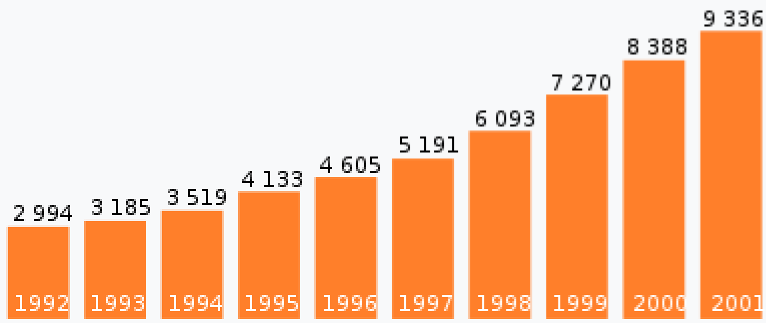
Arthur Andersen LLP, based in Chicago, was an American holding company. Formerly one of the "Big Five" accounting firms (along with PricewaterhouseCoopers, Deloitte Touché Tohmatsu, Ernst & Young, and KPMG), the firm had provided auditing, tax, and consulting services to large corporations. By 2001, it had become one of the world's largest multinational companies.

Arhtur Andersen's Revenue per Year in USDmillion.



Source: corporate press releases

The firm of Arthur Andersen was founded in 1913 by Arthur Andersen and Clarence DeLany as Andersen, DeLany & Co. The firm changed its name to Arthur Andersen & Co. in 1918. Andersen had an unwavering faith in education as the basis upon which the new profession of accounting should be developed. He created the profession's first centralized training program and believed in training during normal working hours. He was generous in his commitment to aiding educational, civic and charitable organizations.

Andersen, who headed the firm until his death in 1947, was a zealous supporter of high standards in the accounting industry. A stickler for honesty, he argued that accountants' responsibility was to investors, not their clients' management. During the early years, it is reputed that Andersen was approached by an executive from a local rail utility to sign off on accounts containing flawed accounting, or else face the loss of a major client. Andersen refused in no uncertain terms, replying that there was "not enough money in the city of Chicago" to make him do it. For many years, Andersen's motto was "Think straight, talk straight."

Arthur Andersen also led the way in a number of areas of accounting standards. Being among the first to identify a possible sub-prime bust, Arthur Andersen dissociated itself from a number of clients in the 1970s. Later, with the emergence of stock options as a form of compensation, Arthur Andersen was the first of the major accountancy firms to propose to the FASB that stock options should be included on expense reports, thus impacting on net profit just as cash compensation would.

By the 1980s, standards throughout the industry fell as accountancy firms struggled to balance their commitment to audit independence against the desire to grow their burgeoning consultancy practices. Having established a reputation for IT consultancy in the 1980s, Arthur Andersen was no exception. The firm rapidly expanded its consultancy practice to the point where the bulk of its revenues were derived from such engagements, while audit partners were continually encouraged to seek out opportunities for consulting fees from existing audit clients. By the late-1990s, Arthur Andersen had succeeded in tripling the per-share revenues of its partners.

Predictably, Arthur Andersen struggled to balance the need to maintain its faithfulness to accounting standards with its clients' desire to maximize profits, particularly in the era of quarterly earnings reports. Arthur Andersen has been alleged to have been involved in the fraudulent accounting and auditing of Sunbeam Products, Waste Management, Inc, Asia Pulp & Paper, the Baptist Foundation of Arizona, WorldCom, as well as the infamous Enron case, among others.

Enron scandal

Following the 2001 scandal in which energy giant Enron was found to have reported $100bn in revenue through institutional and systematic accounting fraud, Andersen's performance and alleged complicity as an auditor came under intense scrutiny. The Powers Committee (appointed by Enron's board to look into the firm's accounting in October 2001) came to the following assessment: "The evidence available to us suggests that Andersen did not fulfill its professional responsibilities in connection with its audits of Enron's financial statements, or its obligation to bring to the attention of Enron's Board (or the Audit and Compliance Committee) concerns about Enron's internal contracts over the related-party transactions".

Although the Supreme Court reversed the firm's conviction, the impact of the scandal combined with the findings of criminal complicity ultimately destroyed the firm. Because the U.S. Securities and Exchange Commission will not accept audits from convicted felons, the firm agreed to surrender its CPA licenses and its right to practice before the SEC on August 31, 2002—effectively putting the firm out of business.