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Accelerating The Timeline To The Future Of Tax And Audit – *By Michael Platt*

This month IPA is launching a series of articles aiming to bring clarity to the noise surrounding artificial intelligence (AI), augmented intelligence, blockchain and machine learning. Separating reality from hype and fact from fiction is challenging when developments are happening so quickly.

For as long as I've been in the profession, discussions of Jetson-like technologies have intrigued our imaginations, but have been positioned as coming "sometime in the future."

Practitioners didn't give it much thought, and many believed that, as with flying cars in *The Jetsons*, it would come long after they retired.

Then, in early 2016, **KPMG** announced an arrangement with **IBM Watson**, and KPMG CEO **Lynn Doughtie** declared, "The cognitive era has arrived." Many believed that the timeline to the future just became finite, and suggested that "mainstream" AI would likely be in place at all firms in five to seven years.

But how would we get there, and who will be building those bridges to the brighter future? Since Doughtie's declaration, the Big 4 and many of the IPA top 20 firms have collectively spent hundreds of millions of dollars researching technologies available and have devoted countless human resources to tap into the promise of AI.

Accounting software vendors are making small changes to their products, but are not doing much to create an off-the-shelf solution that will reinvent audit and tax processes using new technologies – in part because the investment is so great and the market, today, is finite.

The **AICPA**, recognizing the increased pace of R&D among the largest firms, has proclaimed its intent to not only ensure equal access to the new technologies to firms of all sizes, but has created an initiative to re-engineer audit and tax processes using new technology for the future.

At the October AICPA Council meeting, CEO **Barry Melancon** announced that the AICPA board has directed staff to explore a proactive role to coordinate and develop the changes as well as ensure that technology is equally available to all firms. “This is the biggest decision paradox that I’ve ever had to wrestle with,” Melancon told the audience. “We’re damned if we do and damned if we don’t.” Broad concepts of what a research and development initiative may look like have been shared with the *Major Firm Group* and the *G-400*, representing the 500 largest firms in the country. Firms do not agree 100% on funding and direction of the initiative, but the AICPA says the majority are vocally supportive. AICPA has set February 2018 as the timeframe for a go/no-go decision.

The future may mean a complete revamp of the core of the profession – imagine moving audits from sample testing that takes weeks to 100% verification that takes hours, or running tax bots in parallel to professionals with equal accuracy. Prototypes are now being tested in the field with amazing results.

The timeline for universal access to these tools continues to shrink quickly, with many now believing that firms will be using augmented intelligence and blockchain tools as soon as the next 12 to 24 months.

Firms are grappling with some of the bigger management issues that this change in technology will bring. How might this change who we hire? How will this change our staffing model? How does this fundamentally change our role with clients? How will we elevate our own skill set as partners? How might this change our pricing model?

If you think that all these changes are still a pipe dream and won’t affect your firm, it’s time for a reality check. The George Jetson future is no longer decades away, it’s months away. We are at the doorstep of a new way of doing business in the accounting profession, and what lies on the other side is both exciting and scary. It’s time to pay attention, because the “firm of the future” is becoming a reality – right here, right now. ■**IPA**

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AI And The Future Of Accounting: What Are We In For? Part One

"AI is going to do everything for us, it's going to take over the world, and if you don't touch AI you're going to be left behind."

If that's how you feel about artificial intelligence, you're not alone. This quote, from author and data scientist **Steven Finlay**, reflects his belief that like past technology trends, AI is so overhyped that it's real capabilities are unclear. For some, AI provokes fear. Tesla and SpaceX CEO **Elon Musk** has said that AI is more dangerous than North Korea. Others see AI as the gateway to a more utopian world, where technology will handle the routine functions of everyday life, leaving more time for leisure.

Dramatic prognostications aside, what is likely to happen when AI comes to the accounting environment? Some of the opportunities being considered include 100% verification of transactions, uncovering hidden trends in a client's business, tax return preparation, lower-level compliance, tax and A&A research, reviewing resumes, automating email review and response, generating invoices, capturing and maximizing workflow processes, analyzing data and much more.

The Big 4 are investing hundreds of millions of dollars in AI, which includes technology such as machine learning and cognitive computing. Will smaller firms be left behind? IPA, in a series of articles over the next several months, is talking with industry leaders and reviewing recent literature on the subject in an attempt to provide a clear-eyed view of what the future may hold.

According to **Harry McCracken**, technology editor for *Fast Company* magazine, AI favors institutions that have gathered data over years, not scrappy startups, as was the case in past tech advancements. More data means more knowledge for a cognitive computer that learns over time, which leads to more valuable information. AI can make a huge impact, therefore, on the business of accounting.

AI - OPPORTUNITY OR THREAT?

George Qin is an audit partner who leads Houston-based **MaloneBailey**, a leader in public company audits and one of only 11 firms in the world that must undergo an annual PCAOB inspection. Considering audit is at the center of much discussion on how AI will transform the profession, IPA sought his views on the future.

First, Qin says he considers the advent of AI to be an exciting opportunity, not a frightening threat. He believes audit quality will improve because, for the first time, auditors will be able to test entire populations of data rather than limited samples, and in a fraction of the time. With more data to analyze, auditors can get a clearer picture of the financial condition of the client and the ability to more easily and quickly detect irregularities or fraud.

Another benefit is a lightened work load for the client, as gathering information will likely become automated, reducing the hassle of collecting data as well as the time auditors spend on site with clients.

SKILLS FOR THE FUTURE: DATA ANALYSIS, CRITICAL THINKING

While Qin says AI will change audit methodologies and audit teams, he does not believe auditors will be automated out of existence.

Lower-level, more mundane, repetitive jobs will likely be lost. However, he says new skills will be needed – strong expertise in working with the technology and analyzing data – and that is the profession's responsibility to make it happen.

Qin is not concerned about hiring auditors who are computer-savvy. "They [younger staff] were born into this digital world and it's in their nature, but on the analytical side, it's up to us to hire the best and train them on how to think critically and have an analytical mind."

A new way of recruiting is appearing across the profession.

Firms are recruiting top talent with abilities in science, technology, engineering and mathematics along with the ability to work with large quantities of data and analyze it, says **Steven Harris**, PCAOB board member, in a speech earlier this year to the **American Accounting Association**, the community for accountants in academia.

The Maryland Association of CPAs (MACPA) began offering a range of training for CPA professionals who want to get their hands on some of these tools now in a non-threatening environment. MACPA and the Business Learning Institute has partnered with IBM to offer workshops and coursework on AI, data science and cognitive computing. In this way, MACPA CEO **Tom Hood** says accountants can experiment with the new technology and get familiar with it, before it hits their desktops.

THERE'S NO NEED TO OWN TOOLS TO ACCESS AI

Qin says that the difficulty in investing in AI may drive even more consolidation in the profession as smaller firms leverage the financial resources of larger ones to stay afloat. "On the other hand, as AI technology advances, the cost will come down," he says.

Thanks to the cloud and virtualization of many services, firms may be able to take advantage of these many opportunities. Amazon, Microsoft and Google all offer cloud-computing platforms that include AI.

The technology is evolving so quickly that Hood believes it will be democratized – available to all, not just the Big 4. The AICPA has also pledged to assist in making the opportunities of AI available to firms of all sizes – including sole practitioners – in the future.

Hood recently wrote that accounting professionals need three things to harness the promise of machines – a "future-ready" mindset, sharpened skills in empathy, relationships and trust, and the best learning tools out there. "Let's make AI stand for *Augmented Individual*, not Artificial Intelligence," he writes.

A BRIGHT FUTURE PREDICTED

Greg Ip, a *Wall Street Journal* reporter, writes that AI won't kill middle-class jobs if history repeats. At its core, AI is a technology that makes it easier and cheaper to predict things. When something becomes cheaper and easier, we do more of it, he says.

"Some jobs become superfluous, but others more valuable, and brand new ones spring into existence. Why should AI be different?" His Aug. 3 *WSJ* article pointed out that the accounting profession survived spreadsheets, so it will likely survive AI. "We're confident that the profession will not only survive, but it will thrive," says Kelly Platt, publisher of IPA.

While the number of bookkeeping jobs fell after spreadsheet programs became widely available in the 1980s, jobs for accountants and analysts rose dramatically, Ip writes. Since 1985, the number of accountants and auditors has grown 41%, while financial managers and management analysts have nearly quadrupled, according to the U.S. Bureau of Labor Statistics.

Harris suggests that small firms will have the ability to compete with, and even outperform, larger firms through creative use of the new tools. He warned his audience of accounting educators that auditors should not become too reliant on data analytics alone. "As powerful as these tools are, or are expected to become, they nonetheless are not substitutes for the auditor's knowledge, judgment and exercise of professional skepticism." ■IPA

Big 4's Expansion Into Legal Services Gives Legal World The Jitters

Although the Big 4 has years of experience operating in the legal realm outside the U.S., it is a recent announcement in the U.S. that is causing law firms to grow increasingly edgy as they watch accounting firms capture more market share.

The American Lawyer reported in September that **PwC** plans to open its own legal entity, **ILC Legal**, in Washington, D.C. – representing the first time an accounting firm has opened a law firm on U.S. soil. ILC Legal, which will operate separately from the accounting firm, will not offer advice on U.S. law, but instead will assist U.S.-based clients doing business abroad with international corporate structuring, mergers and acquisitions, and other services.

Accounting firm consultant **Allan Koltin** tells IPA that the move formalizes an expansion that's been going on for many years. "Many, many other flags will be planted in the next 5, 10, 15 years," he says. By 2030, he predicts, the IPA 100 firms will be competing head-on with the legal profession.

"Once the Pandora's box is open, the other Big 4 firms will do the same," says **Leon Dutkiewicz Jr.**, who co-owns his international tax firm, **D&H Global Tax Group,** with lawyer **Stuart Horwich**. "I don't see why they wouldn't."

A recent survey says 69% of law firm partners already consider accounting firms to be a "major threat." **ALM Intelligence** conducted the survey, which also revealed that 66% of law partner respondents are “concerned” or “very concerned” about competition from accounting firms and other alternative legal providers.

Nicholas Bruch, senior analyst with ALM Intelligence, says law partners are scratching their heads, wondering how far accounting firms will go. At first, it appeared as if the firms were rounding out their services by offering legal work that could be easily combined with existing tax or consulting work. Now, law partners are asking, “ ‘What are the Big 4 up to? Are they filling in gaps and that’s where they’re going to stop, or are they going to go deeper?’ ”

PwC’s recent move signals that the Big 4’s strategy was never to make a limited foray into legal services, Bruch says. “They’re going to do what the Big 4 have always done, which is grow and grow and grow and grow, and take more market share from law firms.”

The scope of the Big 4’s ambition is the biggest question looming over their future in the legal services market, Bruch says. “They have the scale, capabilities and client relationships to succeed in many different areas.”

Dutkiewicz says the Big 4 have the benefit of a strong, cohesive global network. Big regionals also have more professional connections with law firms than many people realize. He notes that while accounting firms can be owned by lawyers, as is the case at his firm, regulations bar accountants from becoming owners of businesses that provide legal advice. The only exception is Washington, D.C., home to ILC Legal.

It is possible the Big 4’s legal expansion could benefit his small, boutique firm, which serves U.S.-based or U.S.-owned companies with a global presence. Some middle-market companies may find the Big 4 too expensive and look elsewhere, “but I’m not shooting for it,” he says. His main competition in the international arena now is lawyers who are enrolled agents with the IRS. Dutkiewicz says the real question is, who’s the expert – the lawyer with accounting experience, or the CPA who works with a lawyer?

Koltin sees opportunities for firms with the desire and resources to expand into legal. “It’s the natural extension of the professional service line model,” he says. In Europe, clients can get accounting, real estate, financial services, banking, insurance and legal services in one place. “They tell us that clients want one-stop shopping. They want it to be made easy.”

Koltin goes so far as to predict that accounting regulations under Sarbanes-Oxley (SOX) that put the brakes on some legal services will eventually go away, giving accounting firms even more latitude. Now, most of the legal work is being done outside the U.S., where regulations are less restrictive.

The Growth and Decline of Advisory Services

SOX, which was enacted in 2002 following the high-profile Enron scandal and others, barred accounting firms from providing core legal and some other advisory services to audit clients to minimize conflicts of interest. "The message from the PCAOB and SEC was, 'Line up like soldiers and do what you're supposed to do,' but that window has passed, it's been over 15 years," Koltin says. "Parole is now over with no violations."

Accounting firms had been making significant inroads into legal services prior to the corporate reform legislation. In 2001, KPMG and PwC employed 1,740 and 1,700 lawyers, respectively, ranking them at Nos. 8 and 9 on the Top 10 list of biggest providers of legal services by number of lawyers, according to ALM Intelligence and the Harvard Center on the Legal Profession. No. 2 on the list was Andersen Legal, an offshoot of Arthur Andersen, which employed 2,880 lawyers and earned $590 million, making it the 10th largest provider of legal services in the world by revenue that year. Arthur Andersen was implicated in the Enron implosion but Andersen Legal was not involved.

SOX led firms to sell off their consulting practices and focus on bread-and-butter tax and audit work. The law never prevented accounting firms from providing legal services to non-audit clients, and with easing regulatory pressure and an uptick in demand for additional services, firms are again pouring money and effort into building advisory practices to offer a more holistic range of professional services.

By 2016, the Big 4's legal arms averaged 2,200 lawyers working in 72 countries, according to ALM Intelligence. PwC, which has the largest legal entity, would rank as the sixth largest legal services provider in the world by number of lawyers.

When viewed by revenue, however, the biggest law firms dwarf the Big 4. PwC earned $500 million last year from legal services, while the biggest law firm, Latham & Watkins, reported $2.8 billion. Those figures suggest that accounting firms may be offering mostly lower-value legal services, but they are starting to go further.

Big 4 Gaining a Foothold in Technology, Financial Services, M&A

Accounting firms are gaining ground, and law firm partners say they're penetrating the legal market, particularly in the technology and financial services industries. The strongest practices are in tax, labor and employment, and immigration. Because the Big 4 are global, with employees constantly moving from country to country, the firms developed strong immigration expertise internally.

That knowledge is now offered as a legal service for external clients. Law firms also believe accounting firms are in a good position to take market share when it comes to M&A work because they can offer a complete team of tax, legal and consulting advisors to take a project from start to finish.

Bruch says a few different scenarios could play out: 1) The Big 4 could continue offering legal services to support core tax and advisory work for clients; 2) they could transform their legal arms into standalone entities and compete directly with law firms; or 3) they could develop a range of managed legal services.

Managed legal services look similar to alternative legal service providers that leverage technology and the expertise of non-lawyers to offer services at deeply discounted prices. “The Big 4 have been slowly gobbling up companies in that space,” Bruch says.

The competitive environment of law is tough. It’s a highly fragmented market, and firms are stealing clients from each other and expanding into each other’s markets, Bruch says. Some law firms have been slow to add efficiencies, and every year one to three of the top 200 law firms goes bankrupt. The legal profession, which Bruch says is largely self-regulated, could push back against inroads into their market. The American Bar Association fought against accounting firms’ multi-disciplinary approach in the early 2000s, arguing conflicts of interest could result, and could do so again.

“They’ll bring their power to bear, and their power is considerable,” Bruch says, “but the wind is blowing against them.” ■IPA

Green Hasson Janks MP-Elect On Planning For A Successful Transition: ‘Now Is Never Too Soon’

Tom Barry has been preparing to become MP of **Green Hasson Janks** for four years – far longer than most who ascend to the top job.

Tom Barry

While a four-year lead time won’t work for all firms, it illustrates the partnership’s approach to succession planning as a holistic effort that not only involves a new MP, but developing and promoting all staff.

In January, Barry, 43, will become the fourth MP of Green Hasson Janks of Los Angeles, following all three namesakes – David Green, founder Louis Hasson and Leon Janks, who’s been MP of the $28 million firm for 12 years.

Handing over the reins from a Baby Boomer to a Generation X leader isn't the only succession success story at the firm this year. Partner **Donella Wilson** seamlessly replaced a retiring partner to lead the large nonprofit practice at the firm, also with a long transition period. Three professionals were admitted to the partnership in 2017, and the pipeline-to-partner strategy was updated across the firm.

Firms have been struggling with succession for decades. More than half the nation's firms, 59%, do not have a written succession plan in place, according to IPA's latest data from its annual survey of more than 500 accounting firms. Several factors contributed to Green Hanson Janks' success with the transition…

A MANDATORY RETIREMENT AGE OF 65 – "We had a line in the sand when we had to have the transition occur, so we had to be very intentional early on," Barry says.

LESSONS LEARNED FROM PAST TRANSITIONS – Each successive MP has had to shed more and more client work to give the role the attention it required. Now, Green Hasson Janks is complex enough that Barry will work only about 500 client hours per year, and he intends to grow the firm to $40 million in net revenue in five years.

A 'PROMOTING-FROM-WITHIN' APPROACH - The firm has hired very few partners from other firms and decided that bringing in a new MP from the outside would be too disruptive. Increased investments were made to 'grow great people' starting early.

A CONSULTANT-LED PLAN – The firm engaged an outside consultant who guided them through a series of exercises to get to the core of what they truly needed in a new leader. At the same time, they developed the firm's first MP job description. Having a neutral third party involved in the process helped with the emotional aspects of the shift, Barry says.

With the foundation set, Barry expressed interest in the position when Janks was about 63. At the time, no partnership vote was taken, but Barry became the clear candidate. Life intervened, however. Barry said Janks asked for an exception to the retirement policy to work for a few more years. At the same time, Barry's wife was pregnant with their fourth child, and staying in his current role made more sense for him personally.

"It was luck, it was kismet, it just kind of came together that way, but in retrospect, I think the extra transition time was hugely valuable," Barry says. Although he has served on the executive committee for many years, he knows that the MP has to make the toughest decisions, and as the leadership merged in firms, terminated partners, etc., Janks' close mentorship helped Barry tremendously in his new role.

The firm created a two-year schedule for transitioning duties that "brought clarity to what was moving and how," Barry says. The firm created an exhaustive list of responsibilities and separated the duties into four groups. Every six months, Barry gains a new group of responsibilities and he delegates work he needs to shed. For example, managing finance and IT became Barry's responsibility a year ago, and by this past July, all internal functions now report directly to him.

By the time the formal MP vote came a year ago, it was the "worst-kept secret" in the firm, Barry says.

Barry stresses, though, that succession is about more than replacing one leader with another. He says it's about "pulling many levers at once," by constantly focusing during the transition period on culture, talent, technology and innovation to position the firm for long-term success.

"Growing great people" is a core value of the firm, Barry says, and his election as MP is a manifestation of that commitment. Other than a stint of a couple of years at a New Jersey firm early in his career, becoming MP is the culmination of his entire career at Green Hasson Janks. "This is what we've been saying, and this is what we've done."

Being a Gen-Xer gives Barry a slightly different perspective, and he recognizes the battle to recruit and retain top-notch professionals means using technology to engage employees from anywhere. Notorious traffic in LA, combined with a high cost of living, make it imperative for the firm to offer as much flexibility as possible. Not only is it the easiest thing for the firm to offer, but it's also one of the most desired benefits employees want, he says. The firm is also considering adding offices around the greater LA area rather than maintaining just one office in West LA.

Flexibility must extend to career paths as well, Barry tells IPA. For example, the firm must be open to a part-time partner who doesn't want anything to do with administration or business development. "We have to be inventive."

Is Barry planning for his own successor? As someone who's not even in the role yet, he laughed, but added, "In all honesty, we're all planning for all our successors, and we do it every year." At the annual partner retreat, future moves are openly discussed and planning begins.

Barry advises firms to think of succession planning as an active process. It's not an event that has a start and end point. While a four-year transition may be too long for many firms, "You can't pull the trigger on it in six or 12 months." Every situation is different, considering the personalities involved, the state of the profession at the time, the technological challenges and so on, but Barry believes waiting isn't an option to consider. "Now is never too soon." ■IPA

Aligning IT With The Firm's Vision: A Critical Need In A Rapidly Changing Environment

Not all accounting firm partners are well versed in the world of information technology. Even fewer can effectively communicate the firm's vision, advocate for the IT staff, and ensure IT strategies and firmwide goals match – all while positioning the firm for the future and protecting it against security lapses.

Bob Fink, PIC of IT at Dubuque, Iowa-based **Honkamp Krueger & Co.** (FY16 net revenue of $68.8 million), has been recognized recently for pulling off this difficult feat by **Boomer Consulting** with its 2017 *Bridging the Gap Firm Management* award. Fink was honored for using technology to enable flexible schedules and work arrangements, freeing up IT staff from mundane maintenance and trying to think many steps ahead. If IT spending and long-range firm goals aren't well aligned, the result can be costly.

Fink agreed to share some thoughts with INSIDE Public Accounting about his experiences. Here's an excerpt from our conversation.

Q: Your bio says you have helped transform HK's network into a "highly virtualized environment along with a highly fault tolerant infrastructure." Can you explain more about what this means and how the existing system compares to what was used previously?

Like many firms, Honkamp Krueger (HK) employees use dozens of applications to provide services to an array of clients. About 10 years ago, with the rapid growth in applications came the need for more servers, meaning expanding the server room and maintaining the system. The firm then made the investment to "virtualize" the servers and reduce the huge amount of space they required.

The next leap took place about a year ago when HK migrated the production servers to Microsoft Azure. The move freed up space and a huge burden from the IT staff. The firm's own data center became less important after the move, which was timed to line up with the expiration of private contracts. "We transitioned each office to Internet-only fiber connections allowing us to have much higher bandwidth while also reducing significant cost." Now there's only one server left for the telephone, which is ready for an upgrade, and the transition has gone "shockingly well," he says.

Without having to deal with constant updates and infrastructure maintenance, the IT staff can take on other responsibilities. "The best part of the transition is going forward, we are less and less hardware-based and more based on solutions for staff and clients," Fink says.

Q: Many firms have embraced anywhere/anytime work, and we are interested in the details of how that works, from an administrative/operational viewpoint.

HK has programs to allow most of its 200 employees across the firm's eight offices to work remotely and/or manage their own schedules. With the guidance of a consultant, a policy was developed by a core work group of leaders and representatives from administrative and service departments. "They researched best practices, looked at what other organizations were doing both inside and outside of the CPA industry, and created our own unique policy that was a good fit for HK," Fink tells IPA.

After gathering feedback on the effects, the policy was tweaked to reflect the input, the firm launched a pilot program, and comments were gathered through a survey. Employees sign a telecommuting agreement and/or a self-managed schedule application.

Technology allows remote work to be just like working at the office. Anyone who is out of the office with a laptop or other device is connected to all resources immediately "without having to do anything," Fink says.

Q: Have you determined whether remote working costs the firm more or less than the traditional work-at-the-office arrangement?

Fink says the firm did not see cost increases. "What we did find is an increase in our retention of talented employees and the firm is in a better position to attract Millennial and Gen-Z candidates. Also in an employee survey, we found that morale has increased due to the flexibility of the remote and self-managed schedule programs."

Q: What advice would you give firms who are just starting to develop policies and procedures around remote work arrangements?

Get a diverse range of opinions across the firm before you start, pilot the program to work out any kinks, get continuous feedback and deal one-on-one with the few exceptions. "Don't let them hold you back," Fink says.

Q: How do you educate staff on cybersecurity risks?

Fink says hackers pose a huge risk for the firm. "They're going through the employee to get to us, so we use multiple channels to keep our employees up to date." Annual training is combined with short 5- to 15-minute refresher videos every quarter. IT also sends out clever fake phishing emails to employees throughout the year. "We give quick feedback to staff on how successful it was, and here are the red flags you should have seen."

Q: You were recognized by Boomer Consulting for 'bridging the gap.' In your experience, what's the biggest mistake firms make in failing to align firm goals with IT infrastructure?

Fink says his connection to CIOs through Boomer Consulting has been vital to helping him "guide the IT ship." He says firms should work toward a strong linkage to assure IT projects closely adhere to the firm's goals. "The lowest level of alignment is when IT is mostly an afterthought to firm's management, and projects are handed to IT after decisions have been made. The middle area of alignment is when IT is brought in once projects are initiated to help work through the details and deliver the solution," he says. "Firms should be working toward a high level of alignment with their IT lead as part of the leadership group helping with visioning and prioritizing upcoming projects." This way, he says, IT can provide more accurate timelines and plan better. "It helps both sides achieve what we hope to accomplish in the coming years."

Q: Any final thoughts?

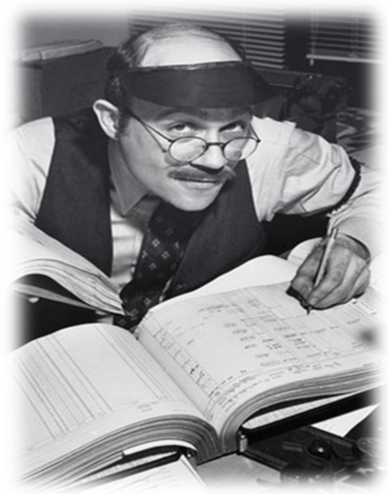
Fink says being open and flexible about change is imperative, but it isn't always easy, even for people working with technology. I think the next five or 10 years are going to bring a major shift in their responsibilities, more so than the last 10 years." Every decision has to center on whether technology will add value to the firm and the clients, and the firm is watching developments in blockchain / artificial intelligence / machine learning to ensure new developments can be used with the firm's software. "It's exciting being on the forefront of initiating change in the firm with technology." ■**IPA**

Eide Bailly Marks Its 100th Year

Eide Bailly, founded in 1917 in Fargo, N.D., is celebrating its 100th year in the same way that it has always operated, with team members enjoying their work and their colleagues.

"We're not a stodgy 100-year old firm," says MP and CEO **Dave Stende**. "We're innovative, we offer a great learning environment and we have a lot of fun."

During busy season, some entertainment needs to be injected to lighten the mood and sometimes a wacky costume does the trick. Staff members have been known to dress as Star Wars characters or movie stars from the 1980s. "It's amazing how over the top some of them get," Stende says.



Eide Bailly, which started with pencils and paper as its most advanced tools, is now one of the largest firms in the nation, with $269.4 million in net revenues for FY17, 29 offices across 13 states and more than 1,700 staff.

The story began when Bishop Brissman & Co. CPAs of Minneapolis and St. Paul, Minn., opened a Fargo, N.D., office. Eide Helmeke & Co., one of the two primary lines of heritage of Eide Bailly, eventually came into being from that Fargo birthplace. That name stayed in place until 1998 when the firm joined with Charles Bailly & Co. and assumed the Eide Bailly name.

At that point the firm boasted $31 million in revenue and 56 partners. Growth took off in the early 2000s, with new locations in Idaho and Oklahoma, then Minnesota, then Colorado and then Utah by 2012. Growth has continued unabated, and Stende is eyeing other areas in the West for further expansion.

Maintaining the firm's culture across so many offices and states is one of the main considerations when Eide Bailly is looking to acquire other firms to continue its growth. Stende says 'are they a good fit,' and 'are we starting with a good group of people,' are central questions in the merger process.

Technological tools keep team members connected, Stende says, and the firm gathers members together for various training events. While firm locations are vastly different – think of Phoenix versus Des Moines, Iowa, or Norman, Okla., versus Mankato, Minn. – Stende says he strongly believes the firm reflects one culture with 29 different personalities. Stende, who's been with the firm for 35 years, says his mentors, when he was a young accountant, are responsible for the culture the firm enjoys today. He foresees technology continuing to change the profession profoundly, as artificial intelligence and many other advancements promise to transform firms within the next few years.

"You must be doing a lot of things right to stay in business for 100 years," Stende says. "For our next century, we'll keep building on the culture we have to remain successful." ■IPA

Dave Stende

The 2017 IPA Firm Administration Report – Hot Off The Press…

More than 150 accounting firms participated in IPA's 2017 Firm Administration survey. The report contains 70 pages of tables and graphs, and information from 44 firms above $30 million, 29 firms between $20 million and $30 million, 50 firms between $10 million and $20 million, and 30 firms under $10 million. *A few observations are worth noting.*

SUCCESSION PLANNING – Succession plans for managing partners / CEOs are in place at 45% of all firms. In the firms above $75 million, 88% have a succession plan, while none of the participating firms below $3 million report having a succession plan in place for their MP and / or CEO.

Only 7% of all firms have a succession plan for high-level administrative staff. No firm below $15 million reports a plan for these individuals.

DECISION-MAKING – In all but the smallest firms, the dominant form of governance is management by executive committee, with 73% of all firms above $5 million reporting that as the preferred governance structure. Firms below $5 million are predominantly run by the managing partner, with 50% of reporting firms indicating this as the preferred governance structure.

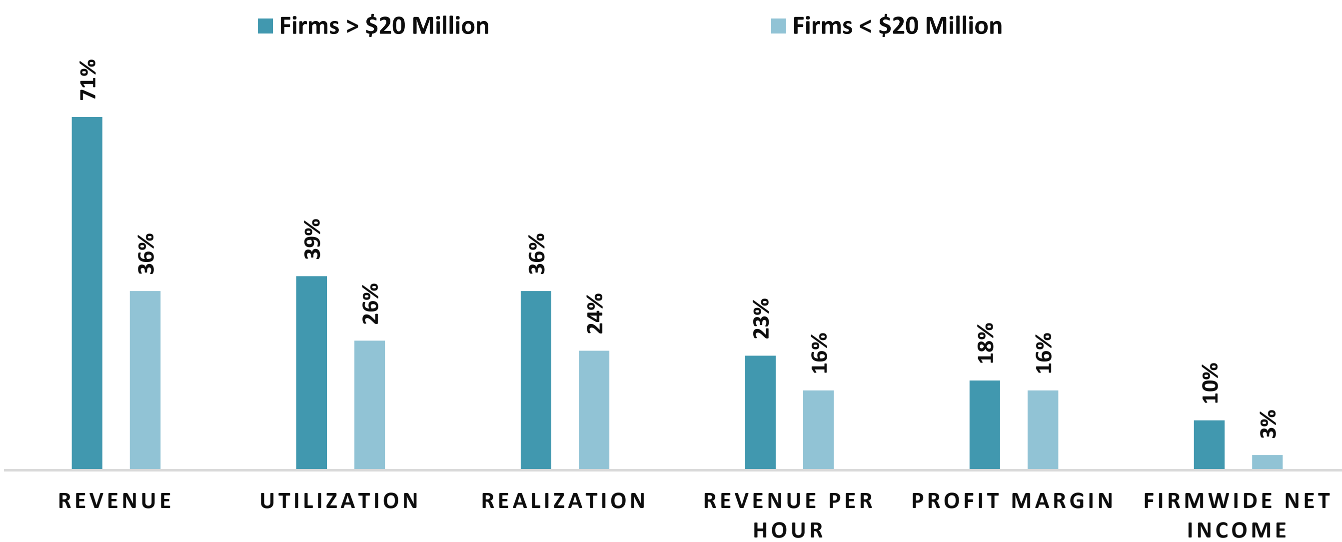
INTERNAL ADMINISTRATIVE – C-SUITE STAFF – Thirty-eight percent of firms report a dedicated firm administrator on staff. The average salary is $117,647 with the highest regional average in the Northeast at $152,666. For firms above $30 million, 54% report having a chief operating officer on staff, with an average salary of $251,130. Training directors are now employed by 23% of all firms. In firms above $30 million, that number jumps to 54%. Business development directors are now in place in 29% of all firms, and that percentage rises to 50% of all firms above $30 million.

BUSINESS DEVELOPMENT INCENTIVES – Firms stress that they want staff generating new business opportunities, whether it comes in the form of new clients or additional services to existing clients. Sixty percent of firms offer incentives for bringing in new clients for 0- to 2-year staff and 3- to 5-year staff. More than half the firms offer these incentives for all experience levels. More than half of participating firms rate their incentive program as "good" or "excellent," but 16% believe their program is "fair" or "poor." The other 27% consider their program "average."

SHARING METRICS FIRMWIDE – For several years, IPA has tracked firms' level of transparency regarding sharing key metrics with staff. According to IPA's 2016 Road to Retention report, young professionals are eager to know if the firm is profitable, growing and on track with partners' financial expectations. Firms want their staff to serve as business advisors, which requires a good understanding of the key performance indicators of their client businesses. IPA data shows, however, that philosophical differences exist on the types of firm performance indicators that should be shared with staff. ■**IPA**

Percentage of Firms That Share Select Metrics with ALL Staff

Source: INSIDE Public Accounting 2017 – Firm Administration Report



MERGERS

Salem, Ore.-based **Aldrich CPAs + Advisors** (FY16 net revenue of $47.1 million) acquired **Sutor Krystad & Rosenfeld** of Pasadena, Calif., including partner Eric Krystad and staff.

Bowman & Company (FY16 net revenue of $9.3 million) of Stockton, Calif., acquired **The James Company**, on Nov. 1.

Enterprise, Ala.-based **Carr Riggs & Ingram** (FY16 net revenue of $235.8 million) acquired **AGH LLC** of Atlanta, a $14 million firm.

New York-based **Citrin Cooperman** (FY16 net revenue of $233 million) acquired **Kera & Company** of Tarrytown, N.Y., which includes partner **Ellen Kera** and seven staff. Kera will be admitted as a partner and co-leader of the firm's automotive dealerships practice.

Cleveland-based **Cohen & Company** (FY17 net revenue of $67 million) acquired Hunt Valley, Md.-based **Arthur Bell**. **Chris Bellamy**, the current president of Cohen & Company's investment industry services division, and **Corey McLaughlin**, MP of Arthur Bell, will co-manage the practice.

Chicago-based **Crowe Horwath** (FY17 net revenue of $809.5 million) and San Francisco-based **Rowbotham International** joined forces. Rowbotham's four partners and 20 professionals joined the firm on Oct. 30.

Metairie, La.-based **LaPorte CPAs & Business Advisors** (FY16 net revenue of $26.5 million) will acquire **Lanaux & Felger of Houma**, La., on Dec. 1. Once the merger is complete, LaPorte will have more than 180 employees.

Louisville, Ky.-based **MCM CPAs & Advisors** (FY16 net revenue of $48.7 million) merged with Indianapolis-based **K. B. Parrish & Co.** MCM has nearly 350 employees across five offices. Approximately 30 KBP employees, including four partners, joined MCM.

Two IPA 100 firms, Seattle-based **Moss Adams** (FY16 net revenue of $527 million) and Denver-based **Hein & Associates** (FY16 net revenue of $61 million), combined on Nov. 1. Revenues of the combined firm will near $600 million. The merger will bring the total headcount at Moss Adams to nearly 2,900 in 26 locations. Hein will bring about 300 new personnel, including 35 partners to Moss Adams. With this move, Moss Adams will expand its geographic reach, with new office locations in Denver and Houston, while also deepening resources in Dallas and Orange County, Calif.

Moss Krusick & Associates (FY16 net revenue of $3.9 million) of Winter Park, Fla., acquired **Smyth & Hauck** of North Palm Beach, Fla. Founded in 1982, S&H provides a accounting, tax and advisory services to diversified businesses, high-net-worth individuals and not-for-profit organizations. Combined with the existing MKA office, the firm will have 55 employees.

On Nov. 1, New Philadelphia, Ohio-based **Rea & Associates Inc**. (FY16 net revenue of $40.6 million) merged with Cleveland-based **Walthall CPAs.**. The merger features a team of more than 300 professionals who serve clients from 13 offices across the state of Ohio.

Lancaster, Pa.-based **RKL** (FY16 net revenue of $61.5 million) will merge in **Padden Guerrini & Associates** of Mechanicsburg, Pa., on Jan. 1, 2018. The two firms serve the accounting and consulting needs of the credit union and senior living industries, in addition to serving middle market commercial clients.

Clifton, N.J.-based **Sax LLP** (FY16 net revenue of $29.7 million) acquired **Hunter Group CPA** (FY16 net revenue of $6.5 million) of Fair Lawn, N.J.

Newport Beach, Calif.-based **Squar Milner** (FY16 net revenue of $64.9 million) acquired Campbell, Calif.-based **Loomis & Co**., on Nov. 1.

Lancaster, Pa.-based **Trout Ebersole & Groff** (FY16 net revenue of $14.8 mllion) acquired business valuation firm, **Wolfe Valuation**. **W. Michael Wolfe** will join as a partner and has experience in business valuation, value optimization, fair value generally accepted accounting principles, and international financial reporting standards.

Milwaukee-based **Wipfli** (FY17 net revenue of $274.8 million) acquired Great Falls, Mont.-based **Joseph Eve**. "The combination presents Wipfli with opportunities to provide an even greater breadth and depth of services and resources to our clients across all the tribal government and gaming clients," says **Rick Dreher**, Wipfli's MP.

Bethesda, Md.-based **Bond Beebe** joined Princeton, N.J.-based **WithumSmith+Brown** (FY17 net revenue of $175.4 million). Bond Beebe will remain at their locations in Bethesda and Alexandria, Va. ■IPA

PEOPLE

Richmond, Va.-based **Cherry Bekaert** (FY17 net revenue of $174.8 million), named **Michelle Thompson** the firm's next MP and CEO. Thompson will assume her new role on May 1, 2018. Thompson succeeds **Howard Kies** who served as MP for 27 years.

Catherine Heigel returned to Greenville, S.C.-based **Elliott Davis** (FY17 net revenue of $118 million) as its COO. Heigel will manage the firm's operational support functions, including legal, information technology, human resource, marketing and communications, and firm administration. Heigel joined Elliott Davis as general counsel and corporate strategies officer. She left Elliott Davis in June 2015 for a period of public service when Gov. Nikki Haley named Heigel director of the Department of Health and Environmental Control.

Troy, Mich.-based **Doeren Mayhew** (FY16 net revenue of $73.7 million) named **Chad Anschuetz** as its new MP and board chairman, succeeding **Mark Crawford**, who had been in the role since 1995. Anschuetz has been at Doeren Mayhew for 26 years. Over his career, he focused on meeting the accounting, audit, business advisory, and merger and acquisition needs of a wide range of businesses – which he will continue to do for his clients.

New York-based **Prager Metis CPAs** (FY16 net revenue of $60.8 million) named **Jerry Eitel** OMP of the Woodbury, N.Y., office. Eitel has experience in diverse industries and works with both large and small closely held businesses. His real estate clients include both foreign and domestic investors and developers of U.S. real estate and business.

Tanner LLC (FY16 net revenue of $24.7 million) of Salt Lake City, admitted **Dan Griffiths** to partner of strategy and leadership. Griffiths has 12 years of experience serving private companies, municipalities and family owned businesses in leadership development, business strategy and succession planning.

Fort Worth, Texas-based **Whitley Penn** (FY16 net revenue of $83.6 million) welcomed **J.D. Stotts** as the firm's new CIO. Stotts has more than 20 years of experience in information security, software development, infrastructure and operations. Stotts will be responsible the firm's IT operation and will work closely with the management committee, department leaders, IT council, and WPIT team to develop and implement an IT vision and strategy aligned with the firm's overall business objectives.■IPA

FIRMS

New York-based **Deloitte** (FY16 net revenue of $17.5 billion) was targeted by a sophisticated hack that compromised the confidential emails and plans of some of its blue-chip clients, according to the *Guardian*. According to the *Guardian*, hackers had potential access to: Usernames and passwords; IP addresses; Architectural diagrams for businesses; Health information; Email attachments with sensitive security and design details. The breach, which is believed to have been U.S.-focused, was considered so sensitive that only a few of Deloitte's most senior partners and lawyers were informed. Deloitte's internal review into the incident is ongoing.

Michael Garibaldi, the former president and CEO of Garden City, N.Y.-based **Israeloff Trattner & Co.**, has formed his own firm, the **Garibaldi Group**, also in Garden City. Garibaldi said the firm will provide both traditional and non- traditional services. Michael was with us for many years," says **Andy Wilder** of Israeloff Trattner. "He left to go his own way. We wish him the best."

Chicago-based **Grant Thornton** (FY16 net revenue of $1.7 billion) opened a new Silicon Valley office, located in San Jose on Sept. 26.

A new firm, **Horsey Buckner & Heffler** has been formed in the Philadelphia area. Led by **Michael Horsey** and **Kia Buckner**. Prior to starting HBH, Horsey served as a partner of **Mitchell & Titus** for more than 30 years. Buckner began her career at **PwC**, and was hired as a manager with Mitchell & Titus in 2000. HBH will provide assurance, tax, and advisory services to closely held businesses, not-for-profit organizations, governmental agencies, corporate entities, high-net-worth individuals and professional athletes.

Salina, Kan.-based **KCoe Isom** (FY17 net revenue of $63.8 million) opened a new office in the California central valley, near UC Davis. "When we explored specific office possibilities, both the convenience for rural farms and ranches, and the proximity to leading ag school in the world – **University of California at Davis** – made the Davis community the clear choice for our office," says MP **Jeff Wald**. KCoe Isom's move into the Sacramento area brings the firm's total locations in California to six, with five other offices spanning the central valley from Fresno to Redding.

New York-based **KPMG** (FY16 gross revenue of $8.6 billion) launched **Ignite**, a portfolio of AI capabilities that are designed to enhance and automate the decisions and processes their clients use to go digital. "The promise of AI requires more than just technology. Its power must be grounded on a foundation of trusted analytics, access to unique and reliable data, and deep-rooted domain knowledge in order to drive new insights and strategies," says **Brad Fisher**, U.S. leader of data and analytics for KPMG.

Southfield, Mich.-based **Plante Moran** (FY17 net revenue of $517.3 million) has opened an office in Tokyo, the firm's fourth international office. "It's a one-person office for now, but over time we will build it up. We wanted to better coordinate services with executives in Japan, and having someone on the ground in Japan is a great way to do it," says MP **Jim Proppe**.

Chicago-based **UHY** (FY16 net revenue of $126.8 million) opened its fourth Michigan office in Ann Arbor. **Jerry Grady**, Ann Arbor OMP says, "We've been wanting to do this for quite a while. The time is right, our location is ideal, and our whole team is excited for this new venture. Having a presence in Ann Arbor will allow us to enhance our service capabilities even further and better serve our clients in the surrounding areas." ■**IPA**

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Flintstone Rubble & Company		Ranking Among All Participating Firms	Average All Participating Firms	Ranking Among All $10 - $20M Firms	Average All $10 - $20M Firms	Average 2017 Top 25 Best of the Best
NET REVENUE	**Your Data**		**SAMPLE DATA**		**SAMPLE DATA**	**SAMPLE DATA**
Net Revenue Growth Rate (Organic Only)	4.4%	278 of 507	5.0%	78 of 147	5.5%	16.0%
Net Revenue per Charge Hour	$175.23	115 of 474	$146.22	34 of 139	$165.22	$207.66
Net Revenue per Equity Partner	$1,376,826	300 of 500	$1,666,552	82 of 143	$1,756,254	$2,587,561
Net Revenue per Employee	$160,715	297 of 505	$182,000	84 of 144	$185,045	$248,569
Net Revenue per Square Foot	$503	280 of 469	$604	90 of 133	$654	$922
OPERATIONS			**SAMPLE DATA**		**SAMPLE DATA**	**SAMPLE DATA**
Charge Hours per Professional Staff (**Excl**. Eq. Ptnrs.)	1,281	366 of 473	1,401	107 of 139	1,452	1,503
Utilization (All Professional Staff **Incl**. Eq. Ptnrs.)	60.1%	375 of 468	68.3%	117 of 138	66.8%	68.5%
Utilization (All Professional Staff **Excl**. Eq. Ptnrs.)	63.1%	380 of 468	72.5%	116 of 138	70.0%	72.0%
Charge Hours by Professional Staff Percentage (**Excl**. Eq. Ptnrs.)	79.9%	376 of 472	86.4%	121 of 138	89.1%	90.5%
Personnel Costs as Percentage of Revenue	44.0%	191 of 476	49.6%	44 of 137	49.5%	43.6%
Professional Staff : Administrative Staff Ratio	4.0	348 of 503	5.6	101 of 143	6.6	7.6
Professional Staff : Equity Partner Ratio	5.4	379 of 501	7.9	115 of 143	9.4	11.5
A/R - Days of Production Locked Up	34.3	76 of 480	66.0	21 of 138	66.5	45.2
WIP - Days of Production Locked Up	22.7	224 of 462	30.2	50 of 130	22.5	20.9
NET INCOME			**SAMPLE DATA**		**SAMPLE DATA**	**SAMPLE DATA**
Net Income as Percentage of Revenue	34.8%	118 of 475	31.5%	32 of 137	27.5%	36.5%
Fully Loaded Net Income as Percentage of Revenue	13.2%	259 of 450	13.8%	83 of 129	14.2%	31.6%
Net Income Growth Rate (Organic Only)	-0.9%	326 of 465	7.7%	96 of 135	5.4%	14.6%
Net Income per Charge Hour	$60.98	114 of 459	$50.48	37 of 133	$46.88	$83.95
Fully Loaded Net Income per Charge Hour	$20.34	240 of 439	$23.01	75 of 125	$24.22	$70.55
Net Income per Equity Partner	$342,018	329 of 468	$464,050	106 of 136	$492,555	$1,105,675
COMPENSATION			**SAMPLE DATA**		**SAMPLE DATA**	**SAMPLE DATA**
Average Equity Partner Compensation	$283,657	351 of 469	$410,556	109 of 135	$436,598	$995,856
Average Non-Equity Partner Compensation	$179,852	250 of 307	$189,521	60 of 99	$204,563	$277,654
Average Professional Staff Compensation	$78,258	171 of 460	$73,161	51 of 133	$77,695	$92,548

Total response numbers will change due to the fact that not all respondents provided the requested data. A total of 525 firms participated in the 2015 IPA Annual Survey and Analysis of Firms. Averages exclude all Big 4 data.

KEY =	TOP 25% of Responses	MIDDLE 50% of Responses	BOTTOM 25% of Responses

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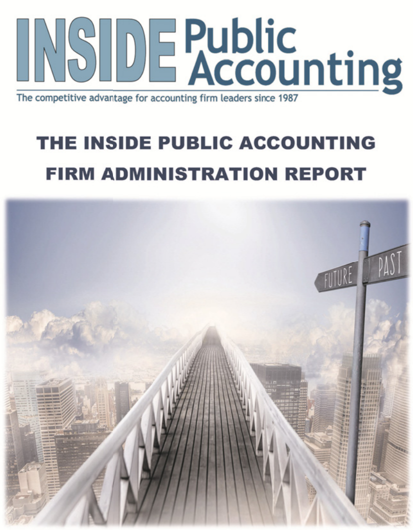

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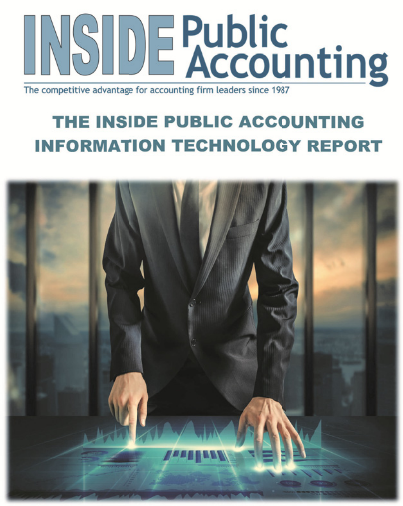

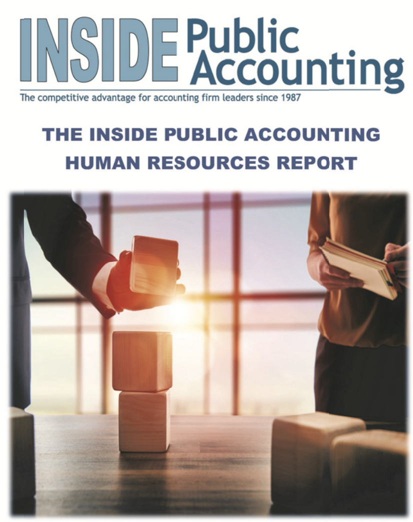

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