

Accounting irregularities have moved to the front burner at the SEC again — can you feel the heat?



Accounting fraud and irregularities — Is your company vulnerable?

Potential issue: Many companies are hyperaware of the US government's continued push to fight corruption and enforce the US Foreign Corrupt Practices Act (FCPA). Less obvious to some, perhaps, is the resurgence of regulatory interest in accounting fraud and irregularities.

While fraud matters occurring at companies such as Enron and WorldCom may seem like turn-of-the-century relics, recent actions and statements from the US Securities and Exchange Commission suggest they are again interested in financial accounting reporting matters. For example, in FY 2014, the SEC increased antifraud enforcement actions by nearly 50 percent, the first year-over-year increase since 2007, and new investigations by nearly a third, opening more than 100¹. Also, in the SEC's 2014 Agency Financial Report, chair Mary Jo White cited the commission's "redoubling efforts in traditional areas, like financial fraud..."²

Increased scrutiny is likely as the SEC Financial Reporting and Audit Task Force builds momentum. And, the action could accelerate as technologies such as the Accounting Quality Model (AQM) analytics tool, aka RoboCop, gain footing. These tools are making it easier for the regulators to proactively identify potential irregularities. Are you ready?

¹"FY 2016 Budget Request by Program," US Securities and Exchange Commission, page 61, <http://www.sec.gov/about/reports/sec-fy2016-budget-request-by-program.pdf>.

²<http://www.sec.gov/about/secpar/secafr2014.pdf>

What do regulators frequently look for?

Revenue recognition: Long-term accounting contracts, gross vs. net, and rebate allowances are prime targets in this consistently active area of SEC enforcement.

Deferred expenses: Pushing expenses into later periods to increase net profits.

Improper capitalization of assets: Capitalizing expenses as assets to reduce current-period expenses to artificially inflate earnings.

Valuation issues: Faulty or biased assumptions may inflate or deflate asset valuation to help companies achieve a pre-determined income/loss.

Disclosures: Inadequate or missing disclosures can be easy factors for the SEC to identify.

Related-party transactions: Adequacy of disclosing related-party transactions.

Improper segment reporting: Improper aggregation of operating segments may also trigger inquiries.

Internal control reviews: Companies that file multiple restated financial statements should be prepared to explain variances in statements.

Are you prepared?

Here are some steps to consider:



Re-familiarize your accounting and audit staff

to be aware of these issues and to potentially identify fraudulent activity



Train your finance and internal audit department

to identify potential red flags and fraudulent activity.



Conduct an antifraud review

of internal controls surrounding the focus areas noted above.



Develop a plan

for responding to allegations of fraudulent activity.



Put procedures in place to **preserve and protect data** potentially subject to investigation.



Establish protocols

for when to engage internal and/or external counsel.



Speak to thought-leaders

on trends in accounting frauds and enforcement matters.

For more information, please contact:

Anthony Campanelli Partner Deloitte Financial Advisory Services LLP +1 212 436 5386 acampanelli@deloitte.com	Kevin Corbett Partner Deloitte Financial Advisory Services LLP +1 212 436 6509 kcorbett@deloitte.com
---	---

This publication contains general information only and Deloitte is not, by means of this publication, rendering accounting, business, financial, investment, legal, tax, or other professional advice or services. This publication is not a substitute for such professional advice or services, nor should it be used as a basis for any decision or action that may affect your business. Before making any decision or taking any action that may affect your business, you should consult a qualified professional advisor. Deloitte shall not be responsible for any loss sustained by any person who relies on this publication.

As used in this document, "Deloitte" means Deloitte Financial Advisory Services LLP, which provides forensic, dispute, and other consulting services, and its affiliate, Deloitte Transactions and Business Analytics LLP, which provides a wide range of advisory and analytics services. Deloitte Transactions and Business Analytics LLP is not a certified public accounting firm. Please see www.deloitte.com/us/about for a detailed description of the legal structure of Deloitte LLP and its subsidiaries. Certain services may not be available to attest clients under the rules and regulations of public accounting. Deloitte does not provide legal services and will not provide any legal advice or address any questions of law.

About Deloitte

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee, and its network of member firms, each of which is a legally separate and independent entity. Please see www.deloitte.com/about for a detailed description of the legal structure of Deloitte Touche Tohmatsu Limited and its member firms. Please see www.deloitte.com/us/about for a detailed description of the legal structure of Deloitte LLP and its subsidiaries. Certain services may not be available to attest clients under the rules and regulations of public accounting.