
SEC Enforcement Staff Announces “Operation Broken Gate”

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On Monday, September 30, the [Securities and Exchange Commission](#) announced that it had charged three auditors with violating federal securities laws or failing to comply with US auditing standards during their audits and reviews of financial statements. The charges alleged fairly egregious deficiencies in audits of OTC companies performed by individual CPAs and do not, in themselves, appear to break significant new ground. However, the SEC’s release suggested that these matters were part of a broader “ongoing effort to hold gatekeepers responsible for the important roles they play in the securities industry.” The SEC revealed it uses the internal designation “Operation Broken Gate” for its efforts to “identify auditors who fail to carry out their duties and responsibilities consistent with professional standards. Gatekeepers that fail to comply with professional standards put investors at risk due to the possibility of undetected fraud or other financial misstatements.”

The reference to “Operation Broken Gate” appears to be part of the Commission’s renewed emphasis on uncovering and prosecuting accounting fraud. As [previously noted](#), the SEC’s new Financial Reporting and Audit Task Force will focus on the role of auditors and audit committees in the financial reporting process.