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Why your Company is probably using the wrong Accounting Firm – (and what to do about it!)

Based on surveys and inquiries of thousands of financial executives over the past decade we have determined that the larger the public accounting firm a Company employs, the more likely they are to be dissatisfied with the services they receive.

This statement can be construed in many regards but as it relates to this writing it is best to presume that many Companies who use a "Big 4" or "second-tier National Firm" would be better served elsewhere. Correspondingly, the probability that a Company chose their public accounting firm "objectively and strategically" is negatively correlated with the size of their accounting firm.

Think about it at its core – a Company using an accounting firm smaller than a "big or "second-tier national firm" has a higher likelihood of having an integral relationship with an experienced Partner who better understands their business and specific industry - a crucial aspect in the professional services business that would inherently serve to promote a higher degree of overall Client satisfaction.

The issue is who at your public accounting firm sees and analyzes your transactions? And at what level of Fees for Services received?

The public accounting professional is a personal services business with a distinct and important human aspect extending beyond the black and white of quantitative Financial Statements. It is the understanding of the Client's specific industry and business – whether the Firm is providing Audit & Accounting, Tax, or Management Consulting Services – that is required to truly render outstanding professional services.

For the record, The CPA Exchange has nothing against the big accounting firms. To the contrary we have Agreements with some of them, and provide Client Service opportunities to them when appropriate. The big accounting firms have excellent resources, good people, and a deep knowledge base.

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However, these Firms are laden with internal bureaucracies that serve to decrease the level of Client Service they provide. Partners and other key professionals spend valuable time and energy looking inward to the operations and politics of their Firm, instead of focusing outwardly towards the needs of their Client's. The marketplace has clearly shown this to be factual - over the past decade a plethora of regional and large local accounting firms have come to the forefront and are servicing Clientele once served (and thought by many could only be served) by the big accounting firms.

This new breed of Firms is sometimes referred to as the "Top 100 Firms" – indicating they are the 100 largest accounting firms in the U.S. based on annual revenues. Our references to "the big accounting firms" include the biggest 6 or 7 of the "Top 100 Firms"– we focus on bringing Companies to the other 93 or 94 Firms, as well as to large local Firms, which may not be included in the "Top 100 Firms".

These Firms have grown as a result of industry expertise & specialty, strategic implementation of technology, and an uncompromising commitment to providing outstanding Client Service. Many of the key Partners and Founders of these Firms are "Big 4" trained, and, as a result of their innovation and desire to "do things" a bit differently from the big accounting firms, many have emerged as the leaders in the Public Accounting industry today.

The tenet of the public accounting profession is Independence, but the SEC, AICPA, and banking community refuse to consider the point directly, seemingly to protect the big accounting firms. Consider that "objectivity" is the crucial aspect of Auditor Independence. Then shouldn't "objectivity" be a major factor when choosing an Audit Firm? Not too long ago there were 8 "big accounting firms" ("the Big 8"). Now there are 4 "big accounting firms" – doesn't that market condition impair Independence? Isn't objectivity by definition impaired with a decreasing number of "big accounting firms"?

Did your Company choose its Audit Firm or CPA Firm through a truly objective process? And are you convinced your Company uses "the right" Firm for your business, industry and specific initiatives?

We often hear the following - "our bank requires a "big accounting firm" to Audit our Company". Why - because it promotes their transaction business? Is that Objective and in the best interests of the Client? Perhaps not! The notion that a Company has to use the Big 4 simply does not apply anymore to most companies under a billion dollars in revenue, especially in light of the emergence of the "Top 100 Firms", who are now unequivocally respected and accepted by the commercial banking and venture capital communities. However, there still exists a disturbing "old boy's network" when it comes to choosing an Audit or CPA Firm.

Capital Markets Advisory Partners , LLC issued an interesting report in 2009 directly on this point and found that their analysis "demonstrates that the notion of the Big Four may be inapplicable for companies looking to access capital markets", and that "issuers" have several other Audit and CPA Firm options. The CPA Exchange, Inc. guarantees that the "options" to which they speak are growing, not contracting, as evidenced by the continued growth and awareness of the Top 100 Firms.

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We had the opportunity to meet with a multi-billion dollar public company last year that was outraged at their Fees (and corresponding level of service) from a big accounting firm. We proposed that the Company employ several Regional and large Local Audit Firms to handle various aspects of their Audit in several locations, and have their work "rolled-up" into the Audit Report that the big accounting firm would then issue. This would have saved the Client millions of dollars in Fees, and most likely would have resulted in a much higher level of service. The Client loved the idea until the CFO decided they could not leave the big accounting firm because that was his former employer and he had friends there. So, they continued to pay several million dollars over market in accounting fees, despite not being satisfied with the services received!

Moreover, many Companies engage and incur huge fees to national Management Consulting Firms without first considering if their CPA Firm, that understands their business exponentially better, is interested and able to handle the Engagement.

Companies that are continually dissatisfied with their accounting firms are likely using the wrong Firms for wrong Engagements.

So, how can The CPA Exchange, Inc. help your company find "the right" Audit or CPA Firm?

We thoroughly consult with you to determine which Audit or CPA Firms are best suited to handle your engagement, based on several factors including – the Firm's industry expertise, the culture your company, and your specific needs, etc. We have personal relationships with key Partners at Firms around the U.S. (and at CA Firms for international engagements) so that we can get you quickly connected with the right people. As well, at your request we will help you formulate and distribute an RFP related to your engagement. We will work with you as much or as little as you dictate until you have identified "the right" Audit or CPA Firm for your Company.

Our services are all free of charge to businesses, as we have contractual relationships with the Audit & CPA Firms handling the engagements.

The CPA Exchange, Inc. is structured as a licensed CPA Firm and is a knowledge center for the public accounting industry. Please visit us at www.thecpaexchange.com or feel free to send us your contact information through our secure portal at www.cpaxdirect.com. We do not sell or provide your contact information to any third parties, and is kept confidential.

Or if you prefer, please do not hesitate to call Paul D. Weinberg, CPA toll-free at 866.272.2250 to discuss your specific situation.

Client References and Testimonials are available at www.thecpaexchange.com, or by individual request.

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