Administrative Auditing

“Case: Enron and Andersen Collapse”

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Audit Objectives”



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**OBJECTIVE**: Analyze the following real case in order to identify the importance of applying auditing personal and work execution norms in the development of an audit review

**DEVELOPMENT AND INSTRUCTIONS**

Read carefully the following information about the case of Enron Corporation and Arthur Andersen auditors firm, analyze it and answer the questions related to the case

**OVERVIEW**

* Arthur Andersen was an accounting and consulting service that operated businesses throughout the world. In first year of business the firm gain the reputation of integrity “One firm, one voice”.
* A standardized process of auditing was due to strong culture of AA (Arthur Andersen). This culture was due to the rigorous training programs.
* AA Consulting started as a way to help its clients .First the consultants were all accountants with 2 years audit experience but the rule was changed in 1960s, and in 1970s the consultants became more profitable than auditors. But the audit side still controlled the firm management which made the consultants frustrated. In 1989 the auditors and consultants became separate in its operations and marketing.
* In 1977 the consulting partners voted to separate themselves from AA. After that Anderson Consulting changed its name to Accenture and omitted any mention of AA in the corporate history of its website. AA was left with less money which made them very aggressive in seeking and expanding business to show Accenture that it could do better and make more money without them.
* *Auditors became salesmen as they put under a lot of pressure to meet specific revenue goals*.

**ENRON & ANDERSEN**

* Enron was one of the biggest clients of Andersen since 1986.
* Andersen in the mid-1990s hired Enron's entire team of 40 internal auditors, added its own people and opened an office in Enron's Houston headquarters. They paid fees to Andersen for provision of better auditing consequences.
* *Arthur Andersen disregarded the fraud and manipulation Enron did in its Financial statements, Mark to market accounting, SPEs, and off-balance sheet practices, and signed their papers.*
* When Enron came under investigation of federal authorities, Andersen had a huge “shred” campaign. In 2001 Enron Corporation filed for chapter 11 bankruptcy, which was the largest bankruptcy petition in U.S. history

**ANDERSEN’S RESPONSE TO THE ENRON CRISIS**

* *Andersen’s document retention policy was to destroy client documents if the client was under investigation*.
* The SEC began a formal investigation of Enron and requested Andersen’s accounting documents. However *they destroyed two tons of paper* by shredding. The destruction of documents continued until the SEC advise Andersen to stop shredding documents.

 **ARTHUR ANDERSEN COLLAPSE**

* On March 7, 2002 Andersen was indicted for obstruction of a SEC investigation.
* On June 15, 2002 *a jury found Andersen guilty.* *The SEC does not allow convicted felons to audit public companies so Andersen informed the SEC they would cease to practice on August 31, 2002.*
* *All the international offices of AA were bought by the “big four”.* The federal authorities after the Enron collapse started the overall investigation of other AA clients.
* As a result, WorldCom, Qwest Communications, Global Crossing, Merck and Baptist Foundation of Arizona announced themselves insolvent.

**CORPORATE CULTURE AND ETHICAL RAMIFICATIONS**

* Dilution of the “one firm, one voice” concept.
* Change in the values and ideology
* The conformist Culture which became the cult. *Do what the Client wants, no questions asked*
* No one to Watch the Watchers. Absence of an in-house ethics officer
* Absence of an internal audit body made the firm overlook its own mistakes

**STUDENT ANALYSIS**

Once you have read the case and analyzed it, answer the following questions giving precise arguments

1. Explain the participation of Arthur Andersen the auditor´s firm in Enron fraud
2. Identify three ethic postulates that the firm did not comply with
3. Mention three ethic guidelines that Enron did not followed
4. Do you think that Enron´s bankcruptcy could have been stopped? Write at least three arguments
5. Do you consider that Arthur Andersen auditors knew about Enron fraud and did nothing to inform the situation?
6. Indicate and explain four important points of this case related to the auditing norms
7. Give three recommendations to auditors to avoid being involved in this type of scandals and its consequences

Prepare your report with the above answers and give your final conclusions and recommendations about the case.