

Long Island Business News

Public Parts

By: Claude Solnik February 12, 2018

Long Island and the nation have fewer public companies than a few years or a decade ago, but some regional accounting firms with operations here as well as national and global firms have been growing their practice serving firms listed on stock exchanges.

While many people judge the stock market by share price, accounting firms instead look at public companies from a slightly different perspective as a source for accounting and consulting work.

Marcum with large operations in Melville was ranked as adding the most new public company audit clients nationwide with six in the fourth quarter of 2017, excluding firms that added via acquisition, by a recent survey by Audit Analytics.

And large firms such as PricewaterhouseCoopers over the past year have continued to add public companies as well as private clients. Regional firms such as Jericho-based Grassi & Co. also have continued to grow their public company practice.

Seattle-based Moss Adams added 35 SEC audit clients, the most in the nation, largely due to a merger with Denver-based Hein & Associates. KPMG added one new SEC audit client.

Deloitte in the fourth quarter of 2017 gained one public firm with a float of more than \$700 million, snagging real estate investment trust IStar with \$4.8 billion in assets.

And BDO USA, KPMG and Ernst & Young each added one client with a float between \$75 million and \$700 million, according to the study.

PricewaterhouseCoopers added Kansas City Southern, a railroad with \$9.13 billion market capitalization and \$8.81 billion in assets, and money management company Carillon Series Trust, with \$5.86 billion in assets, according to AuditAnalytics.

KPMG led in new audit fees in the quarter thanks to in-flight entertainment company Global Eagle Entertainment's addition, while also bringing on board insurer FGL Holdings' with \$2.15 billion market capitalization, according to the survey.

The number of publicly-traded companies on U.S. exchanges peaked at 8,000 in 1996, before dropping through mergers and de-listings to roughly 5,300 by 2003 and about 4,400 by 2016. But fewer public companies doesn't always mean less work for accounting firms.

David Bukzin, Marcum's vice chairman and leader of the firm's national SEC Services Practice, said his firm conducts audits, but also provides a "broad range of professional services that position our clients to realize their financial goals."

In addition to auditing financial statements, CPA firms also provide tax compliance and advisory services, due diligence, internal control evaluations, Sarbanes-Oxley Section 404 compliance and even software and technical accounting consulting as well as help with IPOs.

“Some companies have moved off Long Island. There aren’t as many as there used to be,” said Tammy Straus, quality control partner at Grassi & Co. “But there are great opportunities to do consulting work with public companies.”

The number of IPOs of at least \$50 million has dwindled from 406 in 2000 to 275 in 2014, 170 in 2015, 105 in 2016 and 160 in 2017 according to Statista.com.

There was a flurry a few years ago as the federal government created temporary exceptions to some regulations, fueling a slight uptick in IPOs before the lull. But the IPO market, despite Alibaba Group Holding’s \$22 billion IPO in 2014, has cooled.

“They implemented the Jobs Act, which provided some relief for companies going public for a period of time, if they were under certain thresholds,” David Silverman, a partner at PricewaterhouseCoopers, said. “It made it a little bit easier for companies to go public.”

Private equity provided another way for companies to obtain capital rather than going public, further diminishing the rush to IPOs.

“Companies have become more selective. Other market factors resulted in fewer companies going public,” Silverman said. “Private equity is coming in to later stage, venture -backed companies, providing liquidity.”

While a decline in initial public offerings hurt firms doing public company work, transactions, new regulations and consulting fuel their fees.

“At PwC, public companies are an extremely important part of our client base,” Silverman said. “Supporting public markets is a key mission of what we do on the assurance side.”

The lower number of Long Island-based public companies doesn’t mean Long Island public accounting firms are shrinking their Securities and Exchange Commission or public company business.

“We’ve been slowly adding public company work. We don’t have a limit on the size of public companies,” Straus added of Grassi & Co, “but given our standing as a large regional firm, we tend to work more with medium-sized public companies.”

The Sarbanes Oxley act of 2002 led to more regulation, fueling accounting firms’ practice in this sector, as accounting firms had to test internal controls.

“As that process has been refined, it’s increased the complexity of auditing a public company,” Silverman added. “And a focus on efforts to detect problems at firms has led to tougher oversight.”

In many cases, public companies look beyond their auditor for help, as independence regulations limit services auditors can provide. The Securities and Exchange Commission, American Institute of Public Accountants and Public Company Accounting Oversight Board all restrict work that auditors can do.

“For clients that we audit, we’re limited in other services we provide. We can do certain tax compliance work,” Silverman said. “In the context of the audit, we would need to audit the acquisition.”

Consolidation, as big public companies grow bigger, provides fewer clients, but CPA firms are brought in to help with deals.

“There’s incremental work for an acquisition. And it’s the same thing on a divestiture, carve out or spin-off,” Silverman said. “It’s more a matter of activity, growth and complexity.”

Grassi & Co. and other regional firms benefit by being able to do work for public firms audited by other accountants. “The auditor has to be independent,” Straus said. “Therefore the company has to look to another firm for certain consulting projects.”

The quality of audits and efforts to prevent fraud also may be improving, based on the fact that fewer public companies are being forced to restate earnings, according to Audit Analytics.

“I believe that the decrease in the number of restatements, and the increase in the percentage of the less severe revision-type restatements, is result, to some extent, of improved internal controls over financial reporting,” according to Donald Whalen of AuditAnalytics.

There could be still more work on the horizon for accounting firms that audit public companies, as well as more costs for the firms.

Accounting pronouncements put in place to take effect over the next few years regarding revenue and leases will mean that “public companies need outside help,” Straus said. “We’ve been getting some work in assisting companies with that.”

And companies still do go public and issue stock, whether it’s Cablevision spinning off firms or companies such as Long Island Iced Tea changing its name. So the public company sector remains an attractive market for accountants as well as many investors.

“We are always involved in helping companies get ready to go public,” Silverman said. “We’re always looking for companies with exceptional growth prospects who are looking at public markets.”