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SEC Announces Dedicated Financial Reporting and Accounting Unit: Implications for Audit Committees, Boards and Public Companies

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Executive Summary

- What's new: The SEC announced the creation of a dedicated Financial Reporting and Accounting Unit within its Division of Enforcement. The unit consolidates nationwide resources and expertise previously dispersed across regional offices to investigate and bring enforcement actions related to public company accounting and financial reporting.
- Why it matters: Accounting and financial reporting cases are central to the SEC's enforcement mission and among the most complex cases the agency pursues. The creation of a dedicated unit with consolidated resources and specialized expertise signals an intent to accelerate investigations and enforcement actions focused on public company accounting, financial reporting and disclosures, and internal controls over these functions.
- What to do next: Companies will want to ensure they have robust internal accounting and disclosure controls — including policies and procedures governing non-GAAP and guidance reporting that are not subject to audit testing — and assess materiality from both quantitative and qualitative perspectives.

On August 5, 2026, the Securities and Exchange Commission (SEC) announced the formation of a new Financial Reporting and Accounting Unit within its Division of Enforcement. The unit represents a significant organizational shift: The SEC is consolidating nationwide resources and specialized expertise to investigate issues related to accounting and financial reporting in public companies, general accounting and auditing misconduct.

Accounting and financial reporting enforcement matters historically have been handled by staff across the SEC's headquarters and regional offices. The new unit changes this model by merging investigative resources and subject-matter expertise into a single, dedicated program and indicates a renewed focus on these issues. David Woodcock, the director of the SEC Enforcement Division, recently highlighted accounting and financial reporting matters as a priority for the SEC. At the Managed Funds Association (MFA) Legal & Compliance 2026 Conference, Woodcock stated that the Enforcement Division is, “prioritizing financial reporting matters that are important to ensure good corporate accounting and disclosures” and referenced a series of past cases brought against companies that allegedly misreported financial metrics and falsified disclosures. [1] Furthermore, SEC Chairman Paul Atkins has emphasized the importance of public company disclosures and accounting, so dedicating resources to investigating accounting and financial reporting fraud cases (traditionally high priorities for SEC enforcement) is consistent with his stated intention to return SEC enforcement to its core mission. [1] Given the establishment of this new unit and the chairman’s enforcement priorities, we expect the SEC under Chairman Atkins to continue to focus on public company reporting and accounting issues.

Complex and Mission-Critical Cases

The formation of this new unit better positions the SEC to pursue accounting and financial reporting cases, which are some of the most challenging and complicated cases the SEC investigates. These cases also present unique challenges for companies given (i) their complexity, (ii) the importance of ensuring that investors have accurate and timely information regarding the company’s financial condition and (iii) the significant regulatory risks presented in this area. Some of the unique issues presented in these cases include the following:

Accounting Complexities

Income statements. Revenue recognition, while perhaps the most fundamental aspect of public company reporting, remains an area of great complexity. These cases frequently involve intricate arrangements such as bill-and-hold and percentage-of-completion transactions, revenue associated with rebates and quid pro quo arrangements, and other complicated revenue structures that can impact amount and timing issues. Understanding whether revenue has been properly recognized requires extensive fact-gathering and is among the most time-intensive issues the SEC investigates.

Balance sheets. Reserve accounting, loss accruals, bad debt and other asset valuations require companies to make often difficult judgment calls about the probability of future losses. For regulators and companies alike, understanding and reviewing these matters requires deep subject matter expertise, experience and familiarity with industry practice.

Reporting and Disclosure Complexities

Non-GAAP financial measures. Non-GAAP financial measures such as adjusted EBITDA, adjusted earnings per share and core sales growth have become increasingly important metrics to investors and analysts. Companies often supplement their reported earnings under GAAP with these non-GAAP financial measures that the companies believe more accurately reflect their results of operations or financial position, subject to compliance with Regulation G and Item 10(e) of Regulation S-K. Given the intricacies of cases involving non-GAAP financial measures, the consolidated resources in the new unit will better enable the SEC to investigate instances in which investors are potentially misled in connection with the presentation of these financial metrics.

Sales practices, inventory management and disclosure violations. The new unit's scope likely extends beyond traditional accounting fraud to include how companies describe their sales practices and manage inventory and backlog. For example, the SEC has brought cases alleging failures to disclose how certain sales practices potentially distort underlying sales trends and impact future performance, such as:

- Offering substantial discounts to channel partners to pull future sales into the current period.
- Pulling sales forward into earlier quarters and reclassifying expenses to project strong growth that could mask real, disappointing sales trends.
- Engaging in inventory management practices such as extending days of inventory on hand.
- Offering new sales incentives that increase revenues for a quarter to meet targets.

External auditor and audit engagement quality. As noted in the SEC press release, the new unit's focus extends to external auditors and audit engagement failures. When an accounting or reporting failure occurs at a public company, the SEC will often investigate what information the company provided to independent auditors, frequently seeking to establish a charge against company executives for lying to or misleading the auditors in violation of Rule 13b2-2 of the Securities Exchange Act of 1934. When an accounting or reporting failure occurs, however, the question is not only what went wrong at the public company, but also whether the auditors failed to detect the issue through their testing and review procedures. These cases require a detailed understanding of auditing failures under the Generally Accepted Auditing Standards (GAAS) framework, adding yet another layer of complexity to accounting enforcement matters.

Materiality: quantitative and qualitative dimensions. Materiality analysis in accounting and financial reporting cases is also a source of significant complexity. Under SAB 99, the SEC evaluates materiality from both quantitative and qualitative perspectives. For example, the SEC generally views financial guidance as qualitatively material. As a result, situations can arise in which a company's accounting is proper, but the company still faces SEC enforcement risks because the

SEC can bring a case alleging false or misleading disclosures. These cases may be based on EPS reporting, revenue guidance issued to financial market analysts or non-GAAP measures, such as adjusted EBITDA, that were impacted by a sales practice or maneuver. Furthermore, these financial performance metrics are not subject to audit testing, introducing difficulty for a company claiming it has relied on its auditors, which further raises the SEC's interest. Moreover, accounting issues that may impact financial reporting items well below the 5% threshold for quantitative materiality could be viewed as qualitatively material under the SEC's SAB 99 analysis, which assesses, for example, whether the accounting adjustment would have changed the company's result from a profit to a loss or whether the accounting adjustments (no matter how small) were directed by management to engage in manipulation or opportunistic behavior.

Takeaways

In light of the SEC's announcement and the broader enforcement trends it reflects, audit committees and boards of public companies should consider the following steps:

- Expect an increase in accounting and financial reporting investigations. Given the announcement and the dedication of consolidated resources, as well as recent statements by the director of the Enforcement Division, companies can expect an increase in SEC investigations involving accounting and financial reporting, which may include collaboration with other government agencies. The unit's mandate also signals a heightened focus on audit firms that conduct audits of public company financial statements.
- Assess financial reporting and disclosure controls. Audit committees and company management will want to be diligent in ensuring that the company has the appropriate internal controls in place from both accounting/financial reporting and disclosure perspectives. In particular, issues that involve complex accounting estimates and/or management judgment merit close attention. These processes are likely to reduce the risk of accounting and financial reporting misconduct. If an issue does arise, the company will want to point to the existence of a strong internal controls framework, including policies and procedures and documentation and discussion of decisions, as a factor for the SEC to consider in determining the scope and outcome of any potential investigation.
- Ensure appropriate audit committee oversight and processes. Audit committees will want to take an active role in (i) overseeing the company's accounting and financial reporting and disclosure controls, (ii) assessing with management the effectiveness of controls and (iii) communicating any significant accounting judgments with the company's external auditors. Audit committees will also want to ensure that the company's whistleblower

hotline is monitored for financial reporting issues and determine whether internal review of reported issues is warranted.

- Consider updates to risk factor disclosures. Companies need to continually review their risk factor and Management Discussion and Analysis disclosures and consider whether to update them to address any new risks from developments in the business or changes to disclosure practices.
- Evaluate materiality from both qualitative and quantitative perspectives. Under SAB 99, companies should ensure they are assessing materiality from both a qualitative and a quantitative perspective. Even accounting adjustments that fall below traditional quantitative thresholds may be deemed material where the adjustments involve management direction, cause the company to meet or exceed guidance, or reflect on the integrity of senior leadership.
- Review processes for addressing financial reporting and disclosure issues. Companies and their audit committees and disclosure committees should ensure that they have processes in place to respond quickly and thoroughly to potential accounting fraud or other financial reporting and disclosure issues, including allegations made by whistleblowers.
- Be prepared to act quickly if issues are identified. If potential accounting errors or disclosure deficiencies are identified, companies will want to consider the most efficient and effective way of assessing regulatory risks, including engaging outside counsel and accounting experts early in the process. Engaging advisers with the requisite experience (i) reviewing such issues and advising management and audit committees on regulatory risk, (ii) advising on disclosure obligations and (iii) interacting effectively with a company's independent auditors, as well as with the SEC and other regulators if needed, can be advantageous.

David Woodcock, Remarks at MFA Legal & Compliance 2026 Conference (May 13, 2026).(go back)

Keynote Address at the Inaugural OECD Roundtable on Global Financial Markets (Sept. 10, 2025); "SEC Announces Enforcement Results for Fiscal Year 2025" (April 7, 2026).(go back)