Auditing giant reels from one blow after another

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NEW YORK — Three months ago, financial experts asked if time was running out for Enron, the giant energy trading company that was Arthur Andersen's second-largest client in 2000.

Beset by questions about self-dealing by its top executives and the accuracy of its financial statements, Enron collapsed rapidly, costing shareholders tens of billions of dollars and leaving thousands of its employees out of work.

Now the spotlight is on Andersen.

Besides Enron itself, no company has been more seriously wounded by its collapse than Andersen, one of the world's largest accounting firms.

With more than US$9 billion (S$16.6 billion) in sales last year and 85,000 employees in 84 countries, Andersen is one of the Big Five that audit the financial statements of most listed American companies.

NEWS ANALYSIS

After months of damaging revelations about its relationship with Enron, capped by the acknowledgment last Thursday that it had destroyed a large number of Enron documents, Andersen is facing congressional investigations, a federal criminal inquiry and lawsuits from shareholders that could cost it billions of dollars.

Perhaps even more serious for a firm that lives and dies by its reputation, Andersen's name is in tatters.

The Enron crisis is only the latest blow to a firm that has suffered repeated allegations of impropriety over the last five years.

Last year, it paid a US$7 million fine levied by the Securities and Exchange Commission (SEC), the largest-ever assessed against an accounting firm, for allowing fraud at Waste Management.

"Things look very bleak for Andersen," said Mr J. Edward Ketz, associate professor and director of the MBA programme at Pennsylvania State University.

Andersen did not respond to questions about its future for this article.

To save itself, it is considering a merger with one of the other Big Five firms — Ernst & Young, KPMG, Deloitte Touche Tohmatsu and PricewaterhouseCoopers — according to former Andersen partners and other experts on the accounting industry, which has indeed been consolidating.

KPMG declined to confirm or deny whether it was in merger talks with Andersen.

The other firms did not return calls seeking comment.

Whatever happens to Andersen, the rest of the accounting industry will not be able to escape the fallout from this crisis, critics of the industry say.

Over the last several years, independent accounting experts have accused the Big Five of being too close to their large corporate clients.

The firms face an inherent conflict of interest because most of their profits come from lucrative consulting services, not auditing, the critics say.

As a result, they are reluctant to force clients to change questionable accounting practices for fear of losing consulting business.

"The problems that exist here are endemic to the profession as a whole," Mr Ketz said. "What's happening to Andersen might happen to other firms later."

The most serious question about Andersen's behaviour, so far, concerns the admission it made that it had destroyed Enron documents, which included both paper and electronic records. The elimination began last September and continued up to November.

The firm has also said that it is not sure how many documents were destroyed.

It did not disclose who had ordered the destruction, who knew it was happening or whether the destruction had continued after the SEC subpoenaed Andersen for its Enron records.

That acknowledgement came less than a month after Mr Joseph Berardino, Andersen's chief executive, told Congress that his firm had made an "error in judgment", allowing Enron to use a partnership run by its former chief financial officer to move debt off its balance sheet.

Mr Berardino also said in his testimony that Enron had misled Andersen by withholding important information about other partnerships Enron had created to move debt off its balance sheet and overstate its profits.

Another potential problem Andersen faces concerns Enron's relationship with other energy-trading companies, including Calpine, Dynegy and Mirant, which Andersen also audits.

If the way Enron accounted for its trades is found to be inaccurate, Andersen will confront additional scrutiny about why it did not inform Enron and its trading partners that their positions had been booked improperly.

During the late 1990s and in 2000, Andersen also suffered through a messy divorce from its consulting arm, Andersen Consulting, now a listed company called Accenture.

The break-up was embarrassing for both Accenture and Andersen, which pride themselves on helping clients develop successful corporate strategies.

But Andersen was hurt more seriously because Accenture was bigger and faster-growing than Andersen, said Mr Dean McMann, chief executive of Ransford, a consulting firm that advises the Big Five.

Without Accenture, he said, Andersen became a middle-tier audit firm, smaller than the rest of the Big Five. Its efforts to develop an in-house consulting business to replace Accenture have also lagged behind.

"We thought that from that moment on, they would be shopping to find a partner. We believe that Andersen's not going to survive alone," he said. — NEW YORK TIMES