Arthur Andersen: An Accounting Confidence Crisis

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Andersen's auditing of companies is lewd with inconsistencies and improprieties all in the effort of greater profits, for the companies and himself. He started out with undeniable credibility and integrity and set the standards for accounting within the industry. With the addition of consulting, growth became the main objective for Andersen. In the efforts to obtain and maintain high level company's, integrity and quality where lost. Combining the auditor arm and consulting arms of the business together compromised the integrity of the independent auditors. As the company's focus on growth continued, the culture of the Andersen company shifted to more competitive and high profit. Auditors were promoted for securing big clients before those conducting quality audits. Andersen merged its business systems and set up a separate business consulting practice to offer clients a range of services. Andersen reaped huge profits by selling consulting services to many clients whose financial statements it also audited. This full-service strategy would later lead to an ethical conflict-of-interest. Due to the growth of Andersen's consulting services, many large accounting firms viewed it as a successful system they should emulate. Eventually this system caught the eyes of the Securities and Exchange Commission (SEC), with concerns of it compromising the independence of audits. Andersen split its accounting and consulting units in 1999, creating competing units. Creating a work culture even more competitive and for profit than before. Ultimately backfiring, leading to discouragement and a lack of team spirit and instead fostered secrecy and self-interested among employees. As a result, the firm's ability to communicate suffered, leading to worse response times and less effectiveness during a crisis.

Results of Arthur Andersen

As a result of Arthur Andersen’s company practices, mass amounts of malpractice were allowed to pass under the radar for many years. Amounting to losses of nearly 300 billion and the loss of thousands of jobs for employees. With the combination of many companies, from nonprofits BFA to midcap companies like Sunbeam, Waste Management, to the mega caps like Enron and WorldCom. No one was left unexposed to this level of malpractice, from shredded documents to auditor magic tricks, Arthur Andersen’s company managed to boost and manipulate earnings reports for many public companies. As well as cover up any irregularity and off the books deals, even going as far as to sign a promise that they will fix the books later on (something that never happened). Instead, things only escalated and led to a crash never seen before. The problem also appears to be Arthur Andersen's corporate culture. As time went on, and the company grew, it strayed from the vision set by founder Arthur Andersen. The corporate culture had become highly competitive, leading employees to be rewarded for money they brought into the company rather than for integrity. Andersen discouraged employees from raising the red flag regarding questionable accounting practices. “During the proceedings evidence revealed that as early as 1999, Andersen auditor Carl Bass expressed concern over Enron's use of derivatives and off-the- balance-sheet partnerships. A senior executive allegedly removed Bass from the Enron account due to his complaints. By the time Arthur Andersen made a wide-scale effort at reform, it was too late to save the company.”(Arthur Andersen Case pdf)

Sarbanes–Oxley Act

The Sarbanes–Oxley Act helps in a major way to stop accounting malpractice from taking place, it helps to eliminate the negative aspects, and allow accounts less ability to coverup and have less exposure to malpractice. For example, they verify that financial statements are accurate, restrict auditors to audit activities only, and rotate partners assigned to client so fresh eyes see work papers, auditors must report to committee who work for the board, not the company. Removes power from company personnel and gives auditor a voice outside of the audit to attest to policies demonstrated by the company. Makes it a felony to impede federal investigation and provides whistle-blower protection. All these acts prevent the use of questionable/illegal accounting practices, improper relationships to reduce likelihood of compromising good audit for more revenue. Powerlessness of auditors by giving board power to investigate and rectify and stop companies from publishing misleading statements. As well as withholding of information from auditors by making it illegal, information slipping by the SEC and stakeholders by giving more visibility to the firm and will allow investigators to review work of auditors and stop others from attempting to interfere in an official investigation.

References

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