

Research paper on q 3 company 1

[Business](#), [Company](#)



AMR Corporation

- AMR Corporation is a conglomerate airline company incorporated in Delaware, October 1982. AMR's principal subsidiary is American Airlines, founded in 1934.
- The name of AMR's external auditing firm was Ernst & Young LLP, Dallas Texas office.
- The main reason for the bankruptcy filing was to restructure the debt and costs that had become a competitive disadvantage to AMR. Labor costs, volatile fuel prices, and economic uncertainty were the main drivers in this cost disadvantage. Furthermore, AMR's competitors had previously filed for Chapter 11 bankruptcy in order to accomplish the same goals through restructuring.
- Copy of the auditor report(s) issued for fiscal year ended December 31, 2010:

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders

AMR Corporation

We have audited the accompanying consolidated balance sheets of AMR Corporation as of December 31, 2010 and 2009, and the related consolidated statements of operations, stockholders' equity (deficit) and cash flows for each of the three years in the period ended December 31, 2010. Our audits also included the financial statement schedule listed in the Index at Item 15(a)(2). These consolidated financial statements and schedule are the responsibility of AMR Corporation's management. Our responsibility

is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of AMR Corporation at December 31, 2010 and 2009 and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2010, in conformity with U. S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein. We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), AMR Corporation's internal control over financial reporting as of December 31, 2010, based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Tread way Commission and

our report dated February 16, 2011 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Dallas, Texas

February 16, 2011

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders

AMR Corporation

We have audited AMR Corporation's internal control over financial reporting as of December 31, 2010, based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Tread way Commission (the COSO criteria). AMR Corporation's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying "Management's Report on Internal Control over Financial Reporting." Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and

operating effectiveness of internal control based upon the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, AMR Corporation maintained, in all material respects,

effective internal control over financial reporting as of December 31, 2010, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of AMR Corporation as of December 31, 2010 and 2009, and the related consolidated statements of operations, stockholders' equity (deficit) and cash flows for each of the three years in the period ended December 31, 2010 of AMR Corporation and our report dated February 16, 2011 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Dallas, Texas

February 16, 2011

- The auditor report on comparative financial statements is an unqualified report with modified wording. At the end of the opinion paragraph, the auditor added the sentence relating to the fairness of the financial statement schedule and the consolidated financial statements as a whole. The auditor also cross-references their opinion of the separate report on internal control over financial reporting. The report on internal control over financial reporting is a standard unqualified report.

- The auditor report was in no way adequate in warning investors of a possible bankruptcy filing. In fact, AMR addressed the issues that led to its bankruptcy in the risk factors section of the 10-K. In that section, the company warned of losses incurred, uncertainty over raising capital, and economic instability. The financial statements could have been a warning sign of an imminent bankruptcy filing as well. The company's cash flows

were squeezed, and the cash balance at year end could have been an indicator of possible insolvency.

- According to The New York Times, AMR initially filed for Chapter 11 protection on November 29, 2011. The filing was unanimously voted on by the board of directors, but against the will of CEO and Chairman Gerald J. Arpey. Subsequent to the filing, Mr. Arpey stepped down from the Board and resigned as chief executive and was succeeded by Thomas W. Horton, who had been president of AMR. AMR stated that operations would continue and flights, ticket sales, and frequent flier programs would not be affected.

According to the The Philadelphia Inquirer, in April 2012 US Airways took a step towards merging with AMR's main subsidiary, American Airlines. The three primary labor unions representing the aviation industry supported the merger in order for the company to come out of bankruptcy, be solvent, and regain a competitive advantage.

According to The Associated Press, flight cancellations spiked for AMR due to staff shortages in September 2012. The flight cancellations stemmed in part due to disgruntled pilots who were affected by the cost-cutting terms imposed by AMR, which included outsourcing of pilot positions and termination of certain pilot retirement programs.

An article from The Wall Street Journal stated that in July 2013, AMR had realized 80% of the cost savings it had planned on during the bankruptcy filing. AMR's unit costs had decreased by 5.8%.

- LexisNexis Academic&Business Source Premier

- "AMR and American Airlines File for Chapter 11 Reorganization to Achieve Industry Competitiveness; American Airlines, American Eagle and All Other

Subsidiaries Operating Normal Flight Schedules, Honoring All Tickets and Reservations, Maintaining High Customer Service Levels and AAdvantage Program, Continuing Employee Pay and Benefits” PR Newswire. Fort Worth, Texas. Nov. 30 2011.

- Mouawad, Jad& De La Merced, Michael J. “ Bankruptcy An Effort to Cut Costs at American” The New York Times. November 30, 2011.

- Koenig, David. “ Canceled Flights Surge at American Airlines” The Associated Press State & Local Wire. Dallas, Texas. September 18, 2012.

- Nussbaum, Paul. “ US Airways Takes A Step Toward Merging with American Airlines” The Philadelphia Inquirer. Philadelphia, PA. April 21, 2012.

- Carey, Susan. “ American Airlines Parent AMR Gets Lift in Bankruptcy” The Wall Street Journal. July 18, 2013.

Q 3 Company 2

Borders Group, Inc.

- Borders superstores was a retail company that offered “ customers a vast assortment of books, music and movies, gifts and stationery, superior customer service and an inviting and comfortable environment designed to encourage browsing” (Borders Group Form 10-K 2011). The book business market has largely been stagnant in recent years due to the growth of the e-book market and internet sales. Borders also owned Paperchase, which sold stationary and gift products within the store, and Borders discontinued operations for Paperchase on July 20, 2010 (Form 10-K 2011).

- Borders Group, Inc. used Ernst and Young, LLP in Detroit, Michigan, as their external auditing firm for the financial audit for January 30, 2010 to January 29, 2011. The audit report was published April 29, 2011.

- On February 16, 2011, Borders Group, Inc. filed for Chapter 11 bankruptcy reorganization in New York due to “ low consumer spending, tight liquidity, issues with its suppliers and a \$168. 2 million net year-to-date loss as of December 25, 2010” (Basic Bankruptcy, 2011). Other cited examples include the rise of e-book sales which “ jumped 164 percent” in 2010, the fact that Borders outsourced its online sales to Amazon. com and its e-book sales to Kobo, a costly attempted overseas expansion, and high management turnover (Rosenwald, 2011).

- Please see included the 10-K for Borders Group, Inc. for the year January 30, 2010 – January 29, 2011, dated April 29, 2011 and audited by Ernst and Young, LLP. The auditor expressed a modified unqualified audit report with an explanatory paragraph expressing substantial doubt about the company’s ability to continue as a going concern. Mentioned in the paragraph is that the company filed for reorganization under Chapter 11 bankruptcy on February 16, 2011.

Ben Fidler of the Daily Deal published a byline on February 16, 2011 that stated “ Borders makes long-expected Ch. 11 filing.” Unfortunately for the public, the audit report was published after the company’s Chapter 11 filing in February. The financial statements for yearend 2011 go into great detail regarding the reorganization plan for going concern. The financial statements discuss the debt position and store closing plans. The auditor reported accurately that the financial statements were materially accurate and correctly noted substantial doubt for going concern and where the management plan could be located in the report.

- Borders Group, Inc filed a Bankruptcy warning on January 27, 2011. On

February 16, 2011, Borders Group, Inc. filed for Chapter 11 bankruptcy reorganization in New York (Basic Bankruptcy, 2011). The company operated a total of 642 stores under the names “ Borders, Waldenbooks, Borders Express and Borders Outlet,” and all stores were in the U. S. except for three in Puerto Rico (Basic Bankruptcy, 2011). At the time of the bankruptcy filing, Borders received \$505 million debtor-in-possession financing from its main creditor, GE Capital, to continue operations through the bankruptcy (Rosenwald, 2011). Prior to bankruptcy, Borders closed and liquidated 45 stores in 2010 (Rosenwald, 2011). Borders began the bankruptcy by closing and liquidating 200 of its 642 stores (Bancroft, 2011).

- Shares for Borders Group, Inc. were traded at “\$0. 23 cents before the filing” and the NYSE delisted the company on March 21, 2013 (Daily Variety, 2011). Borders repaid the DIP by July 22 through its liquidation sales, and due to lack of finding a buyer began liquidating the remaining stores.

- The last store closed in September 2011. Borders filed a liquidation plan in November 2011 due to a failure to resolve its bankruptcy issues (Mason 2011). The bankruptcy plan to create a liquidation trust was approved on December 20th. Borders did not file for bankruptcy at any time prior to February 16, 2011. Borders Group did not continue operations after 2011 although a few international stores were sold and still operate under new management.

- A listing of the databases used to provide the Information.

a.(February 17, 2011 Thursday). Basic Bankruptcy. Daily Deal/The Deal, Retrieved from [www. lexisnexis. com/hottopics/lnacademic](http://www.lexisnexis.com/hottopics/lnacademic)

b.(March 10, 2011). NYSE set to delist Borders. Daily Variety, Retrieved from

www. lexisnexis. com/hottopics/lnacademic

c.(October 5, 2011 Wednesday). Borders to seek plan nod Nov. 10. Daily Deal/The Deal, Retrieved from www. lexisnexis. com/hottopics/lnacademic

d. Bancroft, Colette.(February 17, 2011 Thursday). BORDERS CUTS 200 STORES. St. Petersburg Times (Florida), Retrieved from www. lexisnexis. com/hottopics/lnacademic

e. Bankruptcy Data Database <http://www. bankruptcydata. com/reviewselections. asp>

f. Borders Group Inc (FILING DATE: April 29, 2011). Form 10-K 2011. EDGAR Online, Retrieved from www. lexisnexis. com/hottopics/lnacademic

g. Fidler, Ben. (February 16, 2011 Wednesday). Borders makes long-expected Ch. 11 filing. Daily Deal/The Deal, Retrieved from www. lexisnexis. com/hottopics/lnacademic

h. Mason, Jaime. (October 5, 2011 Wednesday). Borders to seek plan nod Nov. 10. Daily Deal/The Deal, Retrieved from www. lexisnexis. com/hottopics/lnacademic

i. Rosenwald, Michael S. (February 17, 2011 Thursday). Borders book chain in bankruptcy court. The Washington Post, Retrieved from www. lexisnexis. com/hottopics/lnacademic

Q 3 Company 3

MF Global Holdings LTD.

- MF Global Holdings LTD spun off from its UK parent company, Man Financial, when it offered its initial public offering in July of 2007.

- Per the company financial statements, MF Global was “ one of the world’s leading brokers in markets for commodities and listed derivatives” with

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access to more than 70 exchanges, and offering client financing and securities lending services (MF Global Holdings Form10-K 2011). MF Global Holdings Ltd. used Price Waterhouse Coopers LLP for the company's independent audit of their financial statements and internal controls.

- In August of 2011, the Federal Reserve ordered MF Global to boost its net capital as concerns over the European debt crisis began to rise (Bunge, 2011). By the end of October, Moody's Investors Service and other rating companies cut the company's debt rating to just above junk status, which prompted the Federal Reserve to stop trading with the company and the company's stock dropped by two-thirds in a day (Bunge, 2011). MF Global scrambled to find a buyer but by the end of the week they filed for Chapter 11 Bankruptcy on October 31, 2011. MF Global held \$6 billion in bond debt from European debt countries such as Italy, Spain, and Portugal (Europe Debt Crisis, 2011).

- Please see included the 10-K for MF Global Holdings Ltd. for the fiscal year ended March 31, 2011, dated May 19, 2011 and audited by Price Waterhouse Coopers LLP. Price Waterhouse Coopers LLP gave a standard unqualified opinion. There is no mention of going concern in the financial statements. Per the three year consolidated financial statements provided by the annual audited financial statements, MF Global Holdings had three consecutive years of net loss. CEO Jon Corzine was hired to revamp the company and bring up profit, which he briefly succeeded. Under the Risk Management section of the financial statements, it is noted that concerns were raised in 2010 regarding " certain European countries, including Italy, Spain, Belgium, Portugal and Ireland, regarding perceived weaknesses in their economic and

fiscal condition, and the extent to which such weaknesses might affect other economies as well as financial institutions such as ours, which did business with these countries or invested in securities issued by them” (MF Global Holdings Form 10K, 2011). Although there were certainly economic indicators of the possibility of a financial collapse with the company, the bankruptcy occurred very quickly and the auditor would have been hedging had they mentioned substantial doubt of going concern.

- After MF Global Holdings credit rating dropped to just above junk status, the company’s stock fell 66% and trading was frozen. Less than a week later, the company failed to find a buyer to provide emergency liquidity and filed for Chapter 11 bankruptcy protection on October 31, 2013. The same day, the Securities Investor Protection Corp. (SIPA) initiated liquidation proceedings (Mason, 2011). Unfortunately, during the week trading was frozen, MF Global transferred client funds to their account to fund securities trading and the financing was not returned before close of business (Collins, 2011).

- This led to a criminal investigation, although there have been no arrests at this time, although CEO Jon Corzine was faulted for the bankruptcy by the House of Representatives Financial Services Committee (Butler, 2011).

- Former FBI director and former federal judge “ Louis Freeh of Freeh Group International Solutions LLC was appointed as Chapter 11 trustee” (Collins, 2011). The company is also still in Chapter 11 bankruptcy proceedings as they struggle to pay credits and clients.

- A listing of the databases used to provide the Information.

a.(November 1, 2011 Tuesday). Europe debt crisis claims first big Wall St

casualty. The New Zealand Herald, Retrieved from [www. lexisnexis. com/hottopics/lnacademic](http://www.lexisnexis.com/hottopics/lnacademic)

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g. MF Global Holdings Ltd. (FILING DATE: May 20, 2011). Form 10-K 2011. EDGAR Online, Retrieved from [http://www. sec. gov/Archives/edgar/data/1401106/000119312511145663/d10k. htm](http://www.sec.gov/Archives/edgar/data/1401106/000119312511145663/d10k.htm)

Q 4 Conclusion

1)

Three time periods were researched for the project, the period prior to SOX, immediately after SOX, and almost a decade later. Given the sample size it is difficult to really say if the public accounting profession has been doing better in protecting the public with issued audit reports. Based on the

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companies researched, the period immediately following SOX seemed to have the most issues on going concern that could have been brought to the attention of investors by the auditor.

Of the three companies researched from 1997 only one was able to give the public fair warning of a possible going concern issue. The Singing Machine Company Inc auditor gave a modified unqualified opinion with a emphasis of matter paragraph after the opinion paragraph.

Of the three companies audited in 2003 two did not give an adequate warning to investors of a possible bankruptcy. Two of the companies had information in the 10k that could have been used by the auditor in the auditor report to warn investors. For example Internet went from comprehensive net income of \$7. 8 million in 2002 to a comprehensive net loss of \$91. 3 million. That significant change in comprehensive income should warrant the auditor to issue a statement on going concern. Keystones auditor was aware of the upcoming bankruptcy and was able to add it in the emphasis of matter section.

For the three companies researched for 2011 Borders was the only company to issue an explanatory paragraph about the company's ability to continue as a going concern. The MF global bankruptcy was largely due to the European financial crisis. This made future events hard to predict and it would have made it difficult for the auditor to foresee the upcoming bankruptcy. AMR follows the trend set by the companies in 2003. AMRs 10k had risk factors that could have been mentioned by the auditor in the audit report to help warn investors of the coming bankruptcy.

2)

Political aspects could be extremely important for an organization in total which may or may not have a direct or indirect impact on the disclosure of the going concerns in total, provided by the public accounting firm in their concerned audit report. There are certain regulations which have to be in effective compliance by the companies in total, merely to sustain for a long span of time. Among number of regulations, the name of Sarbanes-Oxley Act 2002 is one of them, which has their own recognition and importance.

This particular regulation analyses the importance of the political climate for an organization an according to this particular act; management is the one which could diminish the stance and association of politics from the organization, because it has a direct impact over the long term financial growth of an organization in total. Political base aspects are extremely effective because it has certain direct and indirect effects on the disclosure of the going concerns. There are number of companies which have been chosen to complete this particular analysis, and it is found that all of the companies were not in the effective compliance with the act of Sarbanes-Oxley 2002. Companies like Internet Corporation, Huffy, AMR Corporation, Borers Group PLC an MF Global Holdings LTD are some of the companies which went bankrupt in the end of the 19th century by not complying with the Sarbanes-Oxley Act 2002. Auditors have also identified the loopholes in the disclosure of accounts of the company and according to their report; companies like Internet Corporations have rendered high cost of operations in total, which was one of the main things due to which this company went bankrupt. Internet Corporation didn't comply with the standards of Sarbanes and Oxley act as far as recognizing the cost is concerned.

3)

Based on the information gleaned from the nine companies that were examined, present the team's conclusion about whether the Sarbanes-Oxley Act of 2002 did in fact have a positive effect on the quality of information provided by auditors (in their audit reports) in the year prior to a client's bankruptcy. There are certain tests which have been recommended by Sarbanes Oxley Act 2002 including Altman Z Score and it is required to select the same.

Theoretically Auditing means to double check and it is one of the most important provisions and aspects from the viewpoint of an organization. An organization has to take the criteria of auditing into consideration to increase their financial belongings, and Sarbanes-Oxley Act 2002 has been made on the same provision (Larry E. Rittenberg, 2011). From the entire analysis of the 9 companies, it is found that all of the selected companies went bankrupt because they didn't comply with the standards and specifications of the act. It could also be concluded that, if the Sarbanes-Oxley Act 2002 would have been considered effectively, then the likelihood of earning would certainly increase of these 9 companies by mitigating the level of risks in their disclosure. Therefore, it could be said that these acts of Sarbanes-Oxley act has a positive impact over the companies as a whole because all of these standards educate the management and personnel of the companies to value the things accordingly and should also comply with the given standards mentioned specifically by the Sarbanes act. Auditors of almost all of these companies had identified the loopholes in the disclosure of the financial information in these companies which they could consider and can

save them from any sort of mishap but unfortunately, none of these companies had complied with the standards of the disclosure in total. One of the lacking have also been considered in the movement of Sarbanes-Oxley Act 2002 as they didn't introduce any sort of test from which the essence of bankruptcy could have been analyzed before. However in future, companies especially in the United States (US), could prevent them from any such type of bankruptcy.

References

Larry E. Rittenberg, K. M. (2011). Auditing: A Business Risk Approach , 8th ed.: A Business Risk Approach. New York: Cengage Learning.