

Global crossing fraud research papers example

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



Global Crossing Limited is an example to all regarding the failure of a proper audit of financial statements. It was a telecommunication company which had gone through the scandal in 2001. The scandal was caused due to reporting of the financial statements against the audit purpose. The management is highly responsible for the preparation and presentation of the financial statement, the auditors and the management did not exercise professional care and did not investigate about many issues which were wrongly reported in the financial statements. This led to the downfall of a highly ambitious company. The company went through five chief executives and by the time they realized the mistake they were making, the company had already begun a downfall. Global Crossing's Bankruptcy was the fifth largest in the America. The Chairman sold the stock of the company only two years before the collapse of the company. The stock was sold at a profit. What really happened was the misstatement of financial statements. The company began reporting the revenues at a single point of time instead of showing it over a period of time. This goes against the principles of accounting. At the same time there was a sale to Qwest Communications of telecommunication facilities worth a \$100 million. This was done in exchange for similar services, no cash had been exchanged. Global Crossing recorded this transaction as a sales revenue. Apart from this, the Vice President of the company had managed to hide the issues which would have been brought up in the audit. There were conflict of interests and finally the matter was brought out by a whistle blower who informed about all the misstatements and brought them to light. This was done by the vice president, Roy Olofson. He was then the vice president of finance for the company.

Many employees were stranded with no job on hand, this happened in a duration of less than a decade. The company is facing lawsuits, investigations as well as increasing liability. The company lost everything, including goodwill. Gary Winnick, who ran the corporation and the auditor, Arthur Andersen are facing various charges and humiliation. Winnick made sure the company reached the \$1 billion mark of net worth in a period of 18 months. Winnick was seen to be spending outrageously large amounts personally and for the company. With the increasing growth of the company and the value of the shares, Winnick regularly sold some shares and earned the profits. Winnick sold almost 30% of his holdings before filing for bankruptcy.

There were two major issues this scandal occurred: swap deal and insider trading. The details of the swap deal have been mentioned above. It showed the financial health of the company but did not show the declining health of the same. Global Crossing recognized revenues before time which overstated its profits, this went against the policy of accounting. No revenues should be recognized unless received. This particular treatment was against the GAAP. The company says that they relied on the auditor for this reporting. The auditor is now defunct. Another issue is insider trading which has been discussed earlier. The chairman, Winnick sold a large portion of his shareholdings before the company ran into bankruptcy. Many witnesses inside the company say Winnick saw a fall in the revenues and started to sell of his holdings. The chairman sold shares worth \$734 million which is around 30 percent of his holdings before the collapse of the company. Though the chairman maintains that he had no idea about the downfall.

In 2001, the company was accused by a former employee of exchanging network capacity to show false revenue and to boost sales. The investors as well as shareholder's saw a huge dip in the shares after the revelation. They were willing to pursue the personal assets of Winnick to recover the huge loses. Global Crossing is reported to have spent a lot of cash for the political parties during election 2000 and hosted lavish parties for the candidates. All these reasons are believed to have helped Winnick at the crucial time. No criminal charges were filed against him. A few accounting issues were recognized in the investigation, one was the swap deal, followed by borrowed funds which were shown as successful trade negotiations, huge amounts of debts had matured and the creditors were already asking for a repayment. More than 14000 employees lost their jobs and all the funds invested in the company. Such accounting policies took a toll on the company after a period of time. The company also had deals with Enron which had also collapsed.

Global Crossing is a classic example of how manipulation of accounts can end. The auditor, although aware of the manipulation did not consult an external auditor nor did he inform the management about the financial crisis that were coming. It is also a case of corporate governance gone wrong, the interest of shareholders was not protected and nor were they placed above the decisions which were taken by the directors. The Board has set up the financial principles which are required to be followed by all the reporting companies. It makes accounting easier and also helps the readers understand the statements. If the accounting policies are not followed, the main crux of accounting and reporting gets disorganized.

Global Crossing also overestimated the demand for their networks which was way higher than the market conditions. Winnick hid the manipulations of the accounts from the board and the rest of the employees. He could easily convince the employees of his ambition. He had the foresight to see a crisis coming on the way of the company but he could not stop it. Though Winnick was not found liable in the scandal because of his lack of involvement in everyday business. The directors also knew about the coming crisis but they did nothing about it for the sake of the company and for the ambitions of the director. The insider trading could also have been avoided by the company. This can be done by publishing the transactions made by the company's executives. If the employees followed good practice, such a crisis could have been completely avoided. Selling of stock is no crime but insider trading can turn out to be dangerous. This is one example of having high ambitions which go against the ways of the business.

Though the company has emerged from the crisis, it is also doing well. It did gain help from investors who were sure that once the company is out of the crisis, there would be no looking back. The company learnt its lessons in a hard way but gained the momentum to start all over again. If the company had not looked to increase revenues rapidly, the misstatements would not occur and the crisis could have been avoided. Even if Winnick, along with auditor tried to set things right before it was brought out into public, the situation could have been controlled. Global Crossing is as huge a scandal as the most talked about Enron. Except that Global has come out of it and has managed to bring back the momentum for the company. Global is nothing

but accounting of financial statements gone wrong, the result of it is seen all over the world.

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