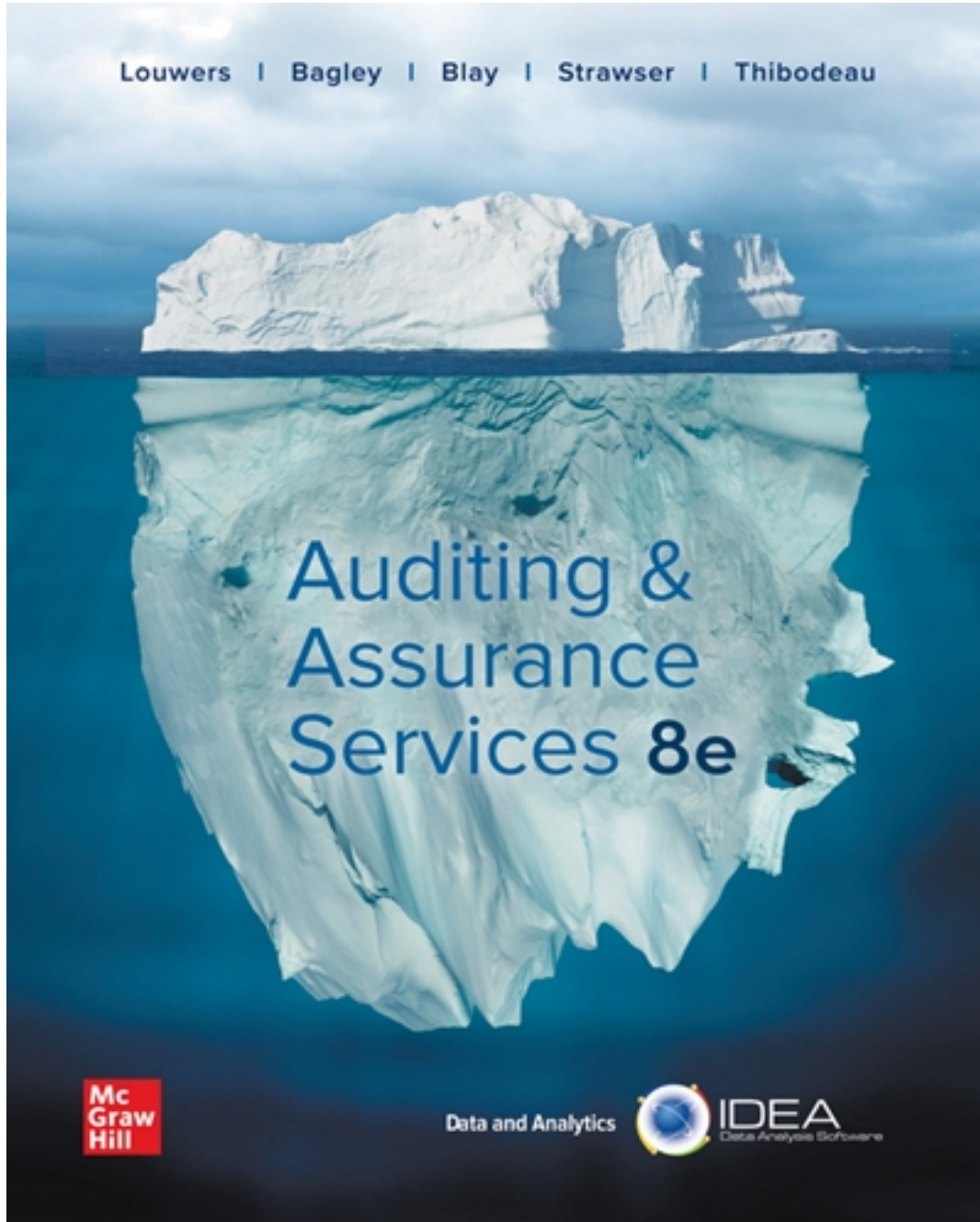


# Solutions for Auditing and Assurance Services 8th Edition by Louwers

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# Solutions

## MINI-CASES

		Question									
Case	Recommended* Chapter/Module	1	2	3	4	5	6	7	8	9	10
1. Andersen: An Obstruction of Justice?	Module C	C	C	C	C	C	B	C			
2. PTL Club—The Harbinger of Things to Come	2, 4, 7, 8 or 12 Module C	C	C	12	7	2	4	C	2	7	8
3. GM: Running on Empty?	11 or 12	11, 12	11, 12	11, 12	11	11	11				
4. Unhealthy Accounting at HealthSouth	4	4	4	5	5	C	G				
5. KPMG: How Many Firms?	Module B	B	B	B	1						
6. Something Went Sour at Parmalat	6	6	7	4	12						
7. GE: How Much Are Auditors Paid?	Module B	B	B	B	B	5	5				
8. Satyam Computer Services Ltd. – India's Enron	6	6	6	4	2	2	6	C			
9. Auditor Changes at Daily Journal Corporation	3	5	3	5	3	3	3	3			
10. London Has Fallen	Module B	B	B	B	B						
11. Lehman Brothers: Subprime Accounting?	10	10	10	C	2, 12	2	5	12			
12. Bernard L. Madoff: The Fraud of the Century	2 or Module C	2	2, C	C							
13. When the Music Stops: Crazy Eddie's	4 or 9	4	9	3	4	4	3				

**\* The above summarizes which chapter(s) and module(s) apply to the specific questions in the Mini-Cases. The recommended chapter refers to which chapter fits best with the overall topic of the Mini-Case if the instructor chose to assign and discuss an entire case.**

## 1 - ANDERSEN: AN OBSTRUCTION OF JUSTICE?

1. According to the Merriam-Webster Online Dictionary corrupt means (selected meanings relevant to this issue):

- to change from good to bad in morals, manners, or actions or
- to degrade with unsound principles and or moral values
- to become morally debase
- to cause disintegration or ruin

The term corrupt, especially as indicated in second bullet above, could be applied to the actions of Andersen as a firm and might indicate that the firm was corrupt. It is important here to know how the definition normally used by the 5<sup>th</sup> Circuit Court included the word dishonest, which does not appear in any of these definitions.

2. The issues are debatable and still center on the motives of David Duncan when he ordered the shredding of documents and whether Andersen had an obligation to modify its procedures if an investigation was imminent. Remember, once Andersen was served with formal notice of an investigation, no documents were shredded.
3. The opinions of students will vary. Clearly, the contested issues concerning jury instructions were all decided in favor of the prosecution. The fact that by impeding an investigation, even without meaning to do so, was allowed to indicate that an obstruction of justice occurred could have major legal ramifications if used as a precedent. For example, if on your way home from class you inadvertently got in the way of a police officer responding to a crime, under the “impede” rule, could you be guilty of obstruction of justice?
4. Again, opinions will vary. However, with hindsight and based on the actions taken in the KPMG investigation, the loss of one of the large CPA firms and the loss of jobs appears to be a penalty to too many innocent people. It is probably more appropriate to seek out individuals who engaged or directed illegal activities and take the appropriate actions against those individuals.
5. Students should understand that even if an action is legal it may not be ethical. Clearly, there were some actions taken that are questionable. The principles of ethics require auditors to act with *integrity* and to be mindful of the *public trust*. There are clearly issues of integrity and the public trust in both the audit work and the shredding of documents following the disclosure that Enron’s financial statements were fraudulent.
6. Opinions will vary. David Duncan directed the actual shredding of documents and probably knew an investigation was imminent. Even if he received direction from Nancy Temple concerning the document retention policy, he had the opportunity to determine the applicability of the policy to the situation and the ramifications of following the policy in this instance. Remember, many people have gone to jail or suffered even greater consequences utilizing the defense that they were **only following orders** – or, in this case, policy.
7. In litigation the plaintiffs’ attorneys often name multiple defendants. They do this for two basic reasons. First, if one of the plaintiffs is found harmless (the tort case equivalent of “not guilty”), other plaintiffs may be found negligent or to have engaged in fraudulent actions. Therefore, the plaintiffs may still prevail (and collect damages) against those defendants. Second, if one or more defendant becomes insolvent (which may happen during a long trial where legal fees can escalate and cause create cash flow problems), the plaintiffs may collect from other defendants found liable in the lawsuit. This ability to collect in full from those who have “the ability to pay” is the basis for joint and several liability.

Class action lawsuits can be the most damaging to plaintiffs. Several plaintiffs (sometimes thousands of plaintiffs) can file one lawsuit seeking damages that can total into millions of dollars if proven. In addition, class action lawsuits may often be heard in several jurisdictions, allowing the plaintiffs’ attorneys the ability to shop for a court they believe will be sympathetic to their clients. If a class action lawsuit is not allowed, many of the smaller claims may be dropped (the costs of the lawsuit outweighs the potential reward) and even larger suits must bare the legal fees individually. Further, the defense team is not engaging in a “winner take all” contest. Each suit, possibly heard in different jurisdictions, will be required to prove its individual case for its plaintiff.