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IT Auditing (ITMM-586)

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Arthur Andersen's Ethical Violations: A Critical Analysis

After thoroughly reviewing the Arthur Andersen case study and examining the professional codes of ethics from ISACA and AICPA, I found multiple, systematic violations that ultimately led to the firm's collapse. In my analysis, Arthur Andersen violated fundamental ethical principles across both organizations' codes, with the most egregious breaches occurring in areas of professional independence, integrity, and professional competence.

Independence and Objectivity Violations

The most glaring ethical violation relates to independence requirements found in both ISACA's Code of Professional Ethics (which requires IS professionals to "be objective and independent in professional judgment") and AICPA's Professional Responsibilities (specifically independence standards for auditors). The case study provides compelling evidence of this violation through Andersen's relationship with Waste Management, where "many of Waste Management's internal accountants had been hired from Arthur Andersen, including virtually every chief financial officer and every chief accounting officer." This created what we learned in class as a "revolving door" situation that fundamentally compromised auditor independence.

Even more troubling was the firm's transformation into what partner Barbara Toffler observed as acting "like they were on the same team" with clients rather than maintaining the adversarial independence required for effective auditing. The 1996 party celebrating Waste Management's IPO anniversary exemplifies this - it seems to suggest that the lines between auditor and client had become dangerously blurred, which directly violates the objectivity principle both codes emphasize.

Professional Competence and Due Care

Both ISACA and AICPA codes require professionals to maintain competence and exercise due professional care. The case study reveals systematic failures here, particularly in the Enron engagement where Andersen auditors consistently failed to challenge aggressive accounting practices. The removal of Carl Bass, who had been questioning Enron's accounting methods, at the client's request represents a shocking abandonment of professional skepticism. This seems to suggest that commercial considerations superseded professional judgment - a clear violation of due care requirements.

The Waste Management case provides another stark example where Andersen auditors identified questionable practices as early as 1988, such as overestimating salvage values of garbage trucks by 150% ($30,000 vs. actual $12,000) yet continued to sign off on the financials. This failure to exercise professional skepticism violates both codes' requirements for competent performance.

Integrity and Professional Behavior

Perhaps most damaging to the profession was Andersen's violation of integrity principles. The systematic document shredding following the Enron collapse - over one ton of documents and 30,000 emails destroyed - represents a fundamental breach of integrity that both codes explicitly prohibit. The timing is particularly damning: the destruction occurred after David Duncan received Nancy Temple's memo about document retention, suggesting coordination rather than routine compliance.

What really strikes me about this case is how the pursuit of consulting revenue corrupted the firm's ethical foundation. By 2000, 51% of Big Five accounting firm revenue came from management consulting, creating what SEC Commissioner Arthur Levitt identified as inherent conflicts of interest. The case shows how Andersen used audits as "gateways to far more lucrative consulting arrangements," fundamentally altering the auditor-client relationship.

Pattern of Violations

The case study reveals this wasn't isolated to Enron - there's a disturbing pattern across multiple clients including Baptist Foundation of Arizona ($217 million settlement), Sunbeam ($110 million settlement), and others. This suggests systemic ethical failures rather than individual lapses in judgment. The promotion of partners involved in the Waste Management scandal, particularly Robert Kutsenda to managing partner of global risk management despite receiving a suspension, demonstrates an organizational culture that rewarded commercial success over ethical compliance.

In conclusion, Arthur Andersen's violations span virtually every major ethical principle in both professional codes. The firm systematically prioritized revenue generation over professional responsibilities, compromised independence through consulting relationships, failed in due care obligations, and ultimately destroyed evidence to obstruct justice. This case serves as a powerful reminder of why these ethical codes exist and the catastrophic consequences when they're ignored. The firm's collapse wasn't just a business failure - it was a professional and ethical failure that damaged public trust in the entire auditing profession.

Enhancing COBIT 2019 Objectives for the AI Era

After reviewing the KPMG video on transforming audit with AI and analyzing the COBIT 2019 framework objectives, I believe significant enhancements are needed to address the surge of next-generation technologies, particularly Generative AI. The current framework, while comprehensive, doesn't fully capture the governance and management challenges presented by AI-driven business environments.

EDM (Evaluate, Direct and Monitor) - Governance Objectives:

EDM01 - Ensured Governance Framework Setting and Maintenance:

The current objective focuses on traditional governance frameworks but needs enhancement for AI governance. I propose expanding this to include "AI Ethics and Algorithmic Accountability Framework." Given the KPMG video's emphasis on responsible AI implementation and avoiding biases in decision-making processes, governance frameworks must now establish clear AI ethics policies, algorithmic transparency requirements, and accountability structures. This enhancement would ensure that AI systems align with organizational values and regulatory requirements while maintaining stakeholder trust. The framework should address AI model governance, bias detection protocols, and explainability requirements that weren't considered when COBIT 2019 was developed.

EDM03 - Ensured Risk Optimization:

While risk optimization exists, I suggest adding a new objective: "EDM06 - Ensured AI Risk and Opportunity Balance." The video highlighted how AI creates both tremendous opportunities and new risk categories. This new objective would focus specifically on governing AI-related risks including algorithmic bias, model drift, adversarial attacks, and unintended consequences. It would also ensure that governance bodies understand AI's transformative potential while establishing appropriate risk appetites for AI initiatives. The objective would include oversight of continuous AI model monitoring and establishing risk thresholds for automated decision-making systems that could significantly impact business operations.

APO (Align, Plan and Organize) - Management Objectives:

APO04 - Managed Innovation:

The current innovation management objective needs significant enhancement for what I'd call "APO04+ - Managed AI-Driven Innovation." The KPMG video emphasizes AI as a driver of competitive advantage, but traditional innovation management doesn't address AI's unique characteristics. This enhanced objective would include AI capability assessment, AI talent acquisition and development strategies, and AI innovation pipeline management. It would ensure systematic evaluation of AI opportunities, proper resource allocation for AI initiatives, and establishment of AI centers of excellence. The enhancement recognizes that AI innovation requires different approaches than traditional IT innovation, including considerations for data quality, model lifecycle management, and interdisciplinary collaboration.

APO12 - Managed Risk:

I propose expanding this with "APO15 - Managed AI Model Risk." While general risk management exists, AI introduces specific risks that require specialized management approaches. This new objective would address AI model risk management including model validation, performance monitoring, and bias detection. As the video mentions, we must "look beyond the hype and act responsibly," which requires dedicated AI risk management processes. The objective would cover adversarial risks, model interpretability requirements, and automated risk detection systems that can identify anomalies in real-time, directly addressing the video's emphasis on continuous auditing capabilities.

BAI (Build, Acquire and Implement) - Management Objectives:

BAI03 - Managed Solutions Identification and Build:

Current solution development processes need enhancement for what I call "BAI03+ - Managed AI Solution Development and Deployment." Traditional solution development doesn't account for AI's iterative nature, data dependency, and continuous learning requirements. This enhanced objective would include AI model development lifecycle management, automated testing protocols, and responsible AI deployment practices. It would ensure proper AI model versioning, A/B testing frameworks, and gradual rollout strategies. The enhancement acknowledges that AI solutions require different development approaches, including considerations for training data governance, model bias testing, and performance drift monitoring.

BAI09 - Managed Assets:

I suggest adding "BAI12 - Managed AI Models and Data Assets." The video emphasizes AI's data-intensive nature and the critical importance of data quality. This new objective would specifically address AI model asset management including model repositories, version control, and lifecycle management. It would also cover training data asset management, synthetic data governance, and AI model intellectual property protection. As organizations develop numerous AI models, proper asset management becomes crucial for maintaining model performance, ensuring compliance, and maximizing AI investment returns. This objective would establish standards for AI model documentation, metadata management, and model performance tracking.

DSS (Deliver, Service and Support) - Management Objectives:

DSS01 - Managed Operations:

The current operations management needs expansion to "DSS01+ - Managed AI-Augmented Operations." The KPMG video highlights how AI transforms operational efficiency through automation and continuous monitoring. This enhanced objective would include AI-driven operational monitoring, automated incident response, and intelligent resource optimization. It would ensure proper integration of AI tools into operational processes while maintaining human oversight. The enhancement would address the video's emphasis on continuous auditing by establishing real-time monitoring capabilities that can detect operational anomalies and automatically trigger appropriate responses.

DSS05 - Managed Security Services:

I propose adding "DSS07 - Managed AI Security and Adversarial Protection." Traditional security services don't adequately address AI-specific security threats. This new objective would focus on protecting AI systems from adversarial attacks, ensuring model integrity, and maintaining AI system availability. The video mentions AI's powerful role in cybersecurity, but AI systems themselves need protection. This objective would establish AI security monitoring, adversarial attack detection, and AI model hardening practices. It would also address privacy-preserving AI techniques and secure AI model deployment practices that protect both the AI systems and the data they process.

MEA (Monitor, Evaluate and Assess) - Management Objectives:

MEA01 - Managed Performance and Conformance Monitoring:

Current monitoring needs enhancement for "MEA01+ - Managed AI Performance and Ethical Conformance Monitoring." The video emphasizes the need for transparency and continuous monitoring in AI systems. This enhanced objective would include AI model performance monitoring, bias detection and mitigation, and ethical compliance assessment. It would establish automated monitoring systems that can detect model drift, performance degradation, and ethical violations in real-time. The enhancement recognizes that AI systems require continuous monitoring for both technical performance and ethical compliance, going beyond traditional system monitoring to include fairness, transparency, and accountability metrics.

MEA04 - Managed Assurance:

Building on COBIT 2019's new assurance objective, I suggest expanding it to "MEA04+ - Managed AI Audit and Assurance." The video highlights how AI transforms audit practices, but AI systems themselves need specialized assurance approaches. This enhanced objective would establish AI audit methodologies, automated audit procedures, and AI system certification processes. It would ensure that AI systems are auditable, explainable, and compliant with regulatory requirements. The enhancement would include continuous assurance practices that leverage AI tools for audit efficiency while maintaining the human oversight that the video emphasizes as essential for critical thinking and curiosity in the audit process.

These enhancements and additions reflect the fundamental shift toward AI-driven business operations while maintaining COBIT's focus on governance, risk management, and value creation. They address the video's key themes of responsible innovation, continuous monitoring, and the critical balance between technological advancement and human oversight.