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Rules for Profit

Accountants Look for Boon in Work from Adoption of Global Accounting Rules

By Jessica C. Lee

Most companies don't like new financial regulations because of the added time and costs they bring. Not accounting firms.

They are looking forward to a batch of international standards that could be adopted by U.S. companies later this year.

The International Accounting Standards Board's International Financial Reporting Standards, which is being reviewed by the Securities and Exchange Commission as a possible alternative to generally accepted accounting principles, could be the most profitable practice to hit the accounting industry since Sarbanes-Oxley.

"IFRS will provide a lot of work for accounting firms," said Morton Pincus, accounting professor at the University of California, Irvine's Paul Merage School of Business. "The payoffs are pretty clear. There's going to be a demand for auditing firms to provide services for companies that want to adopt it."

IFRS could spark a turnaround for accounting firms that have seen a decline in Sarbanes-Oxley work recently as fewer companies are going public and many smaller companies have yet to adopt the rules.

The Sarbanes-Oxley Act of 2002, created to prevent corruption after corporate and accounting scandals at Enron Corp., WorldCom Corp. and other companies, prompted a wave of work for accounting firms in the past five years.

Public companies tapped outside accounting firms to help them navigate Sarbanes-Oxley rules for audit control and quality, which quickly became a profitable practice for accounting firms as companies spent an average of \$3 million on Sarbanes-Oxley work, Pincus said.

Redistribution of Work

But that work has stabilized as accounting firms and public companies have become more accustomed to the rules, said Scott Farber, managing partner of the Irvine office of Chicago-based Grant Thornton LLP.

"The impact of Sarbanes-Oxley has moderated," Farber said. "Companies are better prepared and it's becoming more of a routine maintenance process for them."

Increased federal regulation and the cost of becoming public has deterred companies from making initial public offerings in recent years, which has also contributed to a slowdown in Sarbanes-Oxley work, said Wayne Pinnell, managing partner of Irvine-based **Haskell & White LLP**.

“IFRS is probably the next big boon if we could get everyone to figure out where to go with it,” Pinnell said.

The SEC is expected to assemble a committee as early as this summer to potentially implement a version of IFRS, which would give U.S. companies the option of submitting filings through an international standard rather than the generally accepted accounting principles already used.

Rapid globalization is pushing the issue to the forefront, said John Belli, managing partner of the Irvine office of New York-based Ernst & Young LLP.

The weak U.S. dollar is spurring more foreign companies to look at local businesses for acquisition or investment, Belli said.

Growing global business could push more companies to adopt the international accounting standard, which is used in Europe and Asia, Belli said.

“In a global economy you have U.S. companies and foreign companies looking at each other’s financials with different standards,” Belli said. “This could help clarify everything.”

Cost of Standards

The entire pipeline related to financial reporting, which includes regulatory bodies, universities, investors, companies and accounting firms, will have to spend money to educate themselves on IFRS when and if it comes, said Dan Noll, director of accounting standards for the American Institute of Certified Public Accountants.

It’s unclear how much money will be spent on gearing up, Noll said.

“There will be a cost involved but everyone could agree that it will be worth it if the capital markets want and demand IFRS,” Noll said.

Adopting IFRS into the American accounting industry could take a few years but firms are already preparing for it, Noll and Belli said.

IFRS could help accounting firms reap in higher profits in years to come but there will be a significant investment on their part, firms said.

Their biggest expense will be for the hiring of accountants that are trained in IFRS and training the ones who aren’t, experts said.

“At the end of the day, we believe (IFRS) is going to happen,” said Dean Samsvick, managing partner of KPMG LLP in Costa Mesa. “There’s a lot that needs to get done so that everybody is ready.”