

Legal and ethical issues of the audit of industries

Business



Legal And Ethical Issues Of The Audit Of Industries

Question # 1

What legal and ethical issues are present as you review Arthur Andersen's role in the audit of a number of scandal-plagued industries? Explain in detail.

There may be a lot more ethical issues that can be found upon reviewing Arthur Andersen. However, there are three major ethical issues that can be established upon reviewing the said company. The first issue arose when Arthur Andersen provided accounting, business consulting, and auditing services to the same company (citation). These services should not be practiced since there will be conflict of interest especially providing both accounting and auditing services. There will be danger of committing biases when providing the services and will eventually lead to unethical acts within the company.

The second issue that can be considered ethical is when the company withheld, covered up and overlooked discrepancies in the company's record (citation). The company was found to cover up and did not disclose accounting discrepancies of companies in which they provided their services. Evidences were obtained that suggest such acts were committed by Andersen.

The third ethical issue that is present in the Andersen case is the company's act of destroying evidences that can be used against them (citation). Ten days just before the U. S. Securities Exchange Commission formally started the investigation again Arthur Andersen, the management instructed their employees to destroy all potential evidences that may prove their illegal actions. This act can be said to be legally wrong too. This is a form of

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obstruction of justice because the company did not disclose evidences that will help the investigation become successful.

Question # 2

What role did Arthur Andersen's culture play in their business?

Arthur Andersen was one of the top accounting firms and considered to be one of the " Big Five" in the United States (citation). The company employed 28, 000 people in the United States and 85, 000 employees globally (citation). Being a very powerful and big company, Arthur Andersen was considered to be responsible in promoting unethical auditing methods with its actions. Because of these methods, thousands of employees lost their jobs and multi-million of dollars were lost by the shareholders and employees.

Question # 3

How would have the Sarbanes-Oxley Act will help minimize the likelihood of other accounting practices happening?

Sarbanes-Oxley Act is the act passed by the Congress to " establish a system of federal oversight of corporate accounting practices" (citation). Because of this act, the accounting firms will be evaluated and monitored according to the established standards and rules of accounting firms. This act created the Public Company Accounting Oversight Board which is tasked to monitor the accounting firms (citation). Because of this law, the accounting firms will not provide both the auditing and consulting services to the same company as what Andersen did. This act will eliminate the conflict of interest. Thus, because of the passage of the act, unethical auditing methods will be eliminated and shareholders will gain confidence back and will soon invest to more efficient and effective accounting firms.

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Question #4

As an ethics consultant, what recommendations would you have made to the partner's at Arthur Andersen?

As an ethical consultant, I would have recommended to the partners of Arthur Andersen to eliminate and avoid any unethical methods and practices from the very beginning. They should have made an action to prohibit such acts in the very first place. If they knew about the said commission of unethical, if not illegal, methods, they should have come to the proper authority and reported about the issue. The proper authority will surely advice them about the proper procedure of what to do next. If only they have done what is right, they would have not lost multi-million investments. Laws were made to be followed based on fairness and justice. If they committed a violation of the law, they will face consequences. Thus, as an ethics consultant, I would have surely pushed the partners to follow the established laws and rules and if Andersen will not do so, they should have pulled out their shares earlier.

Reference: