INFO 7374 - Cybersecurity Audit and Compliance
Week 1 Assignment - Enron: Not Accounting for the Future

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1. **How did the corporate culture of Enron contribute to its bankruptcy?**

Ans: The corporate culture at Enron significantly contributed to its organizational failure:

1. The company fostered a very aggressive, win-at-all-cost approach to business
2. Employees were pitted against other employees through a "rank and yank" system.
3. There was dramatic pressure to achieve unrealistic financial targets
4. Ethical concerns were often ignored to pursue short-term profits
5. The leadership at the top, with its CEO Jeffrey Skilling leading, encouraged arrogance and risk-taking in every way

The eventual bankruptcy of this company was because this toxic environment forced the employees to indulge in fraudulent practices just to meet expectations and retain their jobs.

2. **Did Enron's bankers, auditors, and attorneys contribute to Enron's demise? If so, how?**

Ans: Yes, the following external parties facilitated the failure of Enron:

Bankers: Some banks, including Merrill Lynch, were said to have conspired in distorting Enron's balance sheet with sham deals.

Auditors: Arthur Andersen, the auditor for Enron, did not question and report correctly on the complex entities employed by Enron. Later they were convicted of destroying relevant documents for obstruction of justice.

Attorneys: Law firms such as Vinson & Elkins issued legal opinions supporting some of the dubious Enron deals.

All these parties in one way or another actively assisted in, or by not acting, allowed the fraud activities at Enron and resultant bankruptcy.

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3. **What role did the company's chief financial officer play in creating the problems that led to Enron's financial problems?**

Ans: The CFO at Enron, Andrew Fastow, was right in the middle of orchestrating the mechanisms in fraud that brought down the firm. He was involved in forming and leveraging financial entities and reckless behavior that kept the true position of Enron from being disclosed to the public through financial reports.

a. Creation of Complex Off-Balance-Sheet Partnerships

- Fastow: Special Purpose Entities to hide Enron's debt and exaggerate profits.
- Partnerships designed for making a company like Enron appear more financially sound and profitable than it was, deceived investors, analysts, and employees alike.

b. Personal Profits from the Fraud

- Fastow immediately benefited from such deals, reaping several million dollars as a result of his control over the SPEs.
- He had a direct financial interest in these transactions, which became a conflict of interest that served to benefit himself rather than uphold the integrity and stability of the company.

c. Deceptive Financial Practices

- He used aggressive and improper bookkeeping practices, like mark-to-market accounting, to distort Enron's books and records.
- These practices helped the company show Wall Street exactly what it expected to see in terms of earnings and furthered the smoke and mirrors.

d. Undermining Transparency

- Fastow was very proactive in hiding the financial instability at Enron from the board, auditors, and regulators.
- His fraudulent activities took away the much-required intervention from all these stakeholders and prevented timely interventions to defuse the crisis.

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e. Facilitating a Culture of Fraud

- Being one of the main executives in Enron, Fastow set up an environment where fraud was the norm and fostered this kind of practice.
- His actions served as a model for others within the company to prioritize short-term gains over ethical considerations.

Fastow's manipulating Enron financial systems made him right in the center of such fraudulent operations pursued by the corporation. Moreover, his further actions not only maintained the deceit but played a critical role in the ultimate collapse of the company, which had been devastatingly bad for its workers, investors, and stakeholders in general.