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be used to gain an unfair advantage over other stock market investors. Unfortunately for the accounting profession, James Gansman is not the only partner or employee of one of those firms who has been implicated recently in a major insider trading scandal.

In January 2008, the SEC charged two former PwC employees with using confidential client information to earn large profits in the stock market. One of the individuals was on PwC's audit staff, while the other was assigned to PwC's Transaction Services group, the PwC division comparable to E&Y's TAS department.⁴ The individual in the Transactions Services group accessed the confidential information while working on several M&A consulting engagements for PwC. He then provided that information to his friend on PwC's audit staff, who relied on it to purchase securities of companies that were acquisition targets. This latter individual's name was recognized by a PwC audit partner when he was reviewing a list of securities transactions for a client that another company was attempting to acquire. The audit partner informed the SEC, which then filed insider trading charges against the two friends.

In November 2010, the U.S. Department of Justice filed insider trading charges against a former Deloitte tax partner and his wife, who had also been employed by that firm.⁵ The couple allegedly obtained confidential information regarding seven Deloitte clients that were involved in M&A transactions. According to the SEC, the couple communicated that information to family members living in Europe who then engaged in securities involving the companies that were parties to those transactions. The SEC reported that the former Deloitte partner and his wife netted more than \$3 million in stock market gains between 2006 and 2008 from the insider trading scheme, while their British relatives netted more than \$20 million

in profits.⁶ In investigating this case, the Justice Department and SEC sought and received the cooperation of the Financial Services Authority, the British agency charged with regulating Great Britain's securities markets.

To date, the most publicized case of insider trading directly linked to the accounting profession involved Thomas Flanagan, a former vice chairman of Deloitte who spent 38 years with that firm. In October 2008, Deloitte announced that it was suing Flanagan for allegedly trading in the securities of at least 12 Deloitte audit clients for which he had served as an "advisory"⁷ partner.

*Deloitte claims that Flanagan held and traded securities of his own clients for the past three years. The firm alleges he bought one of his client's stock one week before it announced an acquisition of a public company. He is also accused of violating the firm's independence and conflict-of-interest policies and hiding his personal securities holdings from Deloitte. In his role as an advisory partner, he attended the audit committee meetings of seven of the twelve clients affected.*⁸

Press reports indicated that the clients linked to the allegations surrounding Flanagan included Allstate, Best Buy, Motorola, Sears, and Walgreens.

In August 2010, the SEC announced that it had settled insider trading charges that it had filed against Flanagan. The terms of the settlement required Flanagan to pay more than \$1 million in fines and penalties. Flanagan consented to the settlement without admitting or denying the SEC's allegations. Flanagan's son, who had allegedly made securities trades based upon inside information given to him by his father, reached a similar settlement with the SEC and paid fines and penalties of approximately \$120,000. Other litigation cases linked to Flanagan's alleged indiscretions are still ongoing, including the lawsuit that Deloitte filed against him.

4. A. Rappeport, "Ex-PwC Pals were Inside Traders, SEC Says," *CFO.com*, 15 January 2009.

5. P. Lattman, "Couple Accused of Trading Insider Tips," *The New York Times* (online), 30 November 2010.

6. E. Stevens, "Pacific Heights Socialites Charged in Elaborate Insider-Trading Scheme," *Bay Citizen* (online), 9 January 2010.

7. A Deloitte "advisory" partner is typically a senior audit partner who has significant industry expertise relevant to a given client. In addition to consulting with members of an audit engagement team on important issues arising during an audit, an advisory partner typically reviews the audit workpapers before the engagement is completed.

8. S. Johnson, "Deloitte Insider Case Sparked Doubts About Audits," *CFO.com*, 10 November 2008.