Securities Enforcement
Alert

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Back to the Books: SEC's New Enforcement Unit Puts Financial Reporting in the Crosshairs

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On August 5, 2026, the U.S. Securities and Exchange Commission announced the establishment of a new specialized unit within the Division of Enforcement, the Financial Reporting and Accounting Unit (the "Unit"), dedicated to pursuing accounting and financial reporting fraud, as well as misconduct in the accounting and auditing areas more generally.[1] The Unit will be led by Timothy Zimmerman, who served as Deputy General Counsel of accounting firm RSM US following twelve years in private practice, and staffed by both attorneys and accountants with specialized skills in financial reporting, accounting, and auditing.

Announcing the Unit, Enforcement Director David Woodcock, who himself is a certified public accountant, explained: "Since my return to the Division, I have been assessing every aspect of our staffing to ensure that we are aligned to deliver results in our core mission areas." The Unit, he said, "expands on the Division's current and historical efforts to crack down on bad actors in the accounting and auditing profession" and will be "critical" to the Division's pursuit of "financial reporting fraud, as well as accounting and auditor misconduct more generally."

The announcement is the Commission's strongest signal to date that accounting and financial reporting fraud sits at the core of its enforcement agenda for public companies. Much remains to be seen, but the direction of travel is unmistakable: directors, audit committee members, and financial executives should assume that their companies' accounting judgments, disclosures, and internal controls will face a more focused and more expert brand of SEC scrutiny.

Further below please find our assessment and key takeaways from this announcement.

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[1] Press Release, SEC, SEC Establishes Financial Reporting and Accounting Unit in Enforcement Division, Rel. No. 2026-72 (Aug. 5, 2026), https://www.sec.gov/newsroom/press-releases/2026-72-sec-establishes-financial-reporting-accounting-unit-enforcement-division.

What the New Unit Signals

- Financial reporting is a centerpiece of the "back to basics" agenda. Chairman Paul Atkins has described the Division as having undergone a "significant course correction" toward cases that provide "meaningful investor protection and strengthen market integrity."[2] In his first public remarks this past May, Director Woodcock committed to "return the enforcement program back to basics," identified accounting and disclosure fraud among the Division's core priorities, and pointed to a series of early-2026 financial reporting actions, including cases involving inflated segment performance (which we analyzed in a prior alert, available here) and false inventory entries, as illustrations of that focus.[3] The new Unit institutionalizes this commitment with dedicated leadership, staffing, and expertise. Significantly, the formation of the new Unit explicitly empowers Enforcement staff to conduct robust investigations in the public company space.
- Leadership steeped in accounting. As noted above, both Director Woodcock and Mr. Zimmerman possess significant accounting expertise. In fact, during his prior tenure at the Commission, Director Woodcock was a founding member of and chaired the SEC's Financial Reporting and Audit Task Force. As such, firms should expect technically sophisticated investigations attuned to judgment intensive areas such as revenue recognition, reserves and estimates, impairments, segment reporting, and non-GAAP and KPI disclosures rather than inquiries triggered only by restatements or headlines.
- Auditors and gatekeepers are squarely in scope. The SEC framed the Unit's mandate to include "general misconduct in the accounting and auditing areas" and cracking down on "bad actors in the accounting and auditing profession." That language signals scrutiny not only of issuers and their executives but also of audit firms and individual accountants who facilitate or fail to detect misreporting. It will also be interesting to watch how the formation of this Unit interacts with the PCAOB's mission.
- Individual attention. This Commission has consistently paired corporate charges with charges against individual executives.[4] We can expect targeted investigations that dig deeper into accounting judgments, and reach individual officers, including certifying officers, more often.
- Candor and cooperation carry real currency. Director Woodcock has emphasized that the Division is "not focused on prosecuting firms or individuals for honest mistakes that cause no investor harm," that remedies will be calibrated to distinguish error from fraud, and that self-reporting, cooperation, and remediation will be treated meaningfully differently from concealment.[5]

What to Do Now

- Boards and audit committees. Devote agenda time to judgment-intensive accounting areas: revenue recognition, reserves, impairments, segment reporting, and non-GAAP measures — and pressure-test whether incentives to meet guidance or compensation targets are influencing accounting judgments. Confirm that whistleblower complaints, auditor disagreements, and proposed out-of-period adjustments are escalated promptly and, where warranted, investigated independently.

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[2] Press Release, SEC, SEC Appoints David Woodcock as Director of the Division of Enforcement, Rel. No. 2026-35 (Apr. 8, 2026), https://www.sec.gov/newsroom/press-releases/2026-35-sec-appoints-david-woodcock-director-division-enforcement.

[3] David Woodcock, Director, SEC Division of Enforcement, Remarks at the MFA Legal & Compliance 2026 Conference (May 13, 2026), https://www.sec.gov/newsroom/speeches-statements/woodcock-remarks-mfa-legal-compliance-2026-conference-051326.

[4] *See, e.g.*, Press Release, SEC, SEC Charges ADM, Three Former Executives with Accounting and Disclosure Fraud, Rel. No. 2026-15 (Jan. 27, 2026), https://www.sec.gov/newsroom/press-releases/2026-15-sec-charges-adm-three-former-executives-accounting-disclosure-fraud.

[5] Woodcock, Remarks, *supra* note 3.

- <u>CEOs and CFOs.</u> Set an unambiguous tone that earnings targets are never a reason to stretch an accounting judgment, and scrutinize late-quarter adjustments and transactions lacking a clear business purpose. With individual accountability a hallmark of this enforcement program, certifying officers are personally in the frame.
- <u>Securities counsel and disclosure committees.</u> Refresh disclosure controls and procedures to ensure that MD&A, earnings releases, KPIs, and segment disclosures are consistent with the underlying books and records. Because Exchange Act Rule 13a-15 charges relating to disclosure controls and procedures frequently accompany books-and-records and internal accounting controls charges under Sections 13(b)(2)(A) and (B), companies should confirm that their disclosure controls framework is designed to surface accounting judgments and estimates for timely executive review. When potential issues surface, engage counsel early and weigh the self-reporting calculus promptly. Cooperation credit appears to be real under this administration, and the Division has invited pre-enforcement dialogue.[6]
- <u>Controllers and accounting staff.</u> Document the basis for significant estimates and judgments contemporaneously, escalate proposed entries that lack a business rationale, and maintain rigor in internal control over financial reporting. Books and records and internal accounting controls charges do not require proof of fraud and remain a staple of SEC accounting cases.
- <u>Data analytics and AI will help find the cases.</u> The Unit likely will build upon the SEC's initiatives related to using data analytics and AI to detect financial fraud (e.g., uncover earnings management issues). Companies should assume that anomalies in the numbers themselves can draw the Unit's attention without any restatement, whistleblower, or headline.

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[6] Woodcock, Remarks, *supra* note 3.

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