# Arthur anderson ethical case study

Business

Secondly, the “ tone at the top” of AAA did not encourage ethics or quality of work. Joe Bernardino, CEO, made it clear that success Nas tantamount with revenue. He was noted by one former partner as the “ most aggressive pursuer of revenue” that she had ever met. AAA failed to recognize how angry the public became at the lack of quality audit work that resulted from this revenue-driven focus and continued to use poor Judgment when auditingEnron.

Thirdly, AAA allowed the partner in charge of the audit of Enron to override a quality control partner’s ruling. The quality control partner objected to creating one of Enron’s Special Purpose Entities because it had “ no substance”, but the partner in charge of Enron’s audit disagreed and responded by having the quality control ratter removed from Enron audit oversight. Lastly, AAA ordered the auditors on the Enron assignment to destroy any “ erroneous” documents after the SEC began an informal probe into Enron.

AAA contended that this was usual procedure, but it could not prove that the documents were erroneous after they had been shredded.

The SEC gave a good summary of how AAA contributed to the Enron disaster: “… Not only did Andersen knowingly and recklessly issue materially false and misleading statements, it failed to enforce its own guidelines to bring the company in line with minimally accepted accounting standards. Arthur Andersen made a number of mistakes as auditors and consultants to Enron.

These mistakes include the following issues: AAA, acting and collecting fees as auditors and consultants, approved the structure of the Special Purpose Entities, which were used to produce false profits, to keep financing off of the consolidated financial statements of Enron, and to hide losses, among other things AAA failed to alert Enron’s audit committee that Enron’s CUFF and his helpers had a conflict of interest by being involved in the Sped, who neglected to have an adequate alternative way of managing the conflicts AAA latently disregarded the GAP principle that forbids recording shares issued as an increase in shareholders’ equity unless cash is received for the shares, not notes receivable AAA neglected to advise the audit committee of Enron that Enron’s internal control and policies were not sufficient to protect shareholder interests, despite AAA acting as Enron’s internal audit function AAA was aware of Enron’s overindulged cash flows and profits, along with overgenerous deals and liquidation arrangements relating to the SPED managed by the CUFF and his family, and did nothing to address Hess problems AAA failed to find or act upon significant audit evidence relating to the erroneous valuation of shares and share rights transferred to the SPED and also the side deals between banks and Enron to remove the banks’ risk from transactions AAA disregarded the advice of its quality control partner and opted to adhere to the partner over the audit instead There are boot legal and ethical requirements tort auditors to act in the public interest instead of management or shareholders interest.

Legally, there are professional codes and laws requiring auditors to act in publics interest, for example he Securities and Exchange Act (SEC), the Serbians Solely Act (SOX), the International Standards on Auditing (SIS) and

International Ethics Standards Board for Accountants SIEVES). Auditors who do not perform independently will face the potential risk of losing professional credibility and being punished with fines or imprisonment. Moreover, auditors should act ethically in the interest of public and provide unbiased audit reports to the public, especially to those who will make future decisions based on these audited financial statements, such as investors, employees or lenders.

It does not mean that the auditor could not behave in both parties’ interest at the same time, but when a conflict occurs between interest of public and that of management, auditors should choose to behave independently, keep audit work fair and honest, and ensure their work assists the public to make a right evaluation on the audited client.

Arthur Andersen partners responsible for quality control didn’t stop the flawed decisions of the audit partners since they didn’t have the power to. Arthur Andersen employed a practice that allowed the partner in charge of the audit to override a ruling of the quality control partner. The controversial practice was accepted at Arthur Andersen since the partners were motivated by revenue generation. Instead of the firm being focused on compliance with GAP, the protection of public interest, and their own reputation, they were more concerned Ninth potential revenue loss or gain based on the feelings of the client.

As a result, quality control partners could not stop the decisions of the audit partners since they did not have any power to stop them and at times their Jobs would be in Jeopardy if hey brought attention to any client practices that might result in potential revenue loss for Arthur Andersen. Audit firms may shred or destroy audit working papers if they’ve switched to an electronic system that contains scanned copies of all audit working papers.

Also, the electronic copies should be backed up to a database that is at a separate location from the main office in order to protect the files. Also, audit firms may shred audit Morning papers to eliminate redundancies if there are multiple copies of the same Morning papers. Besides these two instances, audit working papers shouldn’t be destroyed.