Enron corporation and anderson case study

Business

The business risksEnronfaced are as following: Using complex business model extensive using special purpose entities using untraditional ventures to expand business rapidly limitations in GAP rhea complex business model used in Enron lead overstate its revenue while not disclose the exact value of debt.

Numbers of special purpose entities are used to keep debt off the books. The untraditional ventures incense the business expansion rapidly and risky.

Also, the limitation of GAP makes it possible that management took advantages of complex standards to hide the actual economic substance. All of hose above increase the likelihood of material misstatements in Enron's financial statements. 12] (a) What are the responsibilities of a company's board of directors? (b) Could the board of directors at Enron? especially the audit committee? have prevented the fall of Enron? (c) Should they have known about the risks and apparent lack of Independence with Enron's Esp.

? What should they have done about it?

The responsibilities of a company's board of directors include: Protect the shareholders' assets and provide a return on investment Make important decisions that affect warehouses (dividends) Decide on which executives to hire / fire rhea fall of Enron could have been prevented by the board of directors. The board should responsible for the company's financial reports. However, they are failed to disclose the off books liabilities to the public, which led the Enron fall. What is more, the board and the audit committee do not question any of the high risk transactions. Hey should have known about the risks and apparent lack of independence with Enron's Esp..

They should recognize that the high risk transactions with ESP. will have use effects on Enron. Meanwhile, they should ask ESP. to disclosure financial properly. 14] What are the auditor independence issues surrounding the provision of external auditing services, internal auditing services, and management consulting services for the same client? Develop arguments for why auditors should be allowed to perform these services for the same client.

Develop separate arguments for why auditors should not be allowed to perform non-audit services tort their audit clients W {Our view, and why? Auditors should not be allowed to perform non-audit services for their audit clients, because auditors need to be independence.

If an auditor provide management consulting services for his audit client, he is Just audit what he have done, which think, is meaningless. On the contrary, some people may agree that auditors should be allowed to perform their services for the same client. First, Choosing one firm to do all of these services can save a great deal of money.

Second, the auditors will much more familiar with the client's business and its industry, which cake their work efficient. 16] Enron and Andersen suffered severe consequences because of their perceived lack of integrity and damaged reputations.

In fact, some people believe the fall of Enron occurred because of a form of " run on the bank". Some argue that Andersen experienced a similar " run on the bank" as many top clients quickly dropped the firm n the wake of Enron's

collapse. Is the “ run on the bank” analogy valid for both firms? NH or why not?

Yes, I think the “ run on the bank” analogy valid for both firms. The read of Enron’s financial leads a collapse of investor, customer, and trading partner confidence. Its stocks experience a sharp slump. Meanwhile, Standard & Poor’s re- classify Enron’s stocks as Junk bonds, making almost every stockholder feel unsafe.

rhea price drops to $0. 26 per share in couple of days. Even worse, debts holders begin to call the loans because of the diminished stock price, which lead the collapse of Enron directly. Andersen experiences a similar situation.

The damaged reputation of Andersen results in losing many top clients and partnerships oversea.

9] What has been done, and what more do you believe should be done to restore the public trust in the auditing profession and in the nation’s financial reporting system? rhea Serbians-Cooley Act of 2002 is a good way to restore the public trust in the auditing profession and financial report. The Act required top management to certify the accuracy of financial information individually, and increase the independence of outside auditors. As the most severe act in history ever, I believe SOX can help to restore the public trust.