

# Arthur andersen: shredding the reputation

[Law](#), [Court](#)



Four days before the high-flying, energy-trading giant, Enron, disclosed a \$618 million loss for the third quarter of 2001, an attorney for Arthur Andersen, the accounting firm that audited Enron's books, wrote a memo to Andersen employees directing them to do something extraordinary. Andersen had a policy of retaining the key documents behind an audit but getting rid of notes, drafts and memos that were produced during the audit.

The attorney, Nancy Temple, wrote in an e-mail to David Duncan, the Andersen partner in Houston who oversaw the Enron account, "[i]t might be useful to consider reminding the [Enron] engagement team of our documentation and retention policy. ( It will be helpful to make sure that we have complied with the policy. " Duncan followed Temple's advice, and the Andersen engagement team was ordered to destroy all audit material related to the Enron account except for the most basic work papers.

As the destruction directive was being fulfilled, the United States Securities and Exchange Commission (SEC) initiated a probe of Enron's business activities. In order to secure needed accounting documents and information, the SEC issued subpoenas to Enron's auditor on November 8, 2001. In March of 2002, the United States Justice Department, sought an indictment against Andersen rather than specific individuals " because the firm had shredded massive quantities of Enron-related documents just as a government investigation was kicking into gear. According to former SEC chairman Arthur Levitt, Andersen's violation of the consent decree in an accounting scheme that inflated Waste Management's pretax income was " one of the main reasons for indicting the entire firm, instead of just the individual Andersen partners involved in the Enron audits. "

In defending itself in the District Court trial, Andersen “ claimed that the documents were destroyed as part of its housekeeping duties and not as a ruse to keep Enron documents away from the regulators. Nonetheless, Andersen was found guilty of obstructing justice when it destroyed Enron documents while on notice of a federal investigation. After its conviction, Andersen “ instantly withered to almost nothing, tens of thousands of innocent employees lost their jobs, and thousands of partners who knew nothing about the crime ( lost nest eggs they’d been building for years. ” In a post-mortem analysis of Andersen’s conviction, CNNMoney. com reporters wrote, “[t]he verdict will likely be a fatal blow for the 89-year-old accounting firm, which is now operating as a shell of its once-powerful self.

The firm has laid off 7, 000 employees, sold many of its practices in the United States and has lost more than 650 of its 2, 300 public audit clients this year. Thousands more employees in the United States and around the world are likely to lose their jobs as the firm shrinks. ” Andersen decided to appeal the conviction not because the firm’s lawyers believed that the company could be restored to its previous position, but because of “ an obligation to set the record straight and clear the good name of the 28, 000 innocent people who lost their jobs at the time of the indictment and protect the firm against a flood of civil lawsuits.

In the summer of 2004, a federal appellate court unanimously denied Andersen’s appeal of the conviction; then on May 31, 2005 in a 9-0 decision, the United States Supreme Court overturned the 2002 criminal conviction of Andersen. The Supreme Court indicated that the judge’s instructions to the Texas jury in the 2002 trial “ were too broad ( and could result in the

criminalization of innocent conduct. " In November 2005 the United States Justice Department announced that it would not retry Arthur Andersen.