WHEN TWO ACCOUNTING FIRMS ARE BETTER THAN ONE

The role of auditors and auditor independence forever changed in 2002 with the passage of the Sarbanes-Oxley Act (SOX). In the aftermath, companies wrestling with auditor independence rules and related regulatory scrutiny must decide whether their audit firm should be providing them with tax services. Although one size does not fit all, there are compelling reasons for separating audit and tax work among two different providers. Here's a few.

Avoid independence issues. Separate audit and tax providers avoid auditor independence issues entirely. Roles become more defined and pure; the audit firm—and audit committee—stay focused on audit while the tax firm concentrates on tax opportunities and tax risk reduction.

Advocate for best outcomes. SOX prevents an auditor from acting as an advocate, thereby limiting an audit-provided tax professional's ability to provide advice. By comparison, a non-audit tax specialist is free to counsel management and provide an opinion on important tax issues without being subject to questions of auditor independence.

Centralize communication. It is a myth that keeping audit and tax services together within a single provider keeps lines of communication open. Companies provide no guarantee that the audit and tax teams at a single accounting firm, particularly a large one, talk or share information with each other. When audit and tax services are provided by two different firms, the company doing the hiring becomes the central point of contact, privy to all communication with both providers. As such, the company directs the messaging around what the business is and what the business does.

Competitive environment. The presence and interaction of two firms allows each to scrutinize the work of the other firm. With two firms vying for your business, clients can demand—and get—highest-quality technical expertise from each firm.

Two heads are better than one. Separate audit and tax professionals will bring different knowledge sets to resolving complex audit and tax problems, resulting in broader insights that can improve a company's decision-making.

In assessing whether to separate audit and tax functions, a company's tax profile is a key factor. As a company grows and its tax profile becomes more complicated, companies should consider separating their tax and audit relationships to preserve auditor independence and drive better tax outcomes.

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