The Collapse of Arthur Andersen and Enron Scandal

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Introduction:

An Arthur Andersen worked before in Price Waterhouse with Clarence DeLany. A 28-year-old accounting professor started his own business in 1913 in Chicago (Andersen, Delany & Co). In 1918 DeLany left, and the firm changed its name to Arthur Andersen & Co. The company developed a philosophy that focused on building a solid corporate culture among all Andersen employees. In the1930s, the federal government adopted new laws to require public companies to submit their financial statements to an independent auditor every year.

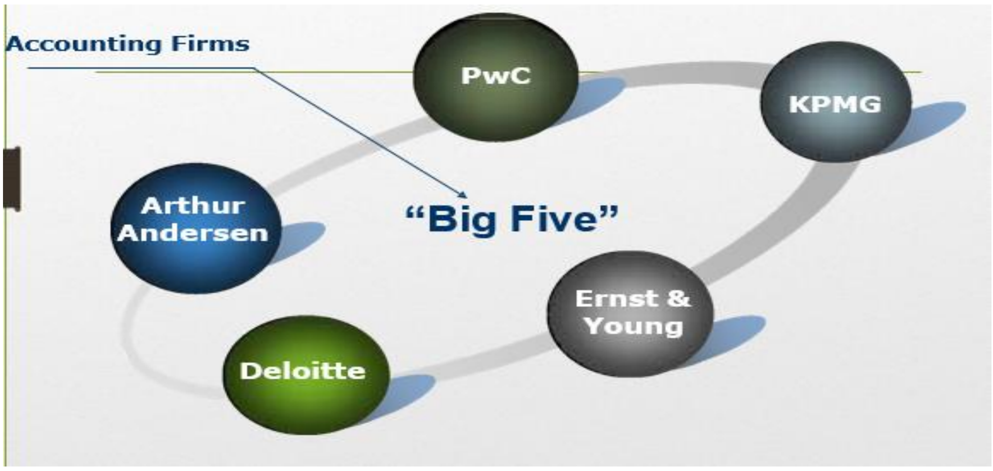
In 1947 Arthur Andersen died, during that period his firm almost experienced a closed down.

Leonard Spacek, Andersen’s disciple, convinced the company's partners to remain together despite financial uncertainty, and became the managing partner. Arthur Andersen Corporation moved to the top of its profession during Spacek’s term.

It obtained worldwide growth and opened its first international offices during 1950s. In 1950 Josef Glickauf demonstrated that computers can be used to automate bookkeeping. In 1954, it launched its new computer consulting business. In 1960s a mid-level partner made about $60.000- 160.000 in today’s dollars. During 1970s its consulting business exploded as the demands for information technology increased. By 1979 almost a half of its worldwide fees came from consulting and tax work.

In 1979 it surpassed 1000 partners and became the world’s biggest business services firm. In 1989 it formed a separate consulting practice. It became Arthur Andersen and Andersen Consulting. In 2000 Andersen Consulting became independent and was renamed (Accenture, 2001). By 2002 AA had 85000 employees around the world, 2300 clients, $9.3 billion in annual revenues.

Big five Competing financial firms at that time were : PwC , KPMG , Ernst & Young , Deloitte ,and Arthur Andersen



Wrong steps taken by Arthur Andersen:

After the formation of Arthur Andersen (1989) the company failed to withstand the pressure. It leaded to a negative influence on Andersen's corporate culture, which enabled Andersen to be more interested in its own revenue growth through ethical and legal misconducts, such as accounting irregularities and fraud. Business was growing very slowly due to increased competition and the large number of mergers in the 1990s. Arthur Andersen accountants particularly resented being eclipsed by their consulting counterparts at Andersen Consulting.
Arthur Andersen adopted a new strategy that focused on generating new business and cutting costs which led to substantially higher revenues and profits per partner ($600.000). Arthur Andersen began requiring partners to retire at age 56 years. The new policies also led to less experienced auditors and fewer partners overseeing audits.

Arthur Andersen after separation from Andersen consulting :

New strategy – 2X performance evaluation system: e.g. $2 million a year in auditing fees and an additional $4 million in fees from non-audit services. Partners who achieved this standard were rewarded, while others were penalized and in some cases dismissed from the company. Changes Andersen's organizational architecture (e.g. dress code, new logo).
A new service - the entire internal bookkeeping function for their clients and provide internal audit services rather than just handling the once-a-year audit of the public books.
some contributions to its downfall is some ethical misconducts that Andersen sold lucrative consulting services to Enron.

Enron & Arthur Andersen :

Enron was one of the biggest clients of AA. Enron paid fees to AA for provision of better auditing consequences. AA completed the better report by sending untrained auditors to the client's sides or other unethical methods. When Enron came under investigation of federal authorities, AA had a huge "shred" campaign. The relationship between Enron and Arthur Andersen was seen as a cozy one which made it easy to maintain the improper accounting practices by both parties. Enron & AA . They set out to make as much money for themselves as possible. These selfish acts led both companies into downfall in bankruptcy. Enron Corporation filed for chapter 11 bankruptcy, which was the largest bankruptcy petition in U.S. history. It had cleared out shareholder investments that had once been valued at more than $60 billion. Many of Enron's employees had large amounts of Enron stock in the company's retirement savings plans.

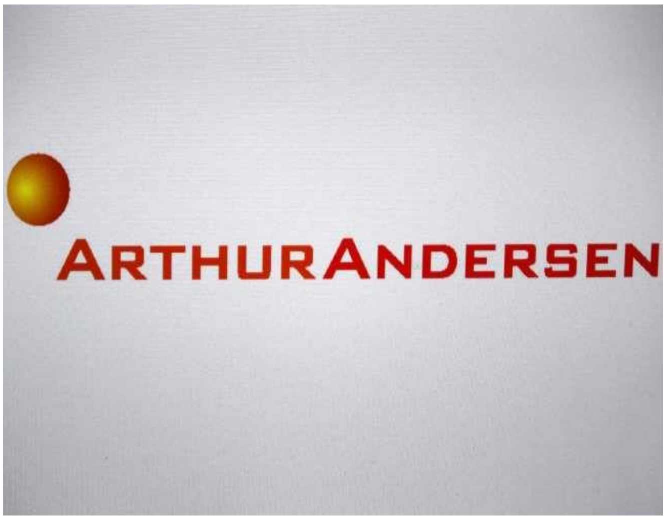
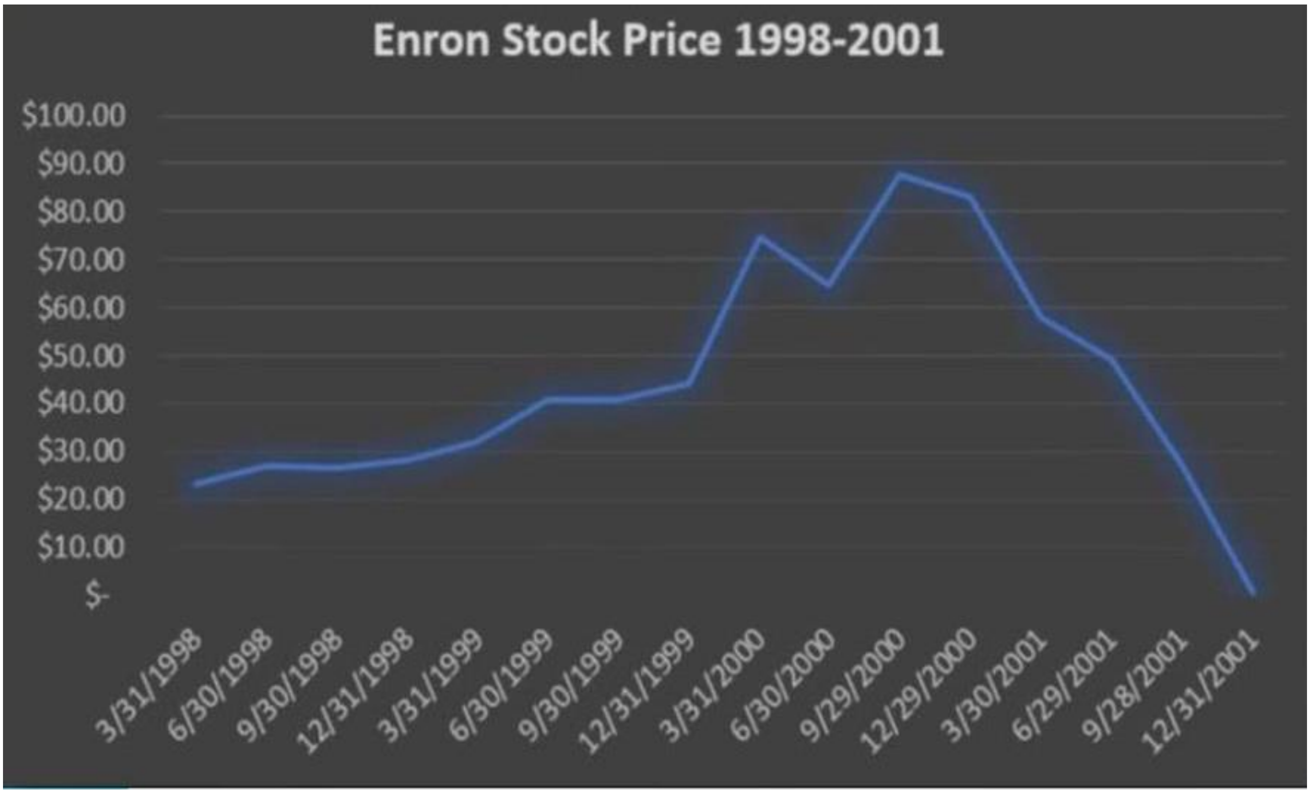


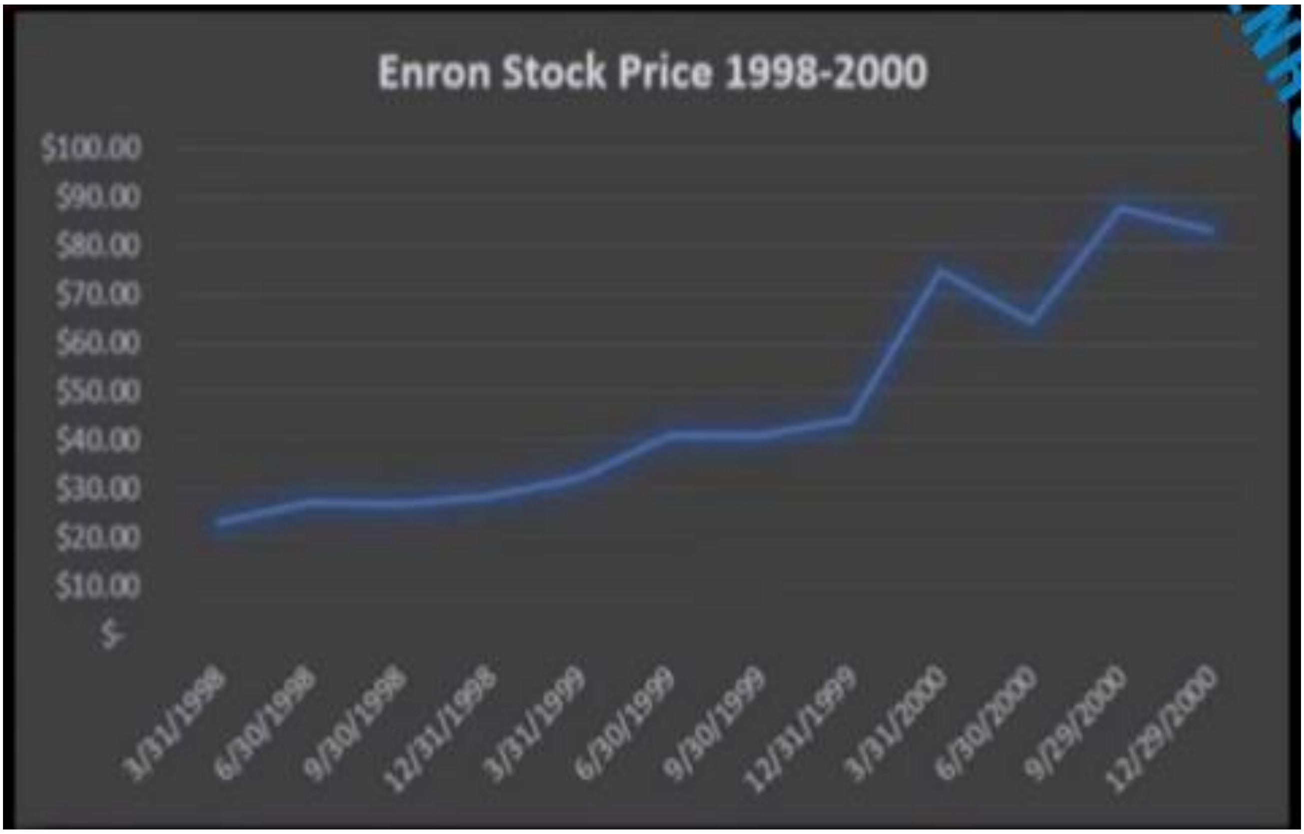
Fig.(1) Arthur Andersen Company

Fig.(2) Enron Corporate

Enron scandal & Arthur Andersen Failure Consequences :

In November 28, 2001, Enron's two worst-possible outcomes came true. The Enron Company had filed for Bankruptcy. Enron's European operations filed for bankruptcy on November 30, 2001, and it sought Chapter 11 protection two days later on December 2. It was the largest bankruptcy in U.S. history. On January 17, 2002 Enron dismissed Arthur Andersen as its auditor, citing its accounting advice and the destruction of documents. Andersen countered that it had already ended its relationship with the company when Enron became bankrupt. Enron went on trial for their scandals on May 25, 2006.





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. In the end, Andersen agreed to cease auditing public corporations by the end of August in 2002, essentially marking the end of the ninety-year-old accounting institution. All the international offices of AA were bought by the "big four".

In 2002, the investigation was finished and AA was found guilty of obstruction of justice for shredding the thousands of documents and deleting e-mails and company files that tied the company to its audit of Enron. Although only a small number of Arthur Andersen's employees were involved with the scandal, the company was effectively put out of business. In 2005, the Supreme Court of the US remitted the verdict against Arthur Andersen. However, the damage to the Andersen name has been so great that it has not returned as a reputable business. Therefore that led to the end of the Arthur Andersen Firm. the discharge did not help one of the world’s leading auditing companies to come back to work.

It seems hard to believe the Enron company fell from grace so soon after making $111 billion in revenues in 2000. At its peak, Enron’s shares were worth $90.75, but after the company declared bankruptcy in 2001, shares dropped to just $0.67 in 2002, when Enron’s accounting fraud came to light. Enron is now only remembered as a symbol of corporate corruption and fraud.

Arthur Andersen ceased all its audit activities in 2002. The accountant shredded Enron audit documents in the middle of an investigation into Enron’s covering-up of billions of dollars in losses, and the company was found guilty of obstructing justice. The scandal led to huge losses for shareholders and thousands of job losses.

More than a decade later, the partners renamed their San Francisco consultancy WTAS as Andersen Tax in a bid to resurrect the century-old name, once one of the most well-known and respected in US financial history.

Fig.(3) Andersen Tax

Conclusion:

Arthur Andersen was not implicated in directly assisting Enron in cooking its books, the company was found to have been woefully negligent in its role of overseeing and auditing Enron’s financials.

Additionally, Andersen was found guilty of obstruction of justice because it shredded documents related to its audits of Enron. When the scandal broke, the world was shocked that not only could a Fortune 500 company pull off such massive fraud, but one of the world’s largest accounting firms looked the other way during the audacious crimes.

Arthur Anderson And Enron Fraud Changed Accounting Forever , The accounting industry reacted to the Enron case and introduced changes (new regulations) that would improve itself and the economy.

Ethical misconduct causes loss to the public. Accounting ethics is significant not only for everything and everyone in the company but also for the society.

Putting huge profits above ethics and laws is not right and leads to accountability.

The legacy of Enron and Arthur Andersen will live long after the public has forgotten about the scandal. lawmakers are likely to continue to keep companies on a relatively short leash. the public forgets the lessons learned, there will surely be another giant corporate scandal to remind us all to remain alert.

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