Accounting

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Exodus of top earners at WHK

Agnes King

Close to a third of WHK Group's Sydney principals have quit in protest at a new remuneration model, including two of the firm's top earners.

Twelve senior staff have resigned since the start of the year, potentially stripping WHK of $16 million in fees, prompting questions about its obligation to inform the market about growth implications. WHK is Australia's fifth-largest accounting firm with a market capitalisation of $239 million. Revenue per partner was $1.4 million in fiscal 2011.

One source who quit the firm said principals were sceptical about the new remuneration structure, designed by Mercer at the behest of new chief executive John Lombard. "They still don't know what that remuneration structure is going to deliver," said an insider. "There has been so much confusion. The company ran a roadshow modelling it but that hasn't helped."

But Mr Lombard rejected this. In a written statement, he said: "The departures in Sydney are an outcome of the resignation of former CEO [Darren O'Brien, who quit in February], not a result of the new remuneration model. The losses are not material. The Sydney business needed to be re-energised. It had been one of our poorer-performing businesses.

"Sydney office revenue growth has stagnated for the last five years and we needed to check its direction and regain momentum."

Head of business services, Jorge Di Zio, and head of the Norwest office in Sydney's west, Thomas Thoma, have resigned, effective July 31. They are named in the annual report as two of WHK's highest-paid employees.

It is rumoured both men oversee a parcel of fees worth about $2 million each. But Mr Lombard said that, while the trio command high salaries, they were not top-fee earners. "This in itself reflects the past misalignment we are trying to correct. Our new remuneration model will reward people for, among other things, organic revenue growth," he said.

The losses are not material. The Sydney business needed to be re-energised.
John Lombard, CEO, WHK

Head of forensic accounting, Jenny Wheatley, will also finish up this month. "They are waiting to collect bonuses before exiting the building," one source said.

The fallout is being interpreted by some as a damning assessment of WHK's new pay model. "When the biggest fee-earners are saying 'I'm not buying into this' I think that waves a bit of a red flag," a WHK insider said.

But Mr Lombard said this simply was not the case. The 10 departures have been replaced by 17 new appointments. "New arrivals have not been deterred by our remuneration model. Our principal departures have decreased in the order of 25 per cent from the previous year," he said.

WHK's net profit after tax was down 51 per cent to $6.71 million for the half year ended 31 December. Revenue was $215 million, up 1 per cent on the same period last year.

Grant Thornton deal a boost

Agnes King

Grant Thornton International chief executive Ed Nusbaum is "very comfortable" with the risk profile of Grant Thornton Australia's recent acquisition of BDO's beleaguered NSW-Victoria practice.

The $60 million Australian acquisition is the biggest of more than 25 mergers executed by Grant Thornton globally in the last six months.

The move has been instrumental in restoring the world's seventh-largest accounting network to double-digit growth. It makes Australia the fourth-largest office in the Grant Thornton network, behind the United States, the United Kingdom and Canada, with revenue of $232 million.

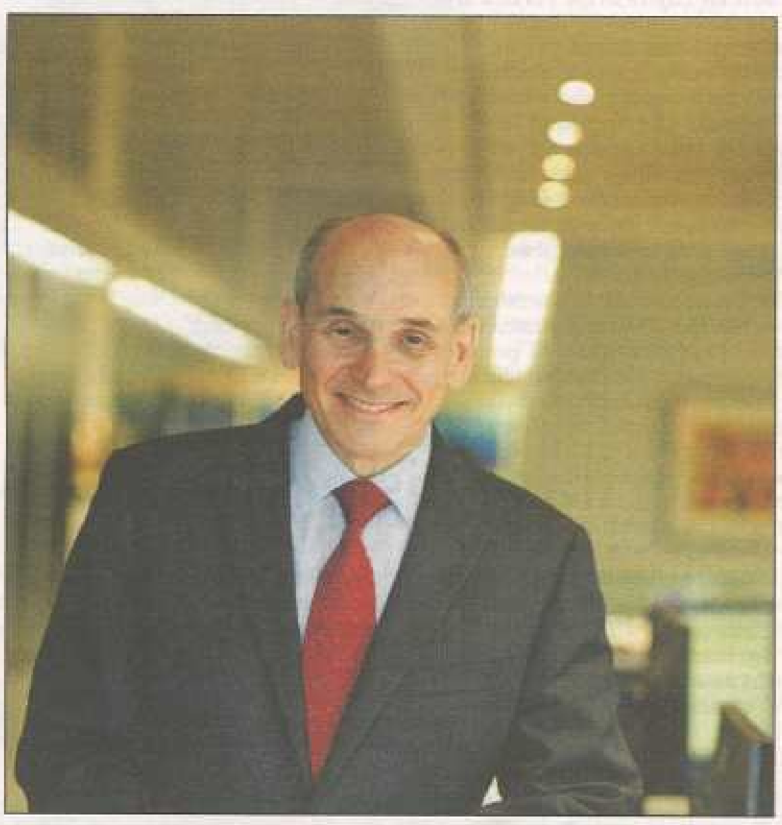
"A deal like this is all about the people you're bringing in," Mr Nusbaum said. "My impression is we've retained most of the clients. But even if we've lost a few, that's not the end of the world at this point. We've good people and we'll get more clients."

Expansion in emerging markets, healthy growth of the US and mergers in Australia, China and Russia, have boosted Grant Thornton's global income by 12 per cent since the start of its financial year on October 1.

This compares to a lacklustre 3.5 per cent growth, to $US3.78 billion, in fiscal 2011.

If it can sustain this momentum, Grant Thornton has a hope of usurping RSM International in the global rankings to claim the No. 6 spot behind arch-rival BDO.

Grant Thornton has made no secret of the fact that it wants to double in size in the next five years. "We are encouraging every country to do mergers as a critical part of that strategy," Mr Nusbaum said.



Growing momentum . . . Grant Thornton global boss Ed Nusbaum. Photo: JIM RICE

This year alone it has purchased $US260 million worth of fees.

Some industry watchers feel Grant Thornton has too many eggs in too few baskets. More than half its income is derived from the US, the UK and Canada.

But Mr Nusbaum is comfortable that its proportional weighting is aligned to the global economy.

"We all want to be bigger in China but in terms of the revenue generated in emerging economies, it's peanuts by comparison," he said.

Depending on which way the political winds blow, wide concern about market concentration, particularly in relation to audit services in Europe, could present substantial opportunities for Grant Thornton.

These aspirations suffered a setback last week, when a European Union report cast doubt on the evidence base behind plans to break the stranglehold of the big four firms – PwC, Deloitte, Ernst & Young and KPMG – on Europe's billion-dollar audit industry.

But the reforms are far from dead, according to Mr Nusbaum. A recent *Accountancy Age* survey demonstrates why. Of the $US160 billion in fees generated by the top 35 international accountancy networks in 2011, big four firms accounted for two-thirds. It would take nine mid-tier players to match the size of a single big four network. "To say that the big four networks dominate the global accountancy scene would be an understatement," said *Accountancy Age* writer Philip Smith.

Despite their difference in size, global accounting networks have remarkably similar key concerns.

The management of underperformance has become a top priority in the face of an onslaught of litigation arising out of the financial crisis.

Global networks are only as strong as their weakest link. "Regulators look at this as more of an issue," Mr Nusbaum said. "They're very concerned about the fact that we are strong in every country."

In the last three years, Grant Thornton has expanded quality control monitoring of member firms. Large audit clients are vetted by a global committee, and it has just introduced global engagement policies to ensure sufficient quality control on engagements where more than one country is involved.

To cover the expense of this heightened activity, it had to lift member-firm fee contributions by about 50 per cent. Mr Nusbaum hopes to stave off further increases using Grant Thornton's scale to drive down costs in a range of areas.

Stiff director penalties to deter talent

Katie Walsh

Fairfax Media board member James Millar says new laws that lift the corporate veil and empower the tax man to chase directors for unpaid company debts will deter high-calibre candidates from seeking the role.

"We must not try to make company directors [into] managers," said Mr Millar – a director of companies including Mirvac, The Smith Family and Jetset Travelworld.

"We need to have a good, diverse pool of people that can give advice without fear of losing everything."

Mr Millar said it was impossible to determine at a board level what debts should and should not be paid. That was clearly a job for management.

"At what point do we say not all of the debts of the company fall into the laps of the directors?" he asked.

From June 29, directors are automatically personally liable for unpaid superannuation and pay-as-you-go tax in certain circumstances.

Hall Chadwick partner Domenic Calabretta said the changes would result in many more companies entering administration and liquidation and more directors being bankrupted.

What's more, the Tax Office would gain preference over other creditors as a result. "Ninety per cent of the companies that come across insolvency practitioners' desks have outstanding PAYG and superannuation liabilities for longer than three months, so it's going to be very common," Mr Calabretta said. "Entrepreneurship won't be as high because directors won't be as bold."

The changes are part of a crackdown on "phoenix" operators who kill a company to dodge debts, only to resurrect it using the same assets.

Mr Millar said he was all for purging rogues from the system, but a broad-brush approach was not the way to do it.

Firm Spy shut down

Legal and accounting gossip site Firm Spy has been shut down amid rumours that cyber attacks and litigation have brought the contentious gossip hub low. Its mysterious disappearance follows a scathing attack on Allens Arthur Robinson managing partner Michael Rose. In 2011 Firm Spy's account was suspended after it ran a post linking the Arnold Bloch Leibler law firm to pro-Hitler merchandise.

Lawler profit up 35pc

Newcastle-based accounts Lawler Partners has increased profit by 35 per cent in the 2011-12 financial year, while increasing revenue 12 per cent to $28.5 million. Managing director Steve Meyn said investment in a new corporate finance division, tax consulting and business services had paid off. It also reduced costs through technology and a paperless office. It will use the purchasing power of its national alliance for better deals on subscriptions, insurance and information technology. It is targeting 15 per cent revenue growth for fiscal 2013 and believes it can improve net profit by a further 35 per cent.

CCH buys Acclipse

Publishing giant Wolters Kluwer has acquired New Zealand accounting software maker Acclipse for an undisclosed sum through its subsidiary CCH. The deal comes as more accountants access services online and use cloud computing to transform work practices.

US delays IFRS decision

The US Securities and Exchange Commission has again refused to make a decision about when, or even if, it will converge with global accounting standards. A decision on whether the US should transition to international financial reporting standards, in use throughout Europe and Australia, has been pending since February 2010. But the final report, released on Friday, contains no recommendation to act. Some feel the neutral outcome was expected given the US presidential election in November. Even if Barrack Obama is re-elected, SEC head Mary Schapiro has made it clear she will step down. The news comes amid mounting pressure on International Accounting Standards Board to stop pandering to US regulators.

Window dressing

Ninety-two per cent of Australia's largest listed entities are using alternative information to discuss performance in parallel to official statutory accounts. Research by Ernst & Young has found these alternative profit numbers still tend to be higher than official figures. The use of "management commentary", which includes "underlying profit" or "cash earnings", gained popularity during the global financial crisis. Companies have made substantial changes based on Australian Securities and Investments Commission guidance. But E&Y found varying levels of detail in the reconciliation to statutory profit.

IFAC debates ethics

The International Federation of Accountants has sparked debate about the true definition of public interest by issuing a position paper on the topic. "A hallmark of the accountancy profession is its obligation to act in the public interest. It is not always apparent what this means, and how accountants can determine whether they are meeting this expectation," IFAC chief executive Ian Ball said.

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