

# From Grace to Disgrace: the Rise & Fall of Arthur Andersen

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**Abstract.** In June 2002, Arthur Andersen LLP became the first accounting firm in history to be criminally convicted. The repercussions were immense. From a position as one of the leading professional services firms in the world, with 85,000 staff in 84 countries and revenues in excess of \$9 billion, Andersen effectively ceased to exist within a matter of months. Although Andersen's conviction related specifically to a charge of obstructing justice, public attention focused on the audit relationship between Andersen and its major client, Enron Corporation, particularly the actions (and inactions) that had allowed Enron to post spectacular year-on-year earnings and profit growth. As well as examining events leading up to the demise of Andersen, the case provides an opportunity to consider the broader controversy over accounting and corporate governance practices and, more generally, the pressures found within organisations that can foster unethical conduct. The case was prepared from public sources.

**Keywords:** accounting ethics, auditing, conflicts of interest, normative ethics, ethical decision making, corporate governance, auditor role and responsibilities.

## 1. Introduction

On 15 June 2002, Arthur Andersen LLP ("Andersen") made history by becoming the first accounting firm to be convicted of a felony when a United States district court jury found the firm guilty of obstruction of justice. The conviction related to events that had taken place between October and November 2001, both prior to and immediately following notice of an impending Securities & Exchange Commission ("SEC") investigation into Andersen's former star client Enron. These events included:

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1. Michelle Quirk, MBA (Dist.) prepared this case from public sources under the supervision of N. Craig Smith, Associate Professor of Marketing & Ethics, as a basis for class discussion rather than to illustrate either effective or ineffective handling of a management situation. The authors gratefully acknowledge the guidance provided on accounting standards by Ronnie Barnes, Assistant Professor of Accounting at London Business School.