counsel, separate from the corporation's outside counsel, with the goal of having the board and its committees be much more active in ferreting out corruption.

Chicago-based accounting firm Grant Thornton LLP, which has nearly 22,000 employees worldwide, also is optimistic that Sarbanes-Oxley will provide new revenue streams for the company.

Grant Thornton generally serves mid-market companies, but Mike Hall, managing partner of Grant Thornton's Chicago office, said it's possible the company would pick up some business the Big Four accounting firms might be prohibited from handling.

For instance, Grant Thornton and similar firms might increase business in outsourced internal audits, which an auditor of record at a public corporation would be blocked from handling.

Although declining to predict specific growth from Sarbanes-Oxley-related work, Hall allowed, "We've seen a number of RFPs [requests for proposals]. We've also seen an uptick in opportunities in internal audit outsourcing."

An early beneficiary of Sarbanes-Oxley was the financial printing unit of R.R. Donnelley & Sons Co., Chicago. Donnelley Financial developed a Web-based template for filing Form 4s, which top management uses to certify the veracity of the financial results.

The accelerated filing deadline has placed an emphasis on electronic filing. Before Sarbanes-Oxley, Donnelley and other financial printers received almost no revenue from Form 4s, which generally were executed as paper filings. Now Donnelley is charging as much as $150 for each filing, a fee that could provide tens of millions of dollars in additional annual revenues to the company.

Sean Callahan is a Chicago-based business writer.