

Case study enron company

Business



Their goal was to make Enron into the world's greatest company.

To make this goal a reality, they created a company culture that encouraged "rule breaking" and went so far as to "discourage employees from reporting and investigating ethical lapses and questionable business dealings". They insisted the employees use aggressive and illegal accounting procedures. Anderson was also responsible because they allowed Enron to use these fraudulent statements for 15 years. It is the auditor's responsibility to question any unusual circumstances and reports and they failed to do so.

They would have questioned the Seep, should have noticed that notes receivable were reported wrong, and should have noticed that there was no Internal control being practiced. Also, Anderson should never have practiced consulting services for a company that they audited.

2. Identify and lists five recommendations that have been made recently to strengthen the independent audit function. For each of these recommendations, indicate why you support or do not support the given measure.

The ways company is governed today have gone on for a change given the reform in audit functions and the likes. As it is with the case, effective financial reporting is the sole concern of companies. Hence, in recent development there has been a dramatic shift towards corporate governance, because the capital market mostly feeds on the effectiveness of corporation and their governance Internally or by independent audit firms.

The stake when it matters to the independent function of audit also is much higher.

A list of the five recent recommendations is summed up as follows:

1. Rationalizing work program in detecting fraudulent and misappropriation of financial statements for the sake of stakeholder, the company and the economy at large.
2. Strengthening the infrastructure stock exchanges that should be able to meet the requirement of the current scenario in auditing process.
3. Self-evaluation of companies, that is to say the core and basic idea of corporate governance that is subject to public review.
4. Improving the effectiveness of Audit committee
5. Raised membership and sole audit committee responsibility and authority in the composition of audit regulation and the likes.

Hence when it comes to these five recommendations in general perspective to the function of audit, such measure adds to the values and ethics attached to accounting profession. In order to make way for change and improved the effectiveness, these above recommendations are likely to work its ways in strengthening the core principle attached to audit functions.

However, corporate governance also at times is subject to public outcry.

In fact so to say, the concept of corporate governance at most times take leverage to propagate a clean image in the market. Hence, the idea of corporate self-evaluation is not well in the line in strengthening independent audit function, because it is likely to be misappropriated.

But when it matter to the remaining four general commendations, there is some assurance that such given measure can work wonders that should display audit committees best practices in the monitoring process, internally and externally. 3.

Do you believe that there has been a significant shift or evaluation over the past several decades in the concept of “ professionalism” as it relates to public accounting discipline? If so, explain how you believe that concepts have changed or evolved over that time frame and identify the key factors responsible for any apparent changes. As we can see with cases happening in and around, there are probable circumstances hat there have been significant changes in the auditing process over the past several decades.

Moreover, with the tightening of governmental regulated norms and reforms, auditing and the professional seal attached to accounting also have rather gone in for a change.

However, the disappointing fact is that despite tightening governmental regulation and the likes, the increasing ethical issues attached to the profession of accounting are increasing, which is indeed a sort state of affairs. But the concepts of professional accounting and the large spread frauds and scams which are attached to accounting profession also are subject to public criticisms in all forms.

Moreover, there is no denying the fact that when it matter to the concepts of professionalism as it relates to public accounting discipline there is some factor that have rather gone for a dramatic change all around, especially the involvement of independent governmental agency to review the audit

process. And interestingly, auditing also have gone a notch above, given that laws in that regards are also passed with necessary reforms in order to propagate an image of the professional incepts as it relates to accounting discipline.

Policy and Research Implications of Evolving Independence Rules focuses on the relationship between auditors and their clients. In addition to focusing on the auditor and client relationships, the article uses the Security Exchange Commission (SEC) independence rules as an organizing framework resulting in the following categories: (1) Financial, Business, and Employment Relationships, (2) Provision of Non-audit Services, (3) Fee Issues, (4) Rotation Issues, and (5) Expanded Role of the Audit Committee.

The article provides both policy and research implications for each of the five categories; such as, independence rules and examples, policy considerations, future suggestions, auditing literature, and commentary on the implications for policy makers and researchers. The focus of the article is on the United States public companies and independence rules for their auditors. Financial, Business, and Employment Relationships A direct or material indirect financial interest in, or business relationship with, an audit client is prohibited.

A one year cooling-off period is required before a member of the AAU team can accept an employment in various reporting positions of an audit client. Overall, research indicates that various financial statements users believe, at least in a pre-SOX environment, that auditors who leave

their firm to work for a former audit client lacked independence in the audit periods leading up to employment.

However, studies of financial statement data provide little evidence that the quality of audited financial statements is actually affected in such situations.

The article suggests that policy makers might want to consider educating users on the empirical relationship between employment of auditors by their clients and the quality of audited financial statements. Provision of Non-Audit Services Independence rules prohibit the provision of certain non-audit services to audit clients; for example: certain tax services, bookkeeping, or other services related to the client's accounting records. The research found demonstrated a relationship between the provision of non-audit services and the perception of reduced audit quality.

The authors stated that the provision of non-audit services has rarely been associated with lower audit quality, and in some cases is actually associated with higher quality.

The article encourages researchers to examine the market reaction to auditors providing De minis non-audit services to audit clients. Fees from Audit Clients Independence rules prohibit an accountant from providing any service or product to an audit client for contingent fee or a commission, or from receiving a contingent fee or commission from an audit client.

Pre-SOX surveys find that engagement size that is based on percentage of office revenue, does not negatively affect investors' perceptions of auditors' independence. Commercial loan officers, financial analysts, and audit

partners perceive that larger audit firms are more able to resist pressures from clients because they are less dependent on any particular client. The authors of this article suggest examining whether mechanisms exist that can successfully safeguard independence if low-balling occurs.

Rotation Independence rules require lead and concurring audit partner rotation every five years, with a cooling-off period of five years, but do not require audit firm rotation. Some research addressed that audit firm rotation could be detrimental instead of beneficial. However, there have been mixed research results that auditors may be less independent in the early years of a new client relationship, but not in the later years. Firm rotation could diminish concentration and create competition problems within the auditing profession.

The authors of the article encourage policy makers to monitor the effects of the newly mandated partner rotation requirements, and after a sufficient time period, reconsider the value of mandated partner rotation.

The Expanded Role of the Audit Committee Public Accounting firms are retained by and report to the audit committee. The audit committee pre-approves the auditor's provision of audit and permitted non-audit services required by independence rules. There are a couple of policy issues grading this topic.