



*Summary of Accounting and
Auditing Enforcement Releases
for the Year Ended
December 31, 2021*

ANNUAL REPORT 2021

CONTENTS

| | |
|-------------------------------------------------------------|---|
| Highlights | 1 |
| Our Process and Methodology | 1 |
| AAERs for the Twelve Months Ended December 31, 2021: | |
| Major Observations and Insights | 2 |
| Summary of Financial Reporting Issues | 3 |
| Overview of Q4 2021 AAERs: | |
| Summary by Category and Insights from the Releases..... | 5 |
| Notable Q4 2021 AAER for “Recommended Reading” | 6 |

Introduction and Our Objective

We are pleased to present you with our summary of the U.S. Securities and Exchange Commission (“SEC,” “Commission”), Division of Enforcement’s Accounting and Auditing Enforcement Releases (“AAERs”) for the year ended December 31, 2021.

As an independent consulting firm with financial and accounting expertise, we are committed to contributing thought leadership and relevant research regarding financial reporting matters that will assist our clients in today’s fast-paced and demanding market. This report is just one example of how we intend to fulfill this commitment.

The Division of Enforcement at the U.S. Securities and Exchange Commission is a law enforcement agency established to protect investors, maintain fair, orderly, and efficient markets, and facilitate capital formation. As such, the actions they take and releases they issue provide very useful interpretations and applications of the securities laws.

For those involved in financial reporting, SEC releases concerning civil litigation and administrative actions that are identified as related to “accounting and auditing” are of particular importance. Our objective is to summarize and report on the major items disclosed in the AAERs, while also providing useful insights that the readers of our report will find valuable.

We welcome your comments and feedback, especially requests for any additional analysis you would find helpful.

Floyd Advisory
FEBRUARY 2022

Highlights:

- **The SEC released 78 AAERs during calendar year 2021, which was the second lowest number of annually issued AAERs in the past ten years with 2017 producing the least amount of AAERs totaling 76. The number of issued AAERs has been decreasing consistently since 2018.**
- **In Q4 2021, the SEC released fifteen AAERs, which is comparable to the seventeen AAERs released in Q4 2020. The prominence of Rule 102(e) Actions continued, accounting for 41% of AAERs during 2021 and 53% of AAERs in Q4 2021.**
- **During calendar year 2021, failure to comply with SEC rules continued to be the leading financial reporting issue observed across the AAERs with 32 occurrences in 2021. Examples of this issue include a lack of independence, insider trading, and untimely filings.**
- **In our “Recommended Reading” section, we discuss a case involving a CPA who received a Rule 102(e) sanction and was suspended from appearing or practicing before the SEC as an accountant for two years. What makes this AAER insightful is the level of specificity provided related to any request to be reinstated. This AAER provides guidance regarding the application requirements under various scenarios including as a financial statement preparer or reviewer, as an audit committee member, and as an independent accountant.**

OUR PROCESS AND METHODOLOGY

The SEC identifies and discloses accounting- and auditing-related enforcement actions from within its population of civil lawsuits brought in federal court, and its notices and orders concerning the institution and/or settlement of administrative proceedings as Accounting and Auditing Enforcement Releases. The disclosed AAERs are intended to highlight certain actions and are not meant to be a complete and exhaustive compilation of all the actions that may fit into the definition above.

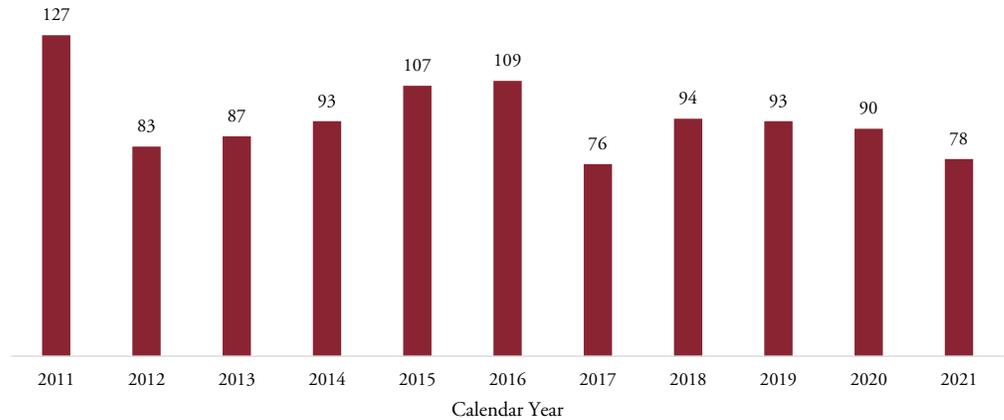
To meet our objective of summarizing the major items reported in the AAERs, we reviewed those releases identified and disclosed by the SEC on its website, www.sec.gov.

As part of our review, we gathered information and key facts, identified common attributes, noted trends, and observed material events. Applying our professional judgment to the information provided by the SEC, we sorted the releases into major categories (i.e., Rule 102(e) Actions, Financial Reporting Fraud, Foreign Corrupt Practices Act violations (“FCPA”), Reinstatements to Appear and Practice before the SEC (“Reinstatements”), Violations of Books and Records, and Other). Of note, when a release included more than one allegation, admission, or violation, we placed the release into the category which represented the most significant issue. Based on this process and methodology, we prepared a database of the key facts in each release.

AAERs for the Twelve Months Ended December 31, 2021: Major Observations and Insights

For the twelve months ended December 31, 2021, the SEC issued 78 AAERs, representing a decrease of 13% as compared to 2020.

Looking Back at Total AAERs in Preceding Years



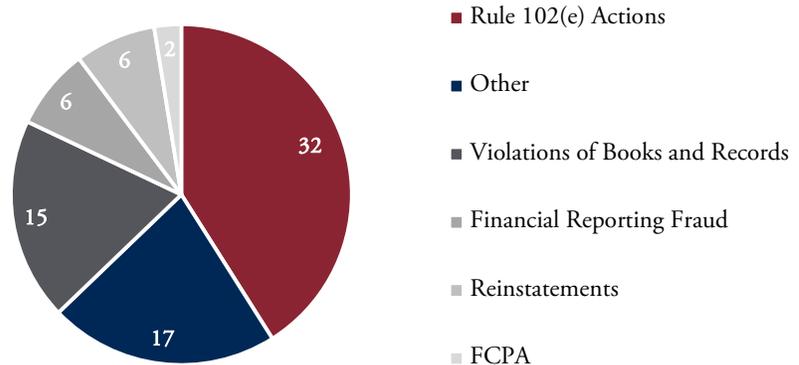
“Without examination against and enforcement of our rules and laws, we can’t instill the trust necessary for our markets to thrive. Stamping out fraud, manipulation, and abuse lowers risk in the system. It protects investors and reduces the cost of capital. The whole economy benefits from that.”

Gary Gensler,
Chairman of the SEC
Nov. 4, 2021
Prepared Remarks at the Securities
Enforcement Forum

The SEC determines the enforcement actions that are categorized as an AAER, which highlight actions related to auditing and accounting matters.

To evaluate the type of enforcement action within each AAER issued in 2021, we categorized the releases into six major categories: Rule 102(e) Actions, Financial Reporting Fraud, FCPA, Reinstatements, Violations of Books and Records, and Other. The chart below illustrates the number of AAERs in each of these categories in 2021.

2021 AAERs by Category



Of significance, 41% of the actions brought forth by the SEC in 2021 related to Rule 102(e). Rule 102(e) authorizes the SEC to issue temporary or permanent suspensions or disbarments of professionals from practicing before the SEC. In addition, as it relates to an entity, the SEC can also order censures or limitations on activities under Rule 102(e).

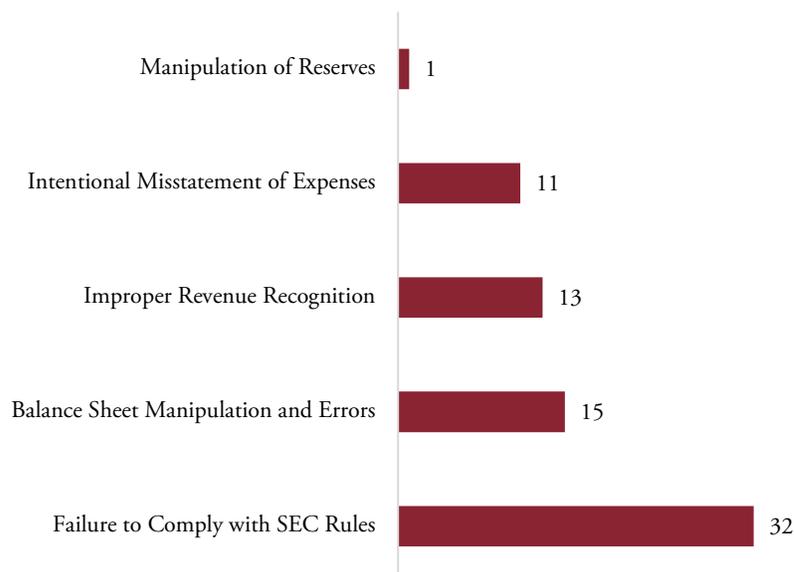
Summary of Financial Reporting Issues

To report on the frequency of financial reporting issues involved in the 2021 AAERs, we identified the accounting issue(s) in each based on the classification definitions below.

| Classification | Definition |
|----------------------------------------------|--------------------------------------------------------------------------------------------------------------------------|
| Manipulation of Reserves | Improperly created, maintained, or released reserves and other falsified accruals |
| Improper Revenue Recognition | Overstated, premature, and fabricated revenue transactions reported in public filings |
| Intentional Misstatement of Expenses | Deceptive misclassifications and misstatements of expenses |
| Failure to Comply with SEC Rules | SEC filing offenses and financial disclosure errors, omissions, or otherwise misleading representations |
| Balance Sheet Manipulation and Errors | Misstatement and misrepresentation of asset balances and the recording of transactions inconsistent with their substance |

As shown below, failure to comply with SEC rules represents the most common financial reporting issue in the 2021 AAER population which is consistent with 2020. Importantly, we track each accounting problem identified in a release as a separate item. Therefore, many actions that involve improper revenue recognition, manipulation of reserves, and the intentional misstatement of expenses also have a balance sheet impact. Likewise, some AAERs do not consist of financial reporting issues, rather they acknowledge the reinstatement of suspended professionals and updates to earlier releases such as information on proceedings and prehearings. AAERs not pertaining to financial reporting issues totaled 30 and 22 in 2021 and 2020, respectively.

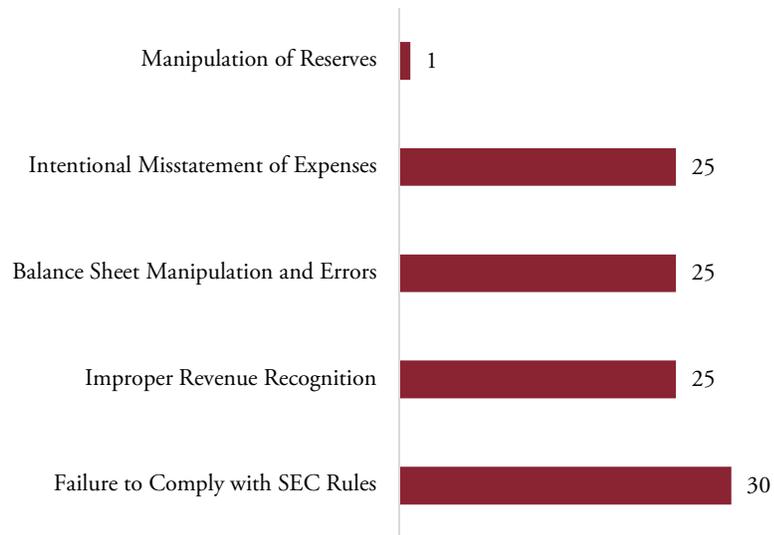
Financial Reporting Issues Identified in 2021 AAERs



“High quality financial reporting cannot be achieved without high quality accounting standards. The objective of general purpose financial reporting is ‘to provide financial information about the reporting entity that is useful to existing and potential investors, lenders, and other creditors in making decisions about providing resources to the entity.’”

Paul Munter,
Acting Chief Accountant
Dec. 6, 2021
Statement on OCA’s Continued
Focus on High Quality Financial
Reporting in a Complex
Environment

Financial Reporting Issues Identified in 2020 AAERs

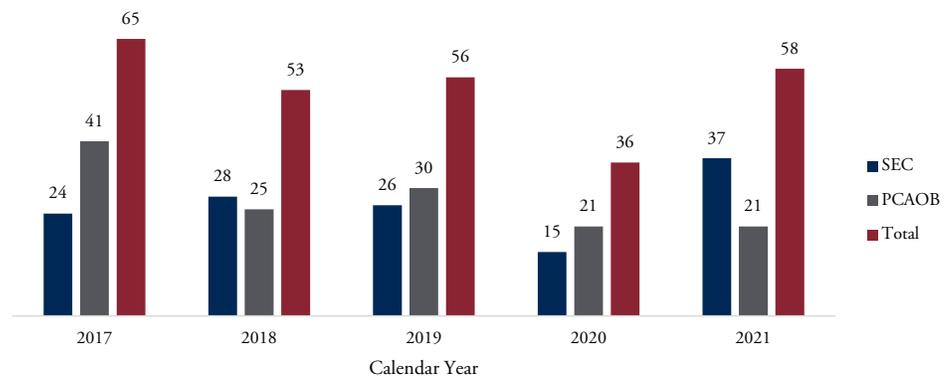


Failure to comply with SEC rules was a significant focus in 2021, as it represented 45% of all financial reporting issues identified in this year’s AAERs. The majority of releases categorized as failing to comply with SEC rules relate to the untimely public filing of Forms 10-Q and 10-K. Of note, other releases included in this category include errors, omissions, and misstatements related to management’s discussion and analysis, public filings that did not meet auditor independence requirements, insider trading, and non-GAAP measures.

SEC and PCAOB Auditing-Related Enforcement and Disciplinary Actions

The SEC and PCAOB share the responsibility of enforcing disciplinary actions against auditors who violate SEC rules and professional standards. In 2021, the PCAOB reported a consistent amount of auditing-related enforcement and disciplinary actions as compared to 2020, while auditing-related enforcement actions brought by the SEC through AAERs during the same time frame increased 147%. Most notably, as shown below, between 2017 and 2021 we observe a relatively similar amount of combined auditing-related enforcement actions brought by the SEC and PCAOB year-over-year.

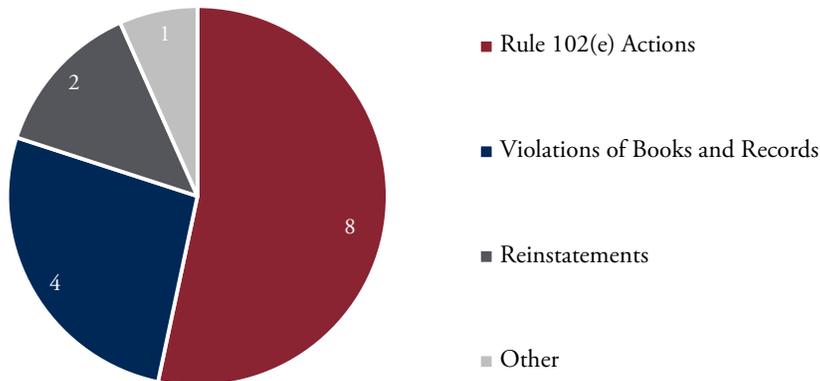
SEC and PCAOB Auditing-Related Enforcement and Disciplinary Actions



Overview of Q4 2021 AAERs: Summary by Category and Insights from the Releases

The chart below illustrates the number of AAERs that fell into each category of violation during the fourth quarter of 2021. Rule 102(e) Actions led the releases in the fourth quarter, accounting for 53% of the total releases. Interestingly, no releases were classified as Financial Reporting Fraud or FCPA this quarter.

Q4 2021 AAERs by Category



Rule 102(e) Actions

Eight AAERs related to Rule 102(e) actions were released during the quarter. As previously mentioned, Rule 102(e) actions involve the temporary or permanent censure and denial of the privilege of appearing or practicing before the SEC.

Examples of the actions reported in this quarter's Rule 102(e) releases include the following:

- The SEC suspended a CPA for siphoning investor funds.*** According to the complaint, the CPA and another individual raised approximately \$4.5 million from more than 60 investors in a fraudulent securities offering. Per the complaint, the individuals claimed that investor funds would be used to build the company's business, but instead used more than \$1.6 million to pay for personal and unrelated businesses expenses by creating fake invoices from a fictitious vendor. Additionally, the complaint alleges the individuals helped prepare misleading registration statements and provided false information to the audit firm. The individual pleaded guilty to one count of conspiracy to commit wire fraud, was sentenced to 8 months imprisonment, and ordered to pay a \$15,000 criminal fine.
- The SEC suspended a CPA for aiding and abetting and causing violations of the auditor independence rules.*** According to the complaint, between July 2009 and August 2018, a CPA knowingly approved the payment of non-audit related services to the company's public accounting firm that were based on a contingent fee. The CPA was aware that the audit committee had approved tax services by the public accounting firm under a fee structure that complied with the auditor independence rules. The CPA knowingly caused a violation of the auditor independence rules resulting in the company no longer being audited by an independent accounting firm. The CPA was suspended from appearing or practicing before the Commission as an accountant with the ability to apply for reinstatement in one year and ordered to pay a civil penalty of \$30,000.

"Audit firms should carefully consider the impact of business relationships and non-audit services on existing and prospective audit relationships. Entering into significant, multi-year non-audit service contracts or business relationship arrangements with non-audit clients can impact the auditor's ability to remain independent of its existing audit clients in certain future circumstances."

Paul Munter,
Acting Chief Accountant
Oct. 26, 2021

The Importance of High Quality
Independent Audits and Effective
Audit Committee Oversight to
High Quality Financial Reporting
to Investors

- ***The SEC suspended a CPA for permitting fraudulent crowdfunding despite multiple warning signs.*** According to the complaint, despite multiple warning signs of possible fraud or other harm to investors, the CPA allowed two issuers to conduct fraudulent crowdfunding offerings. The complaint further alleges the CPA assisted the issuers and their affiliates with preparing and filing Forms C and offering statements without questioning why the documents omitted any mention of another individual with a criminal record who was actively involved with the offerings and the management of the issuer. The individual was suspended from appearing or practicing before the Commission as an accountant with the ability to apply for reinstatement in three years and ordered to pay a civil penalty of \$9,700.

Violations of Books and Records

This quarter we categorized four AAERs under Violations of Books and Records, a category that includes alleged improper accounting treatments and internal control problems deemed worthy of an enforcement action but not meriting financial reporting fraud allegations. Below is a summary of two releases within this category:

- ***The SEC instituted cease-and-desist proceedings to a biotechnology company for improperly recognizing certain royalty revenues.*** According to the complaint, during the first two quarters of 2018, the company improperly recognized certain royalty revenues that rendered its financial statements materially inaccurate. Specifically, the complaint alleges that these revenue recognition errors resulted from internal accounting control failures that led to important information not being communicated to the company's internal accounting staff concerning certain significant royalty payments. The complaint also alleges that as a result of the company's control insufficiencies, the company overstated its royalty revenues in the first two quarters of 2018, which led to the company's restatement of its quarterly revenue results for the first three quarters of 2018. The company was ordered to pay a civil money penalty of \$300,000 due to this violation.
- ***The SEC instituted cease-and-desist proceedings to a financial technology services provider for failing to devise and maintain a sufficient system of internal controls.*** According to the complaint, there were accounting errors in the company's subsidiary as a result of insufficient internal accounting controls. The complaint alleges that there were errors in the financial statements beginning in fiscal year 2013 totaling approximately \$85.5 million. Additionally, the complaint alleges that the lack of sufficient internal controls allowed for the suspected theft and/or unauthorized transactions of about \$8 million. The company addressed these issues by implementing control activities and additional corporate monitoring activities. The company was ordered to pay a civil money penalty of \$350,000 due to this violation.

"In their preparation of financial information for the benefit of investors, we cannot overstate the importance of preparers making well-reasoned and supported judgments that are grounded in their particular facts, relevant rules, and accounting principles and that consider the usefulness and transparency of the resulting information provided to investors."

Paul Munter,
Acting Chief Accountant
Dec. 6, 2021
Statement on OCA's Continued
Focus on High Quality Financial
Reporting in a Complex
Environment

Notable Q4 2021 AAER for "Recommended Reading"

While reviewing all of the SEC's AAERs would prove insightful, certain releases present information that is especially worthy of further review and analysis by those involved with financial reporting matters. We deem these particular releases as earning the distinction of "Recommended Reading" for our clients. For this quarter, we selected the following AAER to highlight.

Accounting and Auditing Enforcement Release No. 4267 / November 21, 2021, Administrative Proceeding File No. 3-20652, In the Matter of William Wright, CPA, Respondent.

SEC Provides Reinstatement Guidance

Professionals, and especially accountants, who violate the securities laws are generally “suspended from appearing” before the United States Securities and Exchange Commission. For an accountant, this means that you cannot prepare financial statements on behalf of a public registrant, be on an audit committee, or be an auditor. The rules related to the SEC’s ability to suspend one’s career rights are found in SEC’s Rule 102(e). The punishment, which is commonly referred to as “receiving” a Rule 102(e), can be career ending or certainly career changing, however there is the possibility of reinstatement for many.

In the past, when the SEC issued an AAER for a Rule 102(e) sanction, it provided significant detail as to the violations underlying the punishment. However, details about what is required to be successfully reinstated wasn’t previously provided: that is until now with recent AAERs providing such guidance.

Below we will highlight the basic facts from a recent AAER related to a Rule 102(e) suspension to practice before the SEC as an accountant. Importantly, we will summarize the requirements from the AAER for the individual when applying to have privileges reinstated.

Financial Reporting Professional Suspended from Appearing Before the SEC

Per a recently issued AAER, the Managing Director in Accounting and Reporting for CEB Inc., a corporation that provided best practice and talent management products and services, was “suspended from appearing” or practicing before the SEC as an accountant for two years under Rule 102(e)(3)(i). Per the release, the individual provided inside information to his brother-in-law that CEB Inc. would soon be acquired by another company. Based on the information, his brother-in-law traded in CEB Inc. shares prior to the merger announcement and generated profits over \$240,000.

After serving a two-year suspension, the individual may request that the SEC consider reinstating his privileges to appear before the SEC by submitting an application to the Office of the Chief Accountant. This language regarding where to apply is fairly standard in AAERs for individuals receiving suspensions. The detailed requirements as to what should be included in the application is what is unique and helpful, especially the added commentary by the SEC, which is also reported below.

Reinstatement Application Guidance

Rule 102(e) suspensions are generally broad and suspend individuals’ rights to serve as financial statement preparers and reviewers for a public registrant, as audit committee members, and as independent auditors. This AAER addressed each of these roles separately as described below.

Financial Statement Preparer and Reviewer

In support of any application for reinstatement to appear and practice before the SEC as a preparer or reviewer of financial statements, the individual shall submit a written statement attesting how the individual’s work will be reviewed by the independent audit committee or some other procedure acceptable to the Commission, and for as long as the individual practices before the Commission in this capacity. The individual will need to comply with any SEC or other requirements, related to appearing and practicing before the SEC as an accountant.

“Remedies, such as penalties and admissions, need to be carefully calibrated to have a specific and general deterrent effect. We need to leverage prophylactic remedies — like bars and injunctions — that protect investors from future harm.”

Gary Gensler,
Chairman of the SEC
Nov. 4, 2021
Prepared Remarks at the Securities
Enforcement Forum

Audit Committee Member

In support of any application for reinstatement to appear and practice as a member of an audit committee, the individual shall submit a statement prepared by the audit committee(s) with which the individual will be associated, including the following information:

- A summary of the responsibilities and duties of the specific audit committee;
- A description of the individual's role on the specific audit committee;
- A description of any policies, procedures, or controls to mitigate potential risk to the SEC by such service;
- A description relating to the necessity of the individual's service on the specific audit committee; and
- A statement noting whether the individual will be able to act unilaterally on behalf of the audit committee as a whole.

Independent Accountant (Auditor)

In support of any application for reinstatement to appear and practice before the Commission as an independent auditor, the individual must be associated with a public accounting firm registered with the Public Company Accounting Oversight Board ("PCAOB") and the individual shall submit the following additional information:

- A statement from the accounting firm stating that the firm is registered with the PCAOB, in accordance with the Sarbanes-Oxley Act of 2002;
- A statement from the accounting firm that it has been inspected by the PCAOB and that the PCAOB did not identify any criticisms of or potential defects in the firm's quality control system that would indicate that the individual will not receive appropriate supervision; and
- A statement from the individual indicating that the PCAOB has taken no other disciplinary actions against them in the seven years prior to the date of their suspension.

Additional Requirements for All Applications

In support of all applications for reinstatement, the individual shall provide documentation showing that the individual is currently licensed as a certified public accountant ("CPA") and has resolved all other disciplinary issues with any applicable state boards of accountancy. If not currently licensed as a CPA, the individual shall provide documentation showing that their licensure is dependent upon reinstatement by the Commission.

Respondent shall also submit an affidavit stating:

- Compliance with the suspension order, and with any related orders and undertakings;
- Immediate notification will be made in writing if any information submitted in support of the application for reinstatement becomes materially false or misleading or otherwise changes in any material way while the application is pending;
- Since the entry of the suspension order, the individual has not been convicted of a felony or a misdemeanor involving moral turpitude that would constitute a basis for a forthwith suspension from appearing or practicing before the Commission pursuant to Rule 102(e)(2);
- Since the entry of the suspension order, the individual has not been charged with a felony or a misdemeanor involving moral turpitude as set forth in Rule 102(e)(2) of the SEC's Rules of Practice, except for any charge underlying the suspension, nor has been found by the SEC or a court of the United States to have committed a violation of the federal securities laws, and has not been enjoined from violating the federal securities laws, except for any action underlying the suspension order, as well as similar statements;

"The independent auditor plays an important role in promoting transparent, accurate financial information and in maintaining investor confidence in that information by providing reasonable assurance to investors that the financial statements are free from material misstatement."

Paul Munter,
Acting Chief Accountant
Dec. 6, 2021
Statement on OCA's Continued
Focus on High Quality Financial
Reporting in a Complex
Environment

- There are no pending investigations of the SEC’s Division of Enforcement, the PCAOB’s Division of Enforcement and Investigations, nor any criminal law enforcement investigation, or any pending proceeding of a State Board of Accountancy;
- Compliance with any and all orders, undertakings, or other remedial, disciplinary, or punitive sanctions resulting from any action taken by any State Board of Accountancy, or other regulatory body.

The individual shall also provide a detailed description of:

- Professional history since the suspension, including:
 - (a) all job titles, responsibilities, and roles
 - (b) the identification and description of any work performed for entities regulated by the SEC, and the persons to whom the individual reported for such work; and
- Future career plans related to SEC registrants.

Insights on the SEC Decision Process

After providing the guidance and requirements described above, the SEC provided what appears to be encouraging language for the suspended individual, paraphrased as follows:

“If ... provides the documentation and attestations required in this Order and the Commission (1) discovers no contrary information therein, and (2) determines that ... truthfully and accurately attested to each of the items required ... and the Commission discovers no information, ... indicating that Respondent has violated a federal securities law, rule or regulation or rule of professional conduct applicable to Respondent since entry of the Order ..., then, unless the Commission determines that reinstatement would not be in the public interest, the Commission shall reinstate the respondent for cause shown.”

“If ... is not able to provide the documentation and truthful and accurate attestations required ... or if the Commission has discovered contrary information, ..., the burden shall be on the Respondent to provide an explanation as to the facts and circumstances pertaining to the matter setting forth why Respondent believes cause for reinstatement nonetheless exists and reinstatement would not be contrary to the public interest. The Commission may then, in its discretion, reinstate the Respondent for cause shown.”

“If the Commission declines to reinstate Respondent ..., it may, at Respondent’s request, hold a hearing to determine whether cause has been shown to permit Respondent to resume appearing and practicing before the Commission as an accountant.”

Based on the new guidance and language provided with Rule 102(e) suspensions, there is greater transparency with regard to what the SEC expects to see from an individual seeking reinstatement. A more transparent process in general including knowing who applies for reinstatement, who is rejected and why, and the reasoning for who is reinstated would benefit the public greatly, and enhance confidence in the overall process: information which hasn’t historically been made available by the SEC. Being able to understand the SEC’s decision making in such matters would help understand both the treatment for the severity of individuals’ acts and the actions that are helpful for reinstatement.

www.floydadvisory.com

ACKNOWLEDGEMENT

We wish to acknowledge the valuable contribution to this analysis by Joseph Floyd, Shayna Sparrow, and Chris Giles.

Please contact LeeAnn Manning at 617.586.1076 or Marni Kaufman at 617.586.1072 with comments or feedback.

ABOUT Floyd Advisory

Floyd Advisory is a consulting firm providing financial and accounting expertise in areas of SEC reporting, transaction advisory, investigations and compliance, litigation services, as well as business strategy and valuation.

New York

555 Fifth Avenue
New York, NY 10017
212.845.9018

Boston

155 Federal Street, 11th Floor
Boston, MA 02110
617.586.1040