
Collapse Factors And After Effects Of Enron

Enron was the seventh largest corporation of America. The company gave a vision of a steady company having very good revenue, but in real that was not the situation the large part of the company's profit was just on the paper. All of this could be possible just because of planned accounting and traders reforms. Their debts and there hiding nature put the company in big trouble which in turn lead Enron in bankruptcy by late 2001.

There were many factors which resulted in the downfall and eventually the collapse of the Enron few of them are stated below:- Mark to Market Accounting – this type of accounting had an adverse effect for the company. The forceful accounting figures of the company had corrupted the Enron in this limit that it didn't had an ability to assume about the future profits. Cash is an important asset to run a company and for Enron who were having the revenues just on paper was aware that they have been struck by cash crises.

Enron culture

The Company had a policy that says if you are a good money maker then you will be awarded by bundles of cash as a bonus. This policy got competition among the employees they just wanted to finish the deals somehow and wanted the bonus. The performance review committee was the main reason for the employee's aggressive nature.

Enron was surrounded by the people who thought they are intelligent than one another having this attitude they thought they will always be escaped by the CRIME.

- JEFFREY SKILLING was responsible for the mark to market accounting principle in Enron. They launched an internet based service namely EnronOnline which helps the energy contractors to trade directly with Enron. At the end they were not able to cover their capital cost which was one of the reasons of their bankruptcy.
- ANDEW FASTOW, the Chief Financial Officer of Enron was mastermind of some special entities like LJM1, LJM2. He was the one who helped them in hiding their debts and losses.
- REBECCA MARK, Head of the failed business of Enron International and Azurix. It was mentioned by the one of the executive that whenever she travelled for business purpose it always cost \$60000.
- KENETTH LAY, is the CEO and Chairman of Enron he and his family members misused the company's asset. It is said that they used the company's jet for their personal use.

AUDIT ISSUES

Commercialisation and independence – an effective auditor will be independent from the management and financial representations of all users of financial statements. Anderson earned less than 30% of his salary from auditing and the rest he covered by charging his consulting fees. Anderson was playing the role of external auditor in spite of being internal auditor. It was seen that whenever the audit team saw issues relating to accounting they choose to ignore it and applied some accounting schemes to give a cover to their client.

Internal control weaknesses- auditors do have an access to the internal controls of the company to depend on the clients accounting system. The CFO was free from the dispute of interest policy and internal controls above SPE's were fraud which was there as an existence but not as in substance. The foreign assets of the Enron were not secure in their hands. The daily handling of the cash was done in a careless way, the matured debt was not planned, the debt which was not in the balance sheet was always ignored but they did exist there. Overall it can be said that the internal control were insufficient, the contingent liability was also not shown and all these facts were ignored by Anderson.

Evaluation of Accounting – under this section the auditors give a note about material misrepresentation. There were many errors that came into light about Enron but it was all rejected by the Anderson. There were many other errors that were there and could have rectified by the further investigations.

Related party transactions- the CFO of Enron in substance behaved as a buyer and seller in the same transaction which gave challenging task to the auditors.

Internal controls at Anderson – we need to gain the confidence of the investors by the financial reporting which is only followed when the internal controls of the company and the audit firm is strong. But Anderson had very poor internal controlling skills. Enron was Andersons second biggest client still the accounting advice passed by Anderson was not followed by the audit team, no effort was shown for the assurance of advice was followed.

AFTER EFFECTS OF ENRON

The bankruptcy of Enron was most affected by the 21000 employees of the company. Many people lost their steady income, there were many who were looking forward to their pension and also lost their hopes of secured future.

Sarbanes Oxley Act was introduced after the Enron scandal; it stated that the set of standards were regulated by the public company boards, managements and the accounting firms. Most important introduced reforms were that the company should have independent directors and the audit committee should have financially educated member and an expert.

On 14th January 2004 ANDY FASTOW and wife lea was guilty and was sentenced for 10 years. Lay was guilty by the six charges on him and was prison for maximum of 45 years. Exactly after 41 days Lay died due to heart attack. On October 23, 2006 Skilling was sentenced by 24 years and 4 months prison.

CONCLUSION

The bankruptcy of Enron was due to various factors, some of them are mark to market method, the competitive working environment, audit risks etc. The main players behind everything were Lay, Skilling, Fastow and Mark. Enron scandal was about the people who made it possible. It is about the people whose decision not only affected them but also did effect the present and future of 22000 other employees and whole of the America.