



Sarbanes-Oxley:

Does It Affect Your Business Valuation Relationships?

In response to The Sarbanes-Oxley Act of 2002, the Securities and Exchange Commission adopted strict new standards regarding the independence of auditors working with public companies. The revised rules were designed to strengthen auditor independence regarding audit services, but they also had an impact on non-audit services: Public companies are now required to engage firms other than their outside auditors to perform certain non-audit services, including:

- Bookkeeping
- Financial information systems design and implementation
- Appraisal or valuation services
- Actuarial services
- Internal audit outsourcing services
- Management functions or human resources
- Broker, dealer, investment adviser or investment banking services
- Legal services
- Expert services unrelated to an audit

But what about privately held companies? Although they are not covered by Sarbanes-Oxley, some privately held companies are adopting the same standards, going out of their way to try to avoid any question of independence, regardless of how remote the possibility.

Perception vs. Reality

There are two ways to look at the concept of independence relative to Sarbanes-Oxley. The first is a matter of fact. The second is a matter of perception.

Professional standards dictate that those who perform business valuations be objective and independent. Reputable business valuation experts simply will not take on an engagement where their independence or objectivity is compromised in any way.

That said, if you work for a privately held company, it's a good idea to talk to your auditor and business valuator about potential conflicts. You'll want to ensure that if you choose to use the same firm for business valuation and audit services, the work is handled separately, by distinctly different teams of people within the firm.

Perception is another matter. Privately held companies are in no way bound by Sarbanes-Oxley, yet some believe that closely following Sarbanes-Oxley-inspired rules will protect them from criticism regarding auditor independence. Some CPA firms would contend that privately held clients who choose this path may be losing valuable expertise by going to another firm for non-audit services, especially in the business valuation arena. (See boxed article for more details.)

Consider Your Options

Generally, it makes sense for privately held companies to remain with their current firms for both audit and non-audit services for reasons of efficiency, familiarity and economic advantage. However, for public companies, and for privately held companies not comfortable using the same firm for audit and non-audit services, the best resource still may come from within your existing accounting firm relationship — in the form of a thoughtful referral.

Your current firm knows your business, knows how you prefer to work, and can put you in touch with either an outside auditor or a competent business valuation expert whose approach will complement your needs.

Should you use different firms for audit and non-audit services? Please feel free to discuss your situation with us. Our familiarity with Sarbanes-Oxley requirements and trends can help guide your decision.

The “One-Firm” Advantage

Privately held companies are not required to use different firms for audit and non-audit services. In fact, using the same firm for audit and non-audit services offers several benefits:

Familiarity: Even if the business valuator is not personally familiar with the company, the firm is. This familiarity gives the business valuation expert easy access to people who know the business nuances of the client's company extremely well.

Efficiency: The business valuation expert also has easy access to reliable financial statements, plus all of the back-up paperwork used to create the financial statements, projections or forecasts.

Cost savings: A shorter learning curve means a quicker process. Valuation fees may be lower when the work is streamlined.