Yale SCHOOL OF MANAGEMENT

YALE CASE APRIL 15, 2025

Exploring the Role Accounting Firms Play in a Search Fund Project

Accounting firms add value to search fund entrepreneurs at every step in the journey

Ryan J. Turbes, CPA[1]
Clay Brownlee, CPA[2]
A. J. Wasserstein[3]

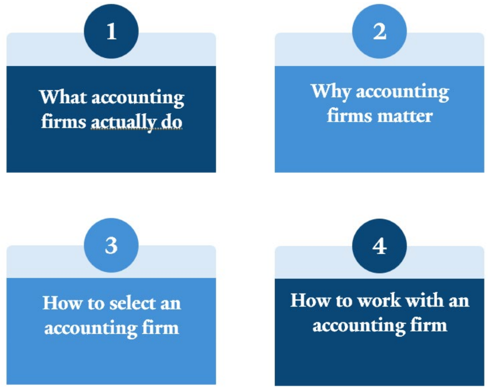
Search fund entrepreneurs engage a handful of professional service providers during their entrepreneurial foray. There are lawyers who patch together the deal and offer sagacious advice at various turning points. Insurance professionals help construct a risk mitigation program and attempt to navigate a sea of perils. Technology consultants assist in assessing and architecting the tech stack and stitch together the disparate technological systems and processes that serve as the company's bedrock. Investment bankers swoop in for the final act of the production and facilitate a successful exit. These are all crucial partners in the search fund dance, but none is more ever-present than the often-overlooked accountants.

We think accountants are the unsung heroes in the phalanx of professional service providers. They do not have the panache and swagger, or fees, of their banker and legal brethren, but they are by the entrepreneur's side during the entire entrepreneurship through acquisition (ETA) odyssey. Although derisively referred to as bean counters, accountants are far more than mere scorekeepers in the search fund game. These financial professionals provide an array of essential services and add value to the ETA company and CEO at every step along the way. In our opinion, accountants provide meaningful and important assistance to the ETA CEO and deserve their due recognition and moment in the spotlight. Furthermore, these balance sheet guardians provide an objective perspective to investors that is independent of CEO spin. There is a big difference between an audit report and management's slick PowerPoint deck, where everything is presented through an optimistic filter.

Many aspiring search fund entrepreneurs, and MBA students in general, do not fully comprehend the role an accounting firm plays in the ETA excursion and the breadth of services and support they can offer. Business schools might teach accounting principles built upon debits and credits, but they tend not to focus on the actual activities of accounting firms as that is not their area of focus.

In this case note, we will examine a quartet of subjects related to accounting firms in the ETA ecosystem (**Figure 1**). We will explore all things accounting as they relate to ETA, and we hope that this note will serve as a primer for curious students and potential searchers. Spoiler alert: This note aims to convince readers that accountants are the proverbial plow horses of service partners as compared to a show pony. They might not be flashy, but they sure do deliver. Their workman-like performance truly is not appreciated or praised enough.

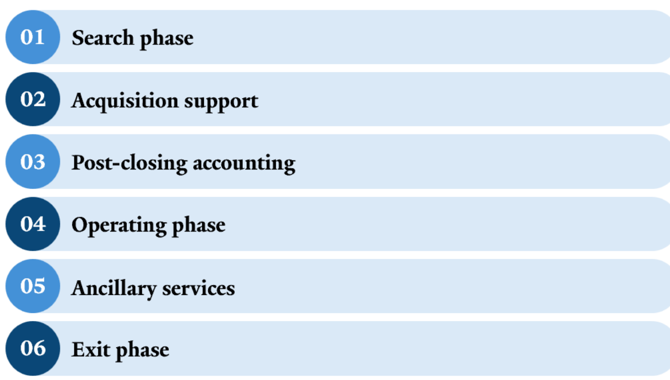
Figure 1: Four points regarding accounting firms in the ETA ecosystem



What accounting firms actually do

To kick off our note, we will highlight exactly what accounting firms do. To frame our discussion, we will use the entire ETA journey as a lens and address what role the accounting firm will play in each inning of the search fund game. In **Figure 2,** we present the six stages of the ETA marathon that we will explore.

Figure 2: Six stages in the ETA marathon



01 *Search phase*

The accountant's role is not that intensive during the search phase. The searcher's operating entity is simple, with relatively little activity. Things will rapidly heat up once the searcher has a prospective acquisition target in their sights. The typical entity selection of a search fund is a limited liability company (LLC). A search fund that is structured as a multi-member LLC is generally taxed as a partnership for U.S. tax purposes. Partnerships report their annual net taxable income or loss on IRS Form 1065 U.S. Return of Partnership Income. Typically, search stage-expenses are capitalized during the search phase.

The accounting firm can recommend a rudimentary accounting system for the searcher to use during the approximately two-year search window and advise on a basic chart of accounts structure and simple accounting principles to embrace. The accounting partner will prepare and file the annual tax compliance and returns, which includes investors' Form Schedule K-1 documents. K-1s are the tax forms that report each investor's share of the partnership's items of income, loss, deductions, and credits. Each investor uses their form schedule K-1 to assist in determining their total partner-level taxable income.

02 *Acquisition support*

Accounting firms play a crucial role once the search fund entrepreneur identifies an acquisition candidate and begins the diligence process. The accounting firm will guide the entrepreneur on preliminary diligence steps but will take center stage with the quality of earnings (QoE) assessment. The QoE is a foundational part of the diligence process, and the accounting firm owns it. A QoE engagement is neither an audit nor a projection of future results for the target company but instead serves as a pivot between the two, which is designed to identify and evaluate risks, support structuring and negotiations, and minimize surprises for all parties (**Figure 3**). While audits and financial statements provide valuable insights into a company's annual financial health, they offer only a partial view of the business. Unlike audits or standard financial reviews, a QoE focuses on assessing the quality, consistency, and sustainability of earnings rather than just ensuring compliance with accounting principles.

Figure 3: Nuanced differences between various accounting reports

This process examines the target's historical monthly financial performance and converts the likely scrappy financial records and reporting into a format compliant with generally accepted accounting principles (GAAP) subject to any data limitations. This includes the profit and loss statement and the non-capital components of the balance sheet, including but not limited to accounts receivable (AR), inventory, property, plant, equipment, capital expenditures, accounts payable (AP), and accrued expenses.

Furthermore, the QoE will likely provide additional procedures, including but not limited to analyzing customer attrition, assessing customer acquisition costs, and examining employee turnover. Another vital area the QoE will tackle is tax analysis. Some target companies might not be fully in compliance with various tax obligations. Sales tax is one that often befuddles small software operators when there is nexus in multiple jurisdictions beyond where the business is domiciled. The accounting firm can quantify this exposure and liability, which can often turn into a material negotiation point.

The QoE is an invaluable document in the search fund acquisition drama. It is the foundational analysis on which the entrepreneur and investors will likely rely for valuation and whether the deal should be consummated—or not. While the accounting firm will not instruct an entrepreneur on what value is appropriate or whether a deal is a compelling one, they provide the treasure trove of data that will inform these paramount decisions.

During the acquisition support phase, the accounting firm can also help assess the target's quantitative and qualitative risks in financial operations. This evaluation can include control weaknesses, segregation of duties, and other areas of risk. For most ETA CEOs who have never built or run an operating accounting and financial unit, this is incredibly helpful advice. Managing AR, AP, the general ledger, and timely invoice presentation all sound far easier in theory than they are in practice. Finally, the accounting firm can provide tax planning guidance to minimize annual state and federal tax obligations in addition to anticipated capital gains taxes. This might include how to qualify for qualified small business stock (QSBS) treatment upon exit.

03 *Post-closing accounting*

Once the deal closes, the accounting firm continues to stay involved in the ETA pilgrimage. A closing balance sheet must be established and will be used for post-closing reconciliations and true-ups, specifically working capital adjustments. Additionally, a new opening balance sheet will need to be created.

All aspects of the purchase price, such as valuation for any contingent earn-out, rollover equity, and seller note, are accumulated, and the value remaining after allocation to the assets acquired and liabilities assumed is recognized as goodwill (or a gain from a bargain purchase). Purchase accounting will have a direct impact on taxes since entrepreneurs want rapid depreciation to shelter cash earnings as compared to slower amortization.

Finally, in the post-closing window, the accounting firm will help the CEO with assurance readiness. This is extremely important because most ETA CEOs have never led an audit engagement. For those who are unfamiliar with the audit process, it is akin to a financial colonoscopy—it might be good for you, but it certainly can be unpleasant. The accounting firm will perform the annual audit (we discuss this shortly), and having the auditor coach the CEO on the process and its preparation is a bit like the teacher telling a student what questions will be on the test. In other words, listen carefully.

04 *Operating phase*

After the acquisition, things will settle down a bit and stabilize. The CEO will begin to establish an operating rhythm for the newly purchased company and fall into a working relationship with the accounting firm. The accounting firm will be quite busy and contributory during the operating phase. Furthermore, the services rendered during this phase will not be one-offs like they were during the acquisition patch; these will be ongoing yearly services.

Perhaps the two defining services accounting firms will provide during the company's operations are audit and tax preparation filings. The audit serves the enterprise's owners and creditors, and tax filings are regulatory requirements for various governing authorities. Let's discuss the audit first. The audit is a complete examination of the company's financial statements with the goal of evaluating their accuracy and fairness in presentation. Accounting firms do not prepare financial statements in this role; that is management's obligation. Instead, they test and evaluate the statements and form an opinion based on this work, which is backed up by the accounting firm's signature and liability. Part of the audit includes probing financial controls and processes and looking for material weaknesses that could result in financial misstatements. A successful audit concludes with a clean opinion, an audit report, and a management letter. The audit report is chock-full of useful information, and the management letter lists things that can be improved upon in the context of financial controls and reporting. The audit report and management letter are highly valuable documents.

Furthermore, the accounting firm can perform supplemental services that are not technically part of the audit and are not subject to the formal opinion and signature. These consulting services can be valuable to equity holders, creditors, and other interested parties. They can include a conversion from net income to EBITDA[*] (a non-GAAP notion), an analysis of annual recurring revenue, and parsing maintenance and growth capital expenditures. These supplemental consulting services help provide insights to users to enable them to better understand the company's financial health and future prospects.

For tax preparation services, the accounting firm will work with management to complete all required regulatory filings at the federal and state levels, K-1s, and allocation schedules. Additionally, the accounting firm can either prepare or assist in the preparation of 1099s. The accounting firm will help with nexus rules and provide management with all necessary tax vouchers and instructions.

GAAP and Financial Accounting Standards Board (FASB) requirements are not static and periodically change with fresh pronouncements and policies. Tax laws are subject to change over time due to new legislation, regulatory updates, and policy shifts. It is important to stay informed or consult a professional to ensure compliance with the latest rules. The accounting firm will keep the CEO informed of these changes, how to implement them, and what their financial or tax impact will be.

05 *Ancillary services*

Although accounting firms often get pigeonholed into audit and tax buckets, they do a lot more than that. Throughout the relationship between the ETA CEO and the company, accounting firms can provide many ancillary services that can be supportive and helpful. For example, many accounting firms provide recruiting and staffing services as part of their portfolio of offerings. If the ETA CEO needs a new CFO or controller, the accounting firm can help recruit for that position. Accounting staffers who forgo the partner track are excellent controllers and CFOs, and firms are delighted to embed their alumni in client organizations.

Additionally, some firms can provide temporary staffing solutions that are a bridge until a more permanent solution is established. When the AR manager unexpectedly resigns, the accounting firm might be able to fill that hole. Some accounting firms can supply outsourced bookkeeping services, although this might have repercussions and implications for the audit.

Accounting firms offer an array of consultative services that draw upon their experience and help operating ETA CEOs. For example, when the company outgrows QuickBooks Online and is figuring out what the next solution will be, the accounting firm can help evaluate Microsoft Dynamics and Oracle's NetSuite or a more industry-centric solution. Once the right software is identified, the accounting firm can help with the transition from the legacy product to the new one and the attendant implementation.

---

[*] Earnings before interest, taxes, depreciation, and amortization.

ETA businesses will inevitably face growing pains in their financial operations as they scale. Topics like invoice presentation, AR management, cash application, and lock boxes will be common lunchtime subjects. Accounting firms can help CEOs think about and establish appropriate procedures and systems for these nettlesome but vital issues. By the way, a brilliant fancy strategy does not matter at all if a company cannot get an accurate and timely invoice out the door and then match the remittance. Don't laugh; this is very hard as the business experiences growth.

When an ETA CEO starts to accumulate some personal wealth and plan for the exit phase, the accounting firm will gladly assist with wealth management, estate planning and trusts, and individual tax planning and preparation. The accounting firm can help the CEO and other executives with these personal wealth issues.

Finally, the accounting firm can provide a System and Organization Controls (SOC) report. This is similar to a financial audit but focuses on a company's information systems and its security and durability. This report can illuminate gaps and weaknesses that can manifest in cyber-attacks, data leaks, or privacy issues.

06 *Exit phase*

The accountants are not wallflowers when a company is readying itself for an exit. They play a crucial role in preparing a sell-side QoE. This document, similar to the previously discussed buy-side version, helps highlight any weaknesses going into the ever-important exit process. Additionally, it provides independent and objective documentation to the investment bank and potential buyers. This can squelch buyer trepidation and create a more vibrant auction. As discussed above, the QoE is sort of like an audit on steroids without an opinion. The sell-side iteration will provide bankers and bidders with valuable insights into the business that encompass not only what is included in the audit but also non-GAAP measures.

Furthermore, the sell-side QoE will be helpful in establishing a trailing twelve-month look at the business when the most recent audit might already be stale. Finally, the sell-side QoE might include data on projects or customers signed but not implemented and booked as revenue yet. This can create a bridge toward a prospective and go-forward picture of the company.

Why accounting firms matter

It may be obvious to the ETA set why lawyers and investment bankers matter. They cement deals and provide the lubrication to acquisitions and exits. It might require more nuance and subtlety to understand why accounting firms matter; however, we assure you they do. We encourage readers not to perceive accounting firms as a tax (pun intended) with the obligatory attestation and statutory tax services. Rather, accounting firms truly add value throughout the entire ETA relationship. They also do it for lower hourly rates than the lawyers and fewer dollars than the bankers. In this section, we will discuss specifically how accounting firms add value and why they matter to search fund CEOs (**Figure 4**).

Figure 4: A pentad of reasons why accounting firms matter to search fund CEOs

- **01** **Good housekeeping seal of approval**
- **02** **Superior decision-making driven by quality information**
- **03** **Strong positioning for the exit process**
- **04** **Minimized friction with regulatory authorities**
- **05** **Impartial sounding board**

01 *Good housekeeping seal of approval*

Having a clean audit from a reputable firm is the ultimate good housekeeping seal of approval for ETA CEOs. This means that the company's financial statements are presented fairly, and there is a vote of confidence from professional services organizations whose objective is to look for chinks and deviations. This seal of approval bodes well for every constituent in the CEO's orbit.

Investors are happy when the audit is a non-event and sails through smoothly. Similarly, creditors' confidence is amplified when there is an unblemished audit. This allows lenders to provide debt capital with more assurance and enthusiasm. Vendors might request financial information, and sharing a pristine audit report demonstrates strength and decreases the perception of risk. Potential executive hires should request financial data, and providing an unsullied audit might help facilitate the recruiting process.

A clean audit, especially for a small company like many ETA enterprises, is a differentiator in a world where many businesses pass on the audit if it is not a requirement. Having an audit, coupled with excellent financial performance on top of a compelling business model, might lead to a lower average cost of capital. We are not proposing that a bank will drop a loan rate by 100bps solely because there is an audit, but at the margin, it helps in the negotiation. Analogously, vendors will tilt toward better terms, and potential hires' perceptions will be a bit more positive.

We think business is a game of many small wins culminating in a bigger victory. The auditor's good housekeeping seal of approval alone will not magically make a dud of a company better, but every little step helps build a story and credibility, and a successful audit clearly falls in that bucket.

02 *Superior decision-making driven by quality information*

Young, first-time, and inexperienced CEOs need every advantage they can get. In many ways, rookie ETA CEOs are literally making it up as they go. Accountants can help blunt some of that uneasiness by helping to provide quality information that drives superior decision-making. Readers might raise their eyebrows now since it is management, not the accounting firm, who creates the financial reports. That is accurate. However, sometimes management, through ineptitude, ignorance, or due to poor accounting infrastructure, generates inaccurate financial reports. We have witnessed CEOs present financial statements that disregard a common GAAP requirement, and this can lead to faulty decision-making and perceptions about the business. For example, sometimes greenhorn CEOs have customers who pay for services in advance. This is a good cash flow fact, but correct accounting treatment does not allow for revenue recognition until the revenue is fully earned. If the CEO is not recording the unearned revenue liability, they are unintentionally overstating revenue and earnings. Hello, angry investors and creditors and inevitable restatements.

Accountants will catch errors like this in the intrusive audit process or, better yet, during conversations with the CEO. Having the right information at the right time will allow management and investors to better manage their business.

03 *Strong positioning for the exit process*

Anybody who has ever sold a business knows it is a rigorous process that can feel like having two jobs simultaneously—running the business and selling the business. With management presentations, endless banker calls, and prospective buyer information requests, it is a harried and tenuous course. While the dance is inevitable, CEOs should do everything possible to mitigate the stress, fire drills, and potential pushbacks and re-trades from the buyer community. Knowing that the numbers are bulletproof, that there is a sell-side QoE on the table, and that financial systems, processes, and controls are ironclad are logical steps to alleviate some of the potential friction. Many parts of the exit process are uncontrollable, like interest rates, economic cycles, and prevailing trading multiples. However, CEOs should go into the exit process as well positioned as possible and lock down every single element that they are capable of controlling.

This includes having high financial hygiene and a history of tidy audits. Accounting firms are part of the backbone that allows CEOs to plunge into the exit process with confidence and a position of strength. Bankers and CEOs want potential bidders to nod and smile when looking at financial information. They absolutely do not want prospective buyers questioning accounting policy and the accuracy of information.

04 *Minimized friction with regulatory authorities*

Of all the correspondence a CEO manages and troubleshoots, one of the last ones they want to receive is a regulatory authority notice about an infraction. This can be a time sink, potentially expensive, and stressful. The best way to avoid getting crosswise with regulatory authorities like the Internal Revenue Service (IRS) is to do everything right in advance. Pay taxes fully and on time. Accounting firms can play a leading role in skirting regulatory friction. They are on top of requirements, policies, and rules that would be impossible for an ETA CEO to be an expert in.

We advocate for doing everything right when dealing with state and federal tax agencies. We would never suggest cutting corners or being aggressive in this realm. Who wants to be in the federal government's crosshairs? Not us.

If an ETA CEO is unlucky enough to be subject to an IRS audit, we hope the tone is, "We are in great shape. I have absolutely nothing to worry about. I am just upset about the time." Note that a tax audit is a different process than an annual assurance audit. Accounting firms can help prevent regulatory friction and manage it if it pops up.

05 *Impartial sounding board*

Accounting firms see an endless parade of businesses, transactions, opportunities, and challenges in their clients. They have significantly more experience than most ETA CEOs and can be helpful as an impartial sounding board. When a CEO has questions or concerns and does not want to pester the board, the accountants are a potential resource. Like lawyers, accounting firms do not have an economic interest in the business and can be objective. They might be rooting for the CEO's success, but their vested interest is intellectual and emotional, not necessarily financial (at least in terms of equity). This dynamic gives accountants a degree of impartiality and objectivity that can be useful to CEOs who often do not see their own shortcomings and blind spots. Accountants are a voyeuristic clan with their perpetual backstage pass to many companies' operations. This gives them insights into market salaries, vendor pricing, and credit terms. If inside information is the goal, ask the accountants. They will likely share tidbits on an anonymized basis.

We are not suggesting that accountants supplant investors and board members, but they are an additional resource that certainly knows more about GAAP and the financial plumbing that underpins every small business. Accountants can be tapped for their impartial perspectives.

How to select an accounting firm

By this point in the note, we hope that we have clearly explained what accountants do and why they matter to ETA CEOs. The next logical question a search funder might ask is how to select an accounting firm. Not all accounting firms are created equally, and deriving value will be a function of choosing the right one for the ETA company's needs. It is best to get the accounting firm right upfront since total switching costs can be high. Generally, a first-year audit and tax return is more demanding than a fourth-year audit and tax return. Once the company's accounting staff gets into a smooth rhythm with the accounting firm, things tend to flow. However, shifting to a different firm starts the press afresh with novel friction. Additionally, banks and investors can look askance at accounting firm changes. These can smack of opinion and policy shopping—or a problem client. We will now present a framework for selecting an accounting firm by discussing six vectors that will likely influence the decision (**Figure 5**). These are all common sense but worth emphasis.

Figure 5: A sextet of factors to consider when selecting an accounting firm

- **01 Experience with search funds**
- **02 Domain expertise**
- **03 Scalability**
- **04 Logo credibility**
- **05 Fees**
- **06 People**

01 *Experience with search funds*

While there are plenty of qualified accounting firms, not all of them will have search fund experience and fully understand all of the nuances and issues associated with the model. To make the CEO's life easier and minimize climbing up the learning curve, search fund entrepreneurs might as well locate one of several firms that already know the drill and can be alongside the CEO throughout the ETA race. Additionally, if investors and creditors (many of whom are repeat participants in search land) have a primary working history with the accounting firm, there is likely to be a positive perception.

Accounting firms that have a knowledge base with all things search know key steps like the QoE, assurance readiness, accounting for complex cap tables, lender needs and requirements, and pricing profiles and expectations. Searchers are juggling too many balls as it is; one less unpredictable can help the process go more smoothly, and selecting an accounting ringer can be an easy choice.

02 *Domain expertise*

Another prong to seek in an accounting firm is domain expertise. Wise accounting firms usually have some tilt toward practice group expertise. Some shops lean into manufacturing, while others double down on medical practices. Searchers will serve themselves and their investors well by selecting an accounting firm with specialized proficiency in the target company's industry. If the acquisition is a software company, go with a firm that understands complex nexus tax issues and deferred revenue treatment. Medical companies have unique reimbursement accounting issues. While there might not be an accounting firm that focuses on commercial landscaping, at least look for business services with people-intensive operations.

When an accountant has domain expertise, they will not only understand the financial issues, but they might also have value-add insights into the business operations or know where skeletons tend to lurk. Additionally, when an accountant is familiar with a sector, they can make introductions to other operators who can be mentors, resources, acquisition targets, and exit opportunities. There is rarely a reason to reinvent the wheel, as firms that know the industry are a step ahead of those that do not.

03 *Scalability*

If everything goes according to plan for the ETA CEO, they will shortly be leading a much larger organization—with different and more complex accounting needs. Initially, it is highly unlikely that the rookie CEO will need too much beyond the QoE, post-close accounting, attestation, and tax; however, before very far into the future, the company and CEO will hopefully want much more. Searchers should look for an accounting firm with which they can grow and access the full scope of services that they might need. Partnering with a strip mall firm that offers limited services or cannot execute a full-scope audit is a short-term solution. As we mentioned above, swapping accounting firms can be an arduous time sink and is best avoided. A full-service firm with a deep bench of partners might be a superior solution to a single-player shop. We like firms that fit into a Goldilocks zone of not being too big or too small. The Big Four and large regional accounting firm behemoths might be overkill for a puny search fund deal, at least initially.

Additionally, these giant-sized accounting firms might not be that excited about working with search-sized enterprises. On the other hand, a firm that is too diminutive might not have all the added features that a search CEO will eventually need. Mid-sized regional firms usually hit the right balance for the ETA set.

04 *Logo credibility*

Brands matter, even for professional services firms. We do not want to sound superficial, but some accounting firms have more prestige than others. We think of this as logo credibility. Search funders intuitively gravitate toward celebrity investors (well, at least celebrity status in the ETA jungle), and they should do the same with their accounting firm. When CEOs associate with high-profile investors, prominent law firms, and trustworthy accounting firms, they siphon off a bit of the status and bask in its warmth. As irrational as it might be, it is apparent.

Beyond the branding, logo credibility is valued by investors, creditors, investment bankers, and potential buyers. When these folks see a logo that is known to be a reliable and straight firm, they nod and move on—it's a non-issue. When the accounting firm is an unknown quantity or has a slipshod reputation that could besmirch the search fund company and CEO, the opposite can occur. It is easy to go with a legitimate firm that oozes credibility, so it just makes sense to do so.

05 Fees

Fees play a crucial role when selecting an accounting firm and are one of the key cost drivers a CEO can control. For organizations with multiple entities, such as a TopCo and an OpCo, accounting fees can add up quickly—an audit may cost $45,000, partnership tax preparation could be $20,000, and a QoE analysis might reach $40,000. Given the significance of these costs, it is essential that each engagement and its associated fees are clearly outlined and communicated to the CEO during the proposal process, ensuring alignment with the organization's specific needs and circumstances. When shopping firms, we strongly encourage CEOs to make sure all proposals are apples-to-apples in scope and procedures.

Although it is difficult to compare fees for an amorphous service, we encourage CEOs to not only consider fees but also push potential firms on current period pricing, guaranteed future pricing, and caps on price increases. When negotiating fees, understand whether total fees are fixed or based on billable hours. The latter entails upside risk, while the former is a certainty. If the searcher runs a bake-off between several firms, they might be able to win price and fee concessions when the firms know multiple contestants are in the mix and bidding on the opportunity.

Despite our advice to press on fees, the accounting firm must make money and be in a profitable client relationship. If a client is unprofitable, the accounting firm may choose to shed the client, or the client will be relegated to weak staffers and have their emails and phone calls returned slowly. Nobody goes out of their way for the unprofitable account. So, while we encourage seeking attractive pricing, we also advise CEOs to directly ask the accounting firm if they will be happy with and excited about the partnership with the proposed and negotiated pricing. There is no need to be the most profitable, juiciest client, but being the client everybody rolls their eyes about due to lousy fees is not a good place to be either.

06 *People*

Professional services firms are just assembled people. When selecting an accounting firm, the ETA CEO should scrutinize the people and decide if they have the smarts and work ethic and are likable enough to sustain a fruitful business relationship. It is particularly vital to know who the principal relationship managers will be. These are often the audit partner and the tax partner, and all traffic will run through them. These two partners will not do all of the work, but they will drive the relationship and partnership and make the pivotal decisions. CEOs should spend time with these individuals, get some references, and make sure they can envision a mutually beneficial multi-year association. Junior staffers will often change from year to year with inevitable departures, but partners tend to stick around.

Search CEOs should also evaluate the firm's culture and tone and see if it will be a good general fit. The CEO should feel comfortable with the firm's values and style. If the firm is footloose and fancy-free with accounting policy and government regulations, this might not be a match for a strait-laced CEO.

How to work with an accounting firm

We will close this note by sharing a few additional concepts to remember when working with an accounting firm (**Figure 6**). We truly believe that accountants can be terrific partners for an ETA CEO. They have judicious advice and pertinent experience. A super accounting firm helps with many thorny problems and issues in the ETA cycle. However, the relationship is not a one-way street. Yes, accounting firms serve their clients and receive compensation, but the company should also take action steps to be a desirable client and make the relationship as successful as possible. If the ETA CEO and company do not work to make the partnership productive, they will not receive their full value potential, there will be unnecessary friction in the association, and the accounting firm will deprioritize them as clients. The ETA CEO must invest in the alliance to propel it toward an optimal state.

Figure 6: A hexad of action steps to effectively work with an accounting firm

- **01 Communicate, communicate, communicate**
- **02 Align on reporting requirements**
- **03 Do not mislead, lie, or commit fraud**
- **04 Engage investors**
- **05 Take recommendations from tax and audit teams**
- **06 Be an excellent client**

01 *Communicate, communicate, communicate*

To get the most out of the accounting relationship, it is essential to communicate with the firm and key people regularly. This includes before major pending events like upcoming add-on acquisitions, the bank refinancing, the additional equity raise, and the exit on the horizon. Accounting firms can not only add value to these types of events and transactions through tax planning and potential accounting treatment, but they also need to be in the loop as it relates to audit issues, workstream planning, and potential value-added consultative resources.

We do not recommend connecting with the accounting firm only when tax and audit work needs attention. Instead, we advocate for periodic check-in calls with the audit or tax partner. These can be brief, but they provide a structured opportunity to share what is going on at the company and keep the accountants abreast of any pending issues or prospects. This is also an opportunity to include the CFO in the conversation and share any financial operations problems. The accounting firm is cheering on its clients from the sidelines; regular communication is something the CEO can do on their side to make the partnership flow more smoothly. For some additional thoughts on CEO communication strategies, see our note [On the Nature of CEO Communication Patterns in a Small Business].

02 *Align on reporting requirements*

Establishing crystal clear expectations on reporting requirements helps everybody. The accounting firm will be aware of and manage all statutory tax filing and reporting matters because those are standardized and uniform for all clients. However, financial reporting deadlines will vary amongst clients. If the creditor needs an audit by March 31 to avoid a technical default, that should be communicated and established in the audit planning process. If a QoE on a subsequent acquisition has a time-sensitive delivery date, that should be communicated and included in the engagement letter. Sometimes, companies include non-GAAP supplemental schedules in audits at the request of banks or equity holders. If that is the case, those schedules and their exact format need to be discussed. Additionally, ETA companies are notoriously slow K-1 providers. If the CEO does not want to fall into that tardy bucket, they should be proactive and discuss what is required and when so they can ensure the timely production of K-1s.

03 *Do not mislead, lie, or commit fraud*

This might be axiomatic to state, but absolutely no one at the client company should ever lie to or mislead the accounting firm. Additionally, the CEO and company cannot commit fraud. The accounting firm will immediately notify the board if they suspect any nefarious activity, or they will issue a qualified opinion (and nobody wants that). Furthermore, if the accounting firm has misgivings about the ethical behavior of the client business, that will show up in the management letter issued in conjunction with the audit. This is not a good outcome or situation.

We strongly recommend that ETA CEOs behave with the utmost scrupulousness in all aspects of their leadership role, especially when it relates to money and accounting issues. CEOs are empowered with a lot of trust and latitude, but once equity holders, creditors, or accountants detect even a whiff of impropriety, that trust will evaporate quickly. If there is ever a jump ball on accounting treatment or cash policies (especially if it directly relates to the CEO personally), take the conservative path. Furthermore, accounting chicanery and prestidigitation might dress up revenue, net income, and EBITDA; the truth, however, can always be found in cash flow.

04 *Engage investors*

Investors need to be involved in the accounting relationship through all stages of the ETA trek because they are one of the primary end users of the accounting firm's work product. We believe it is best practice for the board of directors to engage the accounting firm and to scope the annual audit with concentration areas for the accounting firm to focus on. This is akin to an audit committee. The accounting firm might frequently interact with the CEO, but it ultimately serves the owners. The audit should be shared with the board directly, and the board should have an opportunity to discuss the audit and management letter with the accounting firm without the CEO present.

Furthermore, the board should share the audit with all investors (we rarely, if ever, see this done). The board can designate a single member to communicate with the accounting firm (think audit committee chair) to open a direct communication channel with the investor group and board. While the CEO should not be marginalized or minimized in this dynamic, it is good hygiene and separation of duties practice. Investors should not be kept in the dark regarding the accounting firm, nor should they receive piecemeal information after the fact. They should be front and center and driving the engagement process.

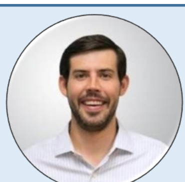
05 *Take recommendations from tax and audit teams*

Part of the audit and tax process includes recommendations from the firm. These polite suggestions can be verbal or written into the management letter. The feedback is constructive and can be painful or even embarrassing. However, the recommendations are rarely optional, and we strongly suggest that the ETA CEO enthusiastically take the suggestions to heart and operationalize them. This guidance is given to reduce risk, increase controls, and ensure full compliance with all FASB and GAAP standards. Sometimes, implementation can be challenging. When that is the case, the CEO should tell the accounting firm what the transition plan is, even if the change is not immediate. Furthermore, the accounting firm can help implement tax and audit recommendations to make the subsequent year's audit and tax work quicker and easier. The accounting firm is an expert in their domain, so when they make suggestions, take them.

06 Be an excellent client

In general, it helps to be an excellent client. Return phone calls and emails promptly. Treat junior staffers to pizza lunches when they are office visitors. Negotiate fees, but make sure the relationship is profitable, and pay invoices fully and upon receipt. Provide requested information on time and in the appropriate format. Be an advocate for the firm with friends, colleagues, creditors, investors, and other ETA folks. Make introductions that can lead to new business. Invite your accountants to company events, and when invited to their events, attend and say nice things about the team. Accountants might be sartorially challenged (academics are, too), so give their wardrobe a lift with company swag. Make them feel appreciated, valued, and respected with thank-you notes and praise for the excellent work they do. They are part of the team and should feel like it.

Mini profile: John Blake



John Burke (Santa Clara University Leavey School of Business 2008) is the founder and CEO of Merit Holdings, a Chicago-based purpose-driven software holding company focused on forging long-term partnerships with mission-critical vertical market software businesses. Merit's mission is to be a trusted partner for business owners seeking a unique alternative to traditional private equity, offering lasting partnerships and continued investments in their people and products. Prior to launching Merit, Burke was a software executive in several companies.

I have been working with our accounting firm, Boulay, for about five years and have been thrilled with their partnership. The firm does our tax and audit work, which leans toward the compliance end of the spectrum. There is value add in the tax planning and strategy, but they really shine in the QoE work. We have acquired eight companies to date and poked around in diligence on thirteen, and Boulay has been a genuine partner in the process.

I did QoE work early in my career, so I appreciate its function and value. Boulay has been outstanding at building historical and prospective analyses that allow both me and my investors to truly understand the contemplated acquisition. We would not have had the confidence to move forward with our acquisitions without this highly beneficial and helpful work. In addition to the core QoE assessment, we get a deep dive into quality of revenue, proof of cash, working capital breakdown, and proof of payroll. Our accounting firm obtains direct access to QuickBooks or Xero early in diligence. We like this more than a laundry list of document requests. We get access to the accounting software and then can do whatever work we need to do without overburdening the seller.

Additionally, Boulay has helped us with transfer pricing issues, complex revenue recognition treatment, temporary booking services, locating an outsourced CFO, and asset valuations. I am delighted with our accounting partnership and view the firm as a literal extension of Merit. They have added value to every step of my ETA project.

Conclusion

There are many outstanding accounting firms in the ETA ecosystem today, and we expect more will enter the fray—especially as ETA continues to proliferate. Accounting firms provide valuable services to the ETA CEO and company. Beyond tax and assurance, they play a crucial role in delivering acquisition assessment data in the QoE and offer a grab bag of desirable ancillary services like post-close accounting, recruiting, outsourced accounting, software selection, and SOC work.

By offering their good housekeeping seal of approval, providing quality information to enhance decision-making, and keeping their clients outside of regulatory crosshairs, accounting firms make a difference. Selecting a competent accounting firm is a simple task if you consider and embrace the six-point lens we offer. People, domain expertise, search fund experience, scalability, and logo credibility all matter more than fees, but fees matter, too. Building a successful and thriving relationship with the accounting firm is the CEO's responsibility. This is rooted in communicating clearly and frequently, aligning reporting requirements, behaving ethically, engaging investors, accepting technical recommendations, and generally being an excellent client.

Accountants are a cardinal ingredient in the ETA stew. ETA impresarios should embrace and acknowledge the role they play. We wish you good luck in working with your accounting firm and hope all of your audit opinions are unqualified. Have fun, and, as always, we are rooting for you every step of the way!

Exhibit 1: Common ETA accounting firms[†]

- Boulay
- Hood & Strong
- Mowery & Schoenfeld

[†] Neither the authors nor Yale University are endorsing or recommending any of the accounting firms in **Exhibit 1**. We are simply listing popular ETA accounting firms. Engaging an accounting firm requires diligence and scrutiny, and all potential clients will need to perform their own independent analysis prior to selecting an accounting firm.

Endnotes

[1] Ryan J. Turbes, CPA, is a partner at Boulay, a Minneapolis-based full-service accounting firm. He specializes in providing transaction advisory services to search fund, private equity, family investment offices, and corporate and individual clients.

[2] Clay Brownlee, CPA, is partner at Boulay, a Minneapolis-based full-service accounting firm. He specializes in providing transaction advisory services to search fund, private equity, family investment offices, and corporate and individual clients.

[3] A. J. Wasserstein is the Eugene F. Williams, Jr., Senior Lecturer in the Practice of Management at the Yale School of Management.