Ten publicized audit failures

i. Parmalat (2003) - Deloitte & Touche Tohmatsu /Grant Thornton

Misleading investors with " Brazen Fraud" was what the United States (US) Securities and Exchange Commission (SEC) had sued Parmalat for in 2003. It all began when Parmalat defaulted on a bond payment worth $185 million. This raised a flag for auditors and banks, which then began to closely examine company accounts. According to Parmalat, 38% of their assets were apparently held in a Bank of America account, part of a subsidiary of Parmalat in the Cayman Islands, worth $4. 9 billion dollars. This was later found to be untrue and no such account ever existed. Furthermore, assets were invented to offset liabilities valuing at almost $16. 2 billion over a 15 year period, leading the company into a $9. 2 billion bankruptcy. Grant Thornton, the auditor at the time of the events, was replaced by Deloitte & Touche Tohmatsu, claiming to be a victim of deceit in the Parmalat audit scandals.

ii. Adelphia (2002) - Deloitte & Touche Tohmatsu

Adelphia Communications was under Pennsylvania and New York federal grand jury, and SEC investigations for making off-balance-sheet loans, amounting to $3. 1 billion, to the founders and former Chief Executive Officers (CEO) John Rigas and his sons. This was done by inflating capital expenses and hiding debt, which overstated results. The company itself filed a lawsuit against its former auditor, Deloitte for " professional negligence, breach of contract, fraud and other wrongful conduct," then filed for bankruptcy protection. It was alleged that the financial performance was masked through deceptive accounting by the executives while pocketing profits for personal benefits without disclosures to the board of directors or the public.

iii. AOL Time Warner (2002) - Ernst & Young

At the time of the AOL Time Warner scandal, sitting in the president's chair was Robert Pittman. With the purchase of Time Warner, the company's so called, " strict and effective system of internal controls," brought many inquiries ever since the ad market was faltering. AOL had erroneously inflated advertisement revenues by booking barter deals and ads it sold on behalf of others as sales, to keep growth rates up and to assure a greater stock price through the merge with Time Warner. The cover up went as far as to having documents and e-mails destroyed. Contracts were not only back-dated by executives, but some where even forged, and Ernst & Young, their auditors, as well as federal authorities were lied to according to court documents. AOL Time Warner was ordered by the US Department of Justice (DOJ) to preserve documents and later admitted that they may have overstated revenues by $49 million.

iv. Lucent Technologies Inc. (2002) – Price Waterhouse Coopers

In the year of 2000, Lucent adjusted revenues by $679 million, which prompted SEC investigation. The company had not been doing well after the boom in internet related growth, causing Lucent to violate Generally Accepted Accounting Principles (GAAP) whereby misreporting entire proceeds of an agreement as revenue and operating income. Along with GAAP violations, Lucent executives dodged internal accounting controls and falsified documents to meet revenue targets for their bonuses. For failure to cooperate and turn over documents for SEC investigation, Lucent was fined $25 million by the SEC and was also claimed to have misled the public about investigation. Price Waterhouse Coopers was the auditor for Lucent Technologies Inc. and Henry Schact was the CEO while the company was being investigated for accounting fraud.

v. Waste Management Inc. (2002) Arthur Andersen

Arthur Andersen was the auditor for Waste Management Inc. while Maurice Myers was the CEO at the time. In this case, not only was the company itself charged, but the auditor as well. Waste Management Inc. was charged with fraud lasting over five years where they engaged in an organized method to falsify and misrepresent financial results from 1992 to 1997. Income was overstated by $1 billion by the time investigations got moving. The SEC fined Arthur Andersen part of the $229 million for shareholder settlement and $7 million for issuing artificial and misleading reports.

vi. WorldCom (2002) - Arthur Andersen

Audited by Arthur Andersen, WorldCom went under investigation by the SEC for accounting fraud. Not only was cash flows overstated by booking $3. 8 billion in operating expenses as capital expenses, $400 million was given to Bernard Ebbers, the CEO, in off-the-book loans. WorldCom stunned Wall Street with additional improperly booked funds total to $3. 4 billion bringing a total restatement of $7. 2 billion. WorldCom was prosecuted by DOJ, SEC, US Attorney's Office for the Southern District of New York and various congressional committees.

vii. Enron (2001) - Arthur Andersen

Enron headed by Ken Lay, also audited by Arthur Andersen was charged by the DOJ, SEC and various congressional committees. In this case, both the auditor and the company were charged. Enron boosted profits and covered over $1 billion in debts by inappropriately using off-the-books partnerships, while manipulating power markets and bribing foreign governments for contracts abroad. In essence, Enron took advantage of lenient regulations to defraud consumers and investors. While Enron was being charged with fraud, money laundering, securities fraud, mail fraud, and conspiracy, Arthur Andersen had shredded documents that related to such events after the SEC launched an inquiry into Enron. Arthur Andersen was convicted for obstruction of justice and has ceased auditing.

viii. Tyco (2001) – Price Waterhouse Coopers

Tyco's CEO Dennis Kozlowski was accused for tax evasion; $1 million in sales taxes evaded by the CEO was used to purchase art and a home. While the investigation was underway, the company was charged for fraud on possible improper use of company funds and related-party transactions, as well as improper merger accounting practices. These improper merger accounting practises consisted of setting up reserves that were supposed to cover merger costs, but were actually used to boost profits. The big question was whether Price Waterhouse Coopers auditors broke the law when they failed to disclose that a proxy statement did not include a millions of dollars paid to Dennis Kozlowski as bonus.

ix. Xerox (2000) – KPMG

The Xerox scandal began when their auditors, KPMG was indicted by the SEC for permitting Xerox to “ cook the books” by filling a $3 billion gap in revenue and pre-tax earnings adding up to $1. 4 billion. Xerox with CEO Rick Thoman had defrauded the public from 1997 to 2000 by using many accounting manoeuvres. One of which was a change in recorded revenues from copy machine leases; they recognized a “ sale” in the period a lease contract was signed, rather than accruing revenue over the length of the contract. The issue was when the revenue was recognized, not the validity of the revenue. Xerox's restatement only changed what year the revenue was stated. These falsified financial results ran for five years which increased income by $1. 5 billion. The manoeuvres violated GAAP and were designed to fool Wall Street into believing that the new management was doing well. As for their auditor, KPMG settled with the SEC by paying a $22. 48 million fine, neither admitting nor denying any wrongdoing.

x. Cendant Corp. (1998) - Ernst & Young

Cendant, a travel and real-estate giant deliberately and fictitiously conjured up $500 million in fake revenues over a three year period to ensure earnings, and fulfill analyst expectations. They later filed a federal lawsuit against their auditor, Ernst & Young, alleging that they " did not detect these false statements in any of the three years because, in part, it did not perform the audits in accordance with professional standards required and discharged its duties with gross negligence." It has been blamed partially on the former CEO and chairman, Walter Forbes, who cultivated a laissez-faire environment at the company that encouraged underlings to cook the books with impunity.

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