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New accounting rule likely to reshuffle executive clients

Philadelphia Business Journal - July 21, 2006 by [Wafa R. Musitief](#) Special to the Business Journal

An accounting rule change that goes into effect in October could help smaller accounting firms win business from the Big Four and other competitors.

The impending rule change, which was proposed by the Public Company Accounting Oversight Board (PCAOB) and approved by the Securities and Exchange Commission in April, prohibits public accounting firms from providing personal services to corporate executive managers who have financial oversight over the auditor. The corporate governance rule is intended to prevent conflicts of interest between the auditor and the executives to ensure auditor independence.

Prior to the Enron scandal, it was not unusual for top executives to use their company's accounting firm to prepare their individual tax returns or to handle other personal financial matters. In some cases, the company even paid for at least a portion of the services.

"The longstanding practice of executives of public companies having their personal tax advice and return preparation coming from the tax professionals at their audit firm is over," said Saul V. Reibstein, managing director of the east region for the Philadelphia office of CBIZ, a national accounting, tax and advisory-services firm. Reibstein, who has more than 33 years in finance and accounting, also works as a certified public accountant through Mayer Hoffman & McCann, a national affiliate of CBIZ.

"These executives will have to identify and retain their own personal advisers at their own expense," he said.

Reibstein believes the new rule changes will benefit smaller firms as executives at public companies begin searching for new accountants to handle their personal financial needs.

"Non-Big Four firms will have an opportunity to serve clients ... that before were reserved for the tax departments of the Big Four firms only," he said, referring to the largest national accounting firms: Deloitte & Touche, PricewaterhouseCoopers, Ernst & Young and KPMG LLP.

David H. Glusman, a principal of **Margolis & Co.** in Bala Cynwyd and head of litigation services and co-head of Healthcare Services Group Inc. in Bensalem, said the impending rule change has already brought new clients to Margolis. As an early consequence of the new rules, his firm recently added all of the tax return preparation work for a real estate organization that was using its outside audit firm prior to 2005.

"We have added approximately 20 new executive/tax clients from seven firms in the 2006 filing, end of 2005 season," Glusman said. "The estimate of the fees on this base is approximately

\$50,000 to \$75,000. We expect to replicate or exceed these numbers in the 2006/2007 season."

Glusman said Margolis is in discussions with public companies to engage in additional executive tax and financial planning work.

"We expect that the change will increase our opportunities to expand both our income tax preparation work as well as the more important part of the equation -- the tax planning and the related financial planning and estate planning work that we do," he said.

Christopher Meshginpoosh, who serves as director of the business advisory group at accounting firm **Kreischer Miller** in Horsham, anticipates that the rule change will boost his firm's client base.

"In general, prohibitions on non-audit services present growth opportunities for firms like Kreischer Miller, and I'd expect the PCAOB's new rule to present an opportunity for moderate growth in our individual tax planning service," said Meshginpoosh. "I think it's safe to say there's the potential for 2 to 5 percent growth in individual tax planning services."

Reibstein is confident that CBIZ will be ready to meet new clients' needs when the rules become effective in October. "We are preparing communications to these executives that we think will help them to consider their own needs and to think of us as an effective solution," he said.

Margolis' Glusman recalls preparing individual tax returns for publicly held clients when he began practicing accounting 35 years ago. He said that even though Margolis has gained substantial new clients and revenue because of the impending rule changes, he worries "about rules getting out of hand, and the pendulum going too far the other way."

"I think we can do a great job of self-regulating, if our profession is willing and able to do so," Glusman added. "Government is not likely to be able to properly parse many technical issues."

Meshginpoosh, on the other hand, feels that the regulations are necessary.

"It's obviously good for the investing public when regulators monitor issues that could undermine confidence in our markets," he said. "This particular problem appears to be focused more on the appearance of a lack of independence, rather than an issue that presents a significant threat to independence. That being said, I think it is good for the investing public when regulators monitor issues that could undermine confidence in our financial markets."

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