

# **Bond Case Briefs**

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## **The Reach Too Far: SEC Sues Over Botched School Audit - Norris McLaughlin**

As I have written recently, accounting firms that “reach” for more business and/or for types of business that “exceed their grasp” court disaster – in terms of the quality of the professional services rendered, the damage to the firms’ professional reputations, and the financial losses the firms suffer as a result.

My July 24, 2023 blog “[Why ‘Ask Marcum’?](#)” tells the tale of an accounting firm aggressively seeking to grow, which became the “go to” firm for Special Purpose Acquisition Companies (“SPAC”) deals only to fail mightily in trying to keep up with the workload, and ended up settling an enforcement action brought by the U.S. Securities and Exchange Commission (“SEC”) including payment of a civil penalty of \$10 million to the SEC and \$3 million to the Public Company Accounting Oversight Board (“PCAOB”), as well as material restrictions on its ability to take on new work. Then, as recounted in my Aug. 29, 2023 blog “[Eating Crowe](#),” the SEC sanctioned one of the world’s largest accounting firms for trying to provide audit services in a SPAC financing that resulted in a total loss for investors, for which the accounting firm paid \$11.5 million in damages to the investors, in addition to disgorging its fees and paying a civil penalty of \$750,000. The accounting firm also forfeited its registration with PCAOB and accepted the imposition of major conditions to be met before it could reapply to register with PCAOB. As a consequence, the accounting firm is not eligible to audit public companies traded on the American capital markets.

A particular area of audit malperformance involves municipal entities, especially school districts. I have previously written extensively about the regulatory structure of the municipal security market, e.g., in my Sept. 22, 2020 blog “[SEC Focus on Municipal Securities](#),” which includes quite a number of enforcement actions arising out of the inadequacy of disclosure by municipal issuers and their advisors. In my June 27, 2022 blog “[Serving the Public?](#)” not only do I discuss a number of violative failures and misstatements, including some involving school systems, but also the creation in 2010 of the Public Finance Abuse Unit within the SEC’s Division of Enforcement, reflecting both the growing volume of cases and the seriousness of the misdeeds.

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**by Peter D. Hutcheon of Norris McLaughlin P.A.**

Tuesday, November 21, 2023