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### Audit Firm Settles SEC Fraud Charges and Agrees to Permanent Suspension



The circumstances leading the SEC to [charge](#) a small independent auditor with "massive fraud" are egregious and not likely to be duplicated elsewhere. But the SEC's action provides a reminder for audit committees' role in overseeing the independent auditor.

Many audit committee chairs read the [inspection reports](#) issued by the PCAOB for their own independent auditor when they are released. These reports provide an opportunity for audit committees to review and consider potential concerns, and to discuss these with their audit firm. And the PCAOB rule proposal that we [blogged about](#) recently would shed more light on auditor practices if that rule is adopted.

Along with the press release and copy of the SEC order, Corp Fin also provided a [statement](#) regarding disclosure and reporting obligations for companies that were audited by this firm. The firm is no longer permitted to appear or practice before the SEC, which has several impacts for companies that have engaged the firm.

- Companies must file an Item 4.01 Form 8-K regarding a change in auditor.
- Exchange Act periodic reports containing financial statements audited or reviewed by the firm may not be filed after the date of the order – meaning companies may need to scramble to find a new auditor in short order.
- A pending registration statement that contains or incorporates by reference financial information audited or reviewed by the firm would need to file an amendment with a new audit or review from a qualified firm.
- Pending Regulation A offering statements would similarly need to file an amendment.

The statement also provides companies with contact information for resources to respond to questions.

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