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## SEC Staff Underscores Renewed Emphasis on Accounting Fraud

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Last week, [in a speech](#) at an American Law Institute Continuing Legal Education event, SEC Co-Director of Enforcement Andrew Ceresney described several of the investigative initiatives that are planned for the Commission's new Financial Reporting and Audit Task Force (read our [previous post on this](#)). According to Ceresney, these initiatives include "closely monitoring high-risk companies to identify potential misconduct, analyzing performance trends by industry, reviewing class action and other filings related to alleged fraudulent financial reporting, tapping into academic work on accounting and auditing fraud, and conducting street sweeps in particular industries and accounting areas."

Some of the other key methods being used by the Task Force to identify potential accounting fraud violations include:

- *Reliance on Whistleblowers.* Task Force Chair David Woodcock recently remarked during a separate ALI-CLE panel that the Task Force will actively solicit whistleblowers for information about accounting and financial disclosure violations. Last year, 18.2% of whistleblower tips related to corporate disclosure and financials.
- *Accounting Quality Model.* According to Woodcock, the Task Force is currently working with the SEC's Division of Economic and Risk Analysis to develop and improve the Accounting Quality Model. For more on how the model will isolate potential red flags and trends, see our [previous post here](#).
- *Tips from other regulators and investigative teams.* Ceresney reports that other regulators are uncovering potential issues related to financial reporting and accounting fraud. These reports are in addition to "significant sources of information" provided to the Task Force from within the SEC.

According to Ceresney, two of the Task Force's key areas of focus are audit committees and auditors. Emphasizing the "critical role" that audit committees and auditors play "in the financial reporting process," Ceresney told the audience that the Task Force will hold both accountable for "failing to recognize red flags." Other key focus areas of the Task Force will include losses and reserves, revenue recognition issues, auditor independence violations and fraud involving foreign

issuers and executives.

Notably, Ceresney expressed “doubts” about the reasons behind the apparent “drop in actual fraud in financial reporting.” “I find it hard to believe that we have so radically reduced the instances of accounting fraud simply due to reforms such as governance changes and certifications and other Sarbanes-Oxley innovations,” he said during the September 19 speech. The SEC “will not know whether there has been an overall reduction in accounting fraud until we devote the resources to find out.”

The Task Force appears to be shaping up as a substantial initiative of the Commission under its new Chair and Enforcement Directors.