

Cornerstone Research Report Highlights Rise in SEC Accounting and Auditing Enforcement

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According to a [new report by Cornerstone Research](#) (a leading consulting and expert testimony firm), the Securities and Exchange Commission initiated 55% more actions involving accounting and auditing enforcement in fiscal year 2022 than it did in FY 2021. The report examines recent trends in the SEC's enforcement of accounting and audit violations, and includes insights on the total number of enforcement actions brought, total monetary settlements, and categories of alleged violations. Of particular note, the report highlights:

Spike in actions involving alleged 'clawback' provision violations

In FY 2022, the SEC brought nine actions involving alleged violations of Section 304 (the "clawback" provision) of the Sarbanes-Oxley Act of 2002 – triple the number in FY 2021. The provision allows the SEC to claw back incentive-based compensation from executives following a restatement of financials statements caused by misconduct (15 USC § 7243). Compensation clawbacks have been a recent focus for regulatory agencies, punctuated by the [SEC's October 2022 adoption of a long-gestating rule](#) governing the recovery of improperly awarded incentive-based compensation. In March 2023, the Department of Justice similarly enacted its [Compensation Incentives and Clawbacks Pilot Program](#), which requires companies entering criminal resolutions to implement compliance programs in their compensation and bonus structures (in exchange for potential fine reductions).

Significant increase in revenue recognition-related enforcement actions

Actions involving allegedly improper revenue recognition jumped substantially in FY 2022, with 25 of the 36 actions referring to restatements involving improper revenue recognition. The SEC's focus on revenue recognition was highlighted by a recent [\\$8 million settlement with VMware](#), which involved allegations that the company delayed delivery of certain license keys to shift revenue into future quarters (thereby "managing" the timing of the company's revenue recognition).

Continued activity related to SEC's Earnings Per Share (EPS) Initiative

The SEC also continued to pursue enforcement through its EPS Initiative, which employs risk-based data analytics designed to detect potential accounting and nondisclosure violations by public companies. In FY 2022, the SEC secured an \$8 million settlement (its highest penalty to date through the EPS Initiative) against pest control company Rollins for alleged intentional improper accounting adjustments inconsistent with generally accepted accounting principles (GAAP). The EPS Initiative continues to roll onward in 2023, including a [February 2023 settlement with Gentex Corporation](#) for alleged financial reporting and internal accounting controls violations.

[Read the full report.](#)

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