



Fraud fears add up for accountants

Midsized firms grab projects from Big 4 as scandals, Sarbanes shift forensic work

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With scandals at Enron, WorldCom and other corporate rogues tarnishing the reputations of the giant accounting firms that served them, smaller rivals have found a way to take a bite out of the Big Four's business: acting as hired guns for companies terrified of fraud.

These firms are increasingly in demand because of a growing specialty known as forensic accounting. This service combines number-crunching with detective work to handle tasks like ferreting out fiscal wrongdoing or settling bookkeeping disputes among executives, corporate boards and investors.

What's more, forensic accounting projects are giving midsized accounting firms an entree to provide new clients with other services, like consulting, tax work and even auditing. Such businesses were once reserved nearly exclusively for Ernst & Young, PricewaterhouseCoopers, Deloitte & Touche and KPMG, and until recently the defunct Arthur Andersen.

The stakes are high. The Big Four raked in nearly two-thirds of the \$28.5 billion in revenues generated by the top 100 accounting firms in the United States last year, according to Accounting Today. Now, the smaller firms see a rare opportunity to increase their shares.

"Because of all the fraud and earnings write-downs, forensic accounting and litigation support have become big businesses," says Bruce Madnick, managing partner of Friedman Alpren & Green in Manhattan. "Everybody is hiring firms just to come in and take a second look."

After the implosion of Arthur Andersen last summer, midsized accounting firms thought that some of the disgraced firm's biggest accounts would hire them instead of choosing from the remaining Big Four, which had lost some cachet. They were wrong. But now, provisions in the Sarbanes-Oxley Act that have recently gone into effect restrict

accounting firms from providing their existing clients with certain services, including forensic accounting.

Building on the buzz

The little guys believe that they have gotten a second chance.

"There is a lot of buzz now about this practice niche," says David Zweighaft, director of the forensics group at Manhattan-based Lazar Levine & Felix.

Such firms are rushing to take advantage of this opportunity, creating advertising and marketing campaigns, hiring more staff and promoting themselves as conflict-free choices.

Consulting firm Jefferson Wells International launched a direct mail and phone campaign last year to capitalize on growing demand. The Wisconsin-based firm plans to double its New York City forensic staff to 30 by year's end.

In May, Friedman Alpren launched a marketing campaign, called "Lost in the Shuffle," to entice business from Big Four clients in investigative cases, in addition to offering other types of professional services.

Another firm, JH Cohn, was able to garner coveted forensic jobs in the Enron and WorldCom bankruptcy cases because it was free of the client conflicts plaguing the national firms.

"We're talking about thousands of public companies that need this expertise but can't call upon their own auditors to do this," says Bernard Katz, forensic chief of Roseland, N.J.-based Cohn. "That is why we believe it will be a very fertile area for us."

Some firms are already reaping the benefits. Friedman Alpren's revenues for forensic services in the year ended in May doubled to \$1.5 million, and its overall business rose 23% to \$20 million, says Mr. Madnick. Jefferson Wells' forensic accounting business increased 16% through May of this year compared with the same period last year.

In addition to bringing in the big bucks-accounting partners charge \$200 per hour or more, and forensics accounting projects can potentially take thousands of hours-these jobs provide important cross-selling opportunities. As firms prove to be effective in forensic accounting, they are booking business in other services.

"I've used accountants from smaller firms that were more responsive and didn't have the conflicts that the Big Four might have," says Stephen Younger, a litigation partner at law firm Patterson Belknap Webb & Tyler.

Touting global reach

The Big Four are fighting back, however, emphasizing their global clout as they tout their own forensic services. They may not be able to serve current clients, but they can attract each other's customers.

Deloitte & Touche has been aggressively hyping its computer forensic laboratories, which helped Holocaust victims recover lost assets from Swiss banks in the 1990s.

"Globalization and technology have made it easier for the bad guys to be creative," says Frank Piantidosi, head of Deloitte's forensic investigations department. "The Big Four are the leaders in the forensic business because the others lack the global reach and industry expertise and are unable to make investments."

Still, given the taint of scandal that's hurting the big firms and the sheer number of publicly traded companies that need services, smaller companies are getting their share of new business. Often, they're taking advantage of the gaffes of the national firms.

After Arthur Andersen failed to recognize a Ponzi scheme perpetrated in the 1990s by office equipment leasing company Bennett Funding Group Inc., investors turned to Lazar Levine to document the details of the scam for a class-action lawsuit. The accountant's report helped them recoup millions of dollars last year.

Such toughness is attractive to many public companies' chief executives now, because they fear the steep fines and jail sentences that Sarbanes could impose on those who sign off on inaccurate financial reports.

"It all goes back to responsibility now and the signing of the financial reports-they all want to protect themselves," says Thomas Loretto, chief investigator at Forensic Investigative Associates Inc. "So the hired guns are going in to cleanse the company, to make sure the CEO doesn't get into trouble."

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