

Auditor Independence: The Case of Arthur Andersen and Enron

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The financial statement audit is of vital importance to the stability, growth, and healthy development of financial markets. Investors, creditors, and other users of financial statements need reliable financial information. Auditor independence provides financial statement users confidence in audited financial statements. Arthur Andersen and Enron have been chosen as a case study to show how auditor independence influences the quality of information in audited financial statements. Enron, a leading energy commodities and service company in the United States of America, declared bankruptcy in 2001 after it announced it was reducing net income for current year and previous years due to accounting misstatements. Then its auditor, Arthur Andersen, failed in 2002. As of the end of May 2002, Enron's financial statements were misleading, the effect of these shortcomings on the dramatic decrease in the price of Enron's stock. Arthur Andersen as an auditor of Enron has an important role and responsibility for misleading numbers presented in Enron's financial statements. Enron's collapse is a significant event in the accountancy profession because its auditor, Arthur Andersen, was one of the big 5 audit firms. This scandal due to impairment of auditor independence and fraudulent financial reporting raises questions of the role of the auditors in alerting investors, employees, suppliers, customers and the public. The case study shows that there is a link between non-audit services and audit independence. Since fees generated by non-audit services greater than audit fees, providing non-audit services to audit clients violates auditor independence. The results of this study make suggestions about how auditor independence should be regulated by policy makers, governments and professional accounting bodies to ensure adequate regulation of the capital market.

Keywords: Auditor Independence, Enron, Arthur Andersen, Non-Audit Services, Financial Statement Audit.