

Sample case study on smartest guys

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



What were the Arthur Anderson employees and managers supposed to do and what did they do instead?

Arthur and Anderson employees and managers being stakeholders of the AA auditing company were supposed to exercise professionalism by practicing independence as required by the accounting profession. In addition, they were supposed to be independent from Enron Company to which was their client as international standard on auditing and internal. For example they were not supposed to be part of Enron's employees and should not have taken part in the internal audit of the company. Besides they were supposed to give a true view of Enron's financial statements as per their knowledge and skills in accounting and auditing.

Instead, AA professionals built a strong relationship with Enron their employer company which is against the international standards of audit.

They became part of the Enron employees the company they were supposed to audit and give an opinion on their financial statements status. As a matter of fact, the relationship between the AA professionals led to development of non-professional relationships that led to marriages among the staffs. They even took part in the selling of some of the Enron's auditing services and consulting projects which against the accounting professionalism (Langevoort 116).

Moreover, some of the AA professionals took part in conducting internal audit Enron as well as external audit. In order to exercise professionalism in auditing ISA provides that an auditing company cannot take part in both internal and external audits of a company. Finally, some of the managers like Richard Causey violated the accounting professionalism that provides that a

member of an auditing company should not have worked for a company to whom they audit. However, in the case of Enron and AA, Richard Causey who was a manager of AA moved into a top management position in Enron. All these events violated both IFRS and ISA's provisions.

What are the main drivers that explain this behavior?

The main reason as to why the AA involved itself in this fraud was due to its great interest in the financials of the Enron Company in order to quench its selfish gains. The involvement of the AA professionals in internal matters of Enron such as conducting internal audit and taking part in top management positions clearly show that these professionals were ready to commit frauds in order to gain financially.

In addition, AA had served Enron for so long indicating that they committed fraud in order to get favors from Enron and remain long term audit relationship. The auditor was sure that by misrepresenting the financial statements of Enron would help the managers of the company from being dismissed by the shareholders following the poor performance of the company. So they could only do help them by misrepresenting statements in order to have long term audit relationship.

What are the consequences of this behavior for Enron, individual and venture capital investors?

The fraudulent acts by Enron led to their bankruptcy and closure. The company had always been misrepresenting its financial statements to show profits instead of losses. This increased their debts something that meant the company to be declared bankrupt and within a short period of time the company was closed down.

Fraudulent acts are unprofessional and have severe consequences to companies, individuals and capital venture investors who involve themselves in such acts. First, it ruins the public image and reputation of such individuals. Once public image is ruined individuals and investors end up losing their clients and customers.

In addition, these behaviors are also very risk to professionals. Professional individuals and companies who take part in fraudulent acts suffer a severe punishment from the professional bodies. For instance, the accounting professional bodies provide that any member who is involved in fraudulent act should be dismissed from the body and his or her certificate withdrawn.

Madoff

What were the SEC officials supposed to do and what did they do instead? SEC officials were supposed to carry out close monitoring and scrutiny of Madoff in order to identify the anomalies that were going on. In addition, it was also supposed to bring in well qualified, competent and experienced investigators to help it to identifying issues in Madoff. Besides, the agency was also supposed to be risk focused in the scope and frequency of its monitoring as well as surveillance operations. Finally, the agency was also supposed to create stronger risk filters to help it develop higher risk characteristics.

However, SEC used a low risk approach that could not net any issue in Madoff. There were several complaints from various quarters regarding the operation of Madoff. However, SEC failed to come up with a different risk mitigating strategy to help it identify any fraudulent act in Madoff. However, the agency was not very keen in examining the matters as they were

reported. Besides, the agency failed to bring in highly skilled and trained investigators to handle the complexity in its examination of Madoff (Linthicum, Austin and Juan 165).

What are the main drivers that explain SEC behavior?

The main driver for the SEC's behavior was the use of its untrained and unskilled investigators. These cases required SEC to bring in well trained and highly skilled investigators who would handle complex matters as they evolved in Madoff. Incompetency is a risk to investigation since it leads to inefficiency just as it happened to SEC in the investigation of Madoff.

In addition, it lacked strong risk mitigating strategies to help it in identifying complex issues within its peripheral. When it started receiving continuous cases involving Madoff from other stakeholders, the SEC should have developed strong risk mitigation strategies to help it in identifying the issues in Madoff. Since Madoff cases were very complex, there was a great need to apply well detailed examination procedures to identify the frauds. Therefore, inadequate procedures are also another driver to SEC behavior.

What are the consequences of the SEC's behavior for investors over all?

SEC's behavior would encourage fraudulent acts among the investors. Its failure to identify issues in Madoff clearly shows that it is also unable to identify such issues elsewhere. Many investors like shortcuts and will thus capitalize on SEC weaknesses.

In addition, SEC's behavior would ruin its reputation and public image among the investors. Investors will look it as a fail and would thus fail to report their issues to the agency. This is a very serious act that may lead to increased

fraudulent acts that would eventually affect the economy. Building a good reputation with the investors is the only way SEC would operate with too much ease. There is a great need to improve its processes and procedures in order to handle the emerging issues.

Works Cited

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Linthicum, Cheryl, Austin L. Reitenga, and Juan Manuel Sanchez. " Social Responsibility and Corporate Reputation: The Case of the Arthur Andersen Enron Audit Failure." Journal of Accounting and Public Policy: 160-76. Print.