

Insights

REVISIONS TO FINANCIAL STATEMENTS MAY BE UNDER SEC SCRUTINY

Feb 03, 2020

Multiple news items published over the past six weeks (including as recently as January 30, 2020) have focused on public companies' correction of accounting errors by revising their financial statements, rather than doing so through restatements that require notifying investors and release of amended filings that correct the errors. Because staff of the SEC's Enforcement Division monitor the news media for stories that may indicate securities law violations, issuers who revised their financials in the past five years could become the focus of SEC investigations.

As highlighted in the news reports, the total number of reported corrections to financial statements – whether as revisions or restatements – has decreased over the past decade, with revisions accounting for approximately 75% of all such corrections. Figures for 2019 are reported to have included 383 revisions to financial statements, while restatements fell to a fifteen-year low of 83. The more-dramatic decline in restatements could lead SEC enforcement staff to probe whether issuers made material corrections through revisions should have required a restatement, or whether auditors and audit committees performed their work with sufficient rigor and skepticism.

Issuers that revised their financial statements within the past five years may want to examine the materiality determinations made at the time to ensure the existence of a defensible record. And auditors who uncovered errors or participated in revisions to financial statements may similarly wish to review workpapers from those assignments. Please call on the authors listed above if you have any questions or concerns in this regard.

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