Arthur Andersen’s Fall from Grace

Name

Institution
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**Question 1**

In the wake of one of the biggest accounting scandals involving Arthur Andersen, a prestigious Chicago-based firm, many other major accounting firms across the continent felt the shockwaves. The collapse of the firm adversely affected top partners and investors in particular (Brown & Dugan, 2002). Thus, many lessons may be learnt from the fall of the Andersen company. In the light of the scandal, if I were a top partner in an accounting firm at that moment, I would ensure that accountability and full disclosure are adequately emphasized at all levels. Looking back at the available information regarding the collapse of Andersen, lack of accountability in terms of unregulated practices largely drove the company into a shameful bankruptcy. Partners should address questionable practices, and the relevant concerned parties should take up responsibility.

Second, I would review the corporate culture within the accounting firm, gauging whether it is a true reflection of our principles as a partnership. A healthy and productive corporate culture is an important element of a firm and its prosperity. However, a culture of greed, deception and corruption, as seen in the Enron’s executives, is toxic to an accounting firm and a possible threat. Therefore, a comprehensive understanding of the corporate culture and integrity, especially in the auditing process, will determine the decision on whether to continue with the partnership or extricate from the firm’s operations to avoid future financial disasters.

**Question 2**

The main function of the Securities and Exchange Commission is to oversee the maintenance of integrity of security markets and foster corporate disclosure of information to the investing public, hence protecting the investors from malicious practices. The fall of Arthur Andersen and Enron had a large impact on millions of investors and the general
economy. The manipulation of funds at Enron took place due to lack of stringent measures by the SEC. Following this demise, the SEC suggested new regulations that sought to limit consulting work by accounting firms. The commission proposed the limitation of consulting work by accounting firms so as to avoid a conflict of interest between making profits and safeguarding the public’s investments. However, the Congress did not pass the proposal.

In my opinion, the legislators did not act in the interest of the public; they protected lobby groups and the government which have massive connections with major accounting firms. Several questions were raised on the government’s impartiality in handling the widespread damages caused by Enron and Andersen’s greed and manipulation of the public’s investors’ funds. Therefore, when the Congress failed to pass the proposed regulations by the SEC, it was a reality case of the thin line between business and government relationship. Additionally, it displayed the ability of firms to influence government policies for their favour. The controversies that surrounded the proposed regulation generated intense lobbying pressure from major accounting firms. Many of the firms were against the SEC’s proposals – a factor that influenced the Congress decision not to pass the proposed regulations with little consideration of the public’s interests.

**Question 3**

Due to an increased rate of diverse emerging accounting services and the recently witnessed collapse of various accounting firms, the need to set a standard set of accounting ethics became a concern. The American Institute of Certified Public Accountants (AICPA) is a body established to provide a guideline of ethical standards and practices to all public accountants. Accountants are an important bridge between the capital markets and investors; hence, they should have a primary obligation to put public interest first. However, this is not the case when it comes to certain accounting firms. Elements of greed and corruption are a common factor as seen in the Andersen’s scandal.
The unethical activities of manipulating accounting inaccuracies and off-setting financial books with massive disparities cannot be AICPA’s entire fault. This is because AICPA does not have the powers to regulate leadership and the corporate culture of an organization. Poor leadership and a toxic culture in a firm greatly impact the behaviour of an account, hence creating room for fraudulent activities (Brown & Dugan, 2002). Moreover, AICPA is only mandated to provide a guideline of standard ethical codes; the behaviour of an account is entirely dependent on the values of the firm itself. For instance, the provision of incentives to accountants to alter Enron’s financial statements reflects deep-rooted ethical issues that should have been addressed by the company itself. Conflict of interest of the account is a far-reaching subject to the AICPA body. However, to some extent, tougher measures and penalties put in place would have minimised the outburst of fraudulent activities witnessed at Andersen.

**Question 4**

The accounting sector faces a wide range of challenges in the 21st century. Self-regulation cannot be entrusted to bring back the lost trust of investors and the general public. Additionally, it is under previous self-regulation tendencies that tremendous accounting scandals hit the nation’s financial sector causing a great loss of investments. Hence, the establishment of the public oversight board is a great step towards bringing in reforms in the accounting sector and assuring the public that their interests are well catered for. One of the main benefits of the oversight board is its powers to oversee and limit the quantity of work that an accounting firm undertakes. The body also regulates the fee that a company receives as partial payment of the total fee. By carrying out such regulations, the board ensures that the accounting firm’s activities are well regulated, hence curbing unethical practices that lead to fraud (Brown & Dugan, 2002).
Through the Sarbanes-Oxley Act, the board is mandated to protect whistle-blowers, which significantly helps in identifying and reporting malpractices in the firm. In self-regulation cases, whistle-blowers were afraid to speak out against unethical activities since they lacked proper protection to safeguard their occupation. Furthermore, the board requires senior managers to sign off on their companies’ accuracy, thus forcing them to take responsibility in case of malpractices. The establishment of the new oversight board for the purpose of overseeing accounting firms and their activities was a good idea since it is an eye-opener to the public. It ensures the safeguarding of public’s interests through a mandatory publication of companies’ financial reports.

**Question 5**

Due to the significant role of credit rating agencies in most financial crises, there has been continuous pressure on policy makers to regulate their operations. CRA has previously depended on self-regulation policies. In addition, the rise in corporate scandals has fuelled the outcry to regulate financial markets. It is important to note that overregulation of financial markets can lead to severe inherent system risks which increase the magnitude of the financial crisis. However, there is a need to regulate credit rating agencies today. With increased global concerns on the unanticipated abrupt downgrades of market securities presented by the pro-cynical element of CRA, it is paramount to regulate their operations. Oversight boards address aspects of transparency, disclosure, and conflict of interests. In addition, regulations ensure there is healthy competition among the rating agencies through the use of a rationale registration system. Primarily, effective regulations by an oversight board ensure that the investing public and issuers do not face tough losses in cases of financial crises.
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