
New SEC Case Emphasizes Importance of Internal Controls

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The SEC recently brought an unusual case in which the alleged violations of law related principally to failure to maintain adequate internal control over financial reporting. In its [complaint against PACCAR](#), the SEC identified errors in certain PACCAR periodic filings regarding segment reporting, footnote disclosures regarding impaired receivables and related reserves, and certain offsetting line items in its cash flow statements. The SEC alleged violations of the Securities Exchange Act's requirements that issuers file accurate periodic reports (section 13(a)), maintain adequate books and records (section 13(b)(2)(A)), and devise and maintain a sufficient system of internal accounting controls (section 13(b)(2)(B)). Interestingly, the complaint indicates that the errors were identified in response to comment letters from the SEC staff.

PACCAR agreed to settle the case, subject to court approval, by paying a \$225,000 penalty and agreeing to injunctive relief. The SEC stated that the settlement takes into account that PACCAR and a subsidiary have implemented remedial measures to enhance their internal controls and improve compliance with GAAP.

The PACCAR case is significant in that it demonstrates that the SEC will pursue "books and records" and internal control cases, even if there is no underlying accounting fraud or other misconduct. The case reinforces the importance of public companies' maintaining effective internal control over financial reporting.