
Recent Enforcement Action Serves as a Reminder of the Need to Complete Audit Firm Review of Interim Financial Statements Before Filing Form 10-Q

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On Friday, the Securities and Exchange Commission [announced](#) that it had settled enforcement actions against five companies for violating the Regulation S-X requirement that interim financial statements included in quarterly reports on Form 10-Q be reviewed by an independent public accountant prior to filing. This is the first time that the Commission has brought enforcement proceedings against a company for violating Regulation S-X in this regard, and it serves as a reminder for companies and their audit committees to ensure that interim financial statements are reviewed before filing Forms 10-Q.

As noted by Anita B. Bandy, an Associate Director in the Commission's Enforcement Division, "The Commission's reporting rules are designed to help ensure that investors are provided timely access to reliable interim financial information about public companies in quarterly reports," and the companies subject to the enforcement proceedings "deprived investors of the benefit of the external auditor's involvement by including financial statements in Forms 10-Q that had not been reviewed in accordance with Regulation S-X."

The Commission's "data-driven investigative techniques" helped identify the violations and included a review of filings, staff comment letters and other metrics that pointed to potential violations. Interestingly, the violations involved in the enforcement proceedings included instances where companies filed Forms 10-Q with explicit disclosure that the financial statements included therein had not been reviewed, as well as situations where no disclosure of the lack of a review was included. In most instances, companies later filed amended Forms 10-Q containing financial statements that had been properly reviewed by an independent public accountant. Each of the five companies agreed to settle the Commission's charges, with each paying \$25,000 per violation. Though the Commission announced that it had settled these enforcement actions, the Commission's announcement also notes that its investigation is continuing.

Authors



Alan J. Wilson

PARTNER

✉ alan.wilson@wilmerhale.com

☎ +1 202 663 6474



**Jonathan
Wolfman**

PARTNER

Co-Chair, Corporate
Governance and
Disclosure Group

✉ jonathan.wolfman@wilmerhale.com

☎ +1 617 526 6833