

Introduction

In the last few years there have been a number of high profile accounting scandals where businesses have "lost" billions through poor, unscrupulous or illegal accounting practises.

In the project I'm going to research 3 of the most high profile scandals, the three businesses are:

- ❖ Enron
- ❖ WorldCom
- ❖ Parmalat

I'm going to research the three companies and describe what each of the businesses did, in each case describe what happened to the business, and if there have been any other scandals in the UK.



What do the Companies do?

Enron

Enron was born in July 1985 when Houston Natural Gas merged with Omaha-based InterNorth. Enron is now an energy trading and communications company based in Houston, Texas employing around 21,000 people in more than 40 countries. Its split into three main areas:

1. Enron Wholesale Services- this includes the marketing and delivery of physical commodities and financial and risk management services.
2. Enron Energy Services- provides integrated energy and facility management outsourcing solutions to commercial and industrial customers worldwide
3. Enron's Global Assets- include pipelines, Portland General Electric, international power, and pipeline and distribution operations.

These assets come to a total of \$47.3 billion and revenues reached a staggering \$101 billion in 2000. In just a little over 15 years, Enron grew into one of the US's largest companies. It embraced new technologies, established new methods of trading in energy and seemed to be a shining example of successful corporate America.



Parmalat

Parmalat is an Italy based company that was founded in 1961; they provide dairy, milk, Beverage, Bakery and other products around the world including South America and North and Central America.

The CEO of the company is called Calisto Tanzi; its workforce exceeds 34,000 with a turnover of more than €7billion.

Much of Parmalat's turnover in the dairy sector, It was announced that profits (before tax and interest) was €146m for the third quarter of this year, up 5% on the same quarter of 2000. Turnover was up 3.1% 2000 at €1.977bn.

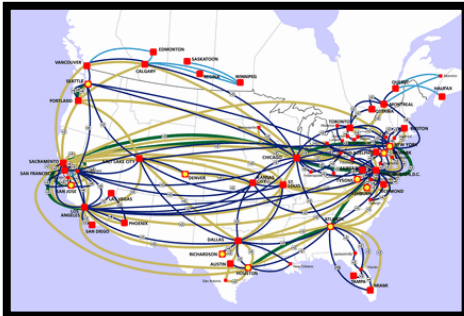


WorldCom

WorldCom is a Global communications company that was founded in 1968, WorldCom is located in Ashburn, Virginia, USA. They provide services for over 20 million business and residential customers.

WorldCom provides local-to-global business data, Internet and voice services it's an established leader in IP network technology and Virtual Private Networking.

The company also employs over 55,000 people around the world they provides high-capacity connections in more than 140 countries to more than 82,000 buildings and operate more than 2,400 ATM, frame relay and voice switches, and own and operate 130 data centers in 122 countries on five continents



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What happened to the companies?

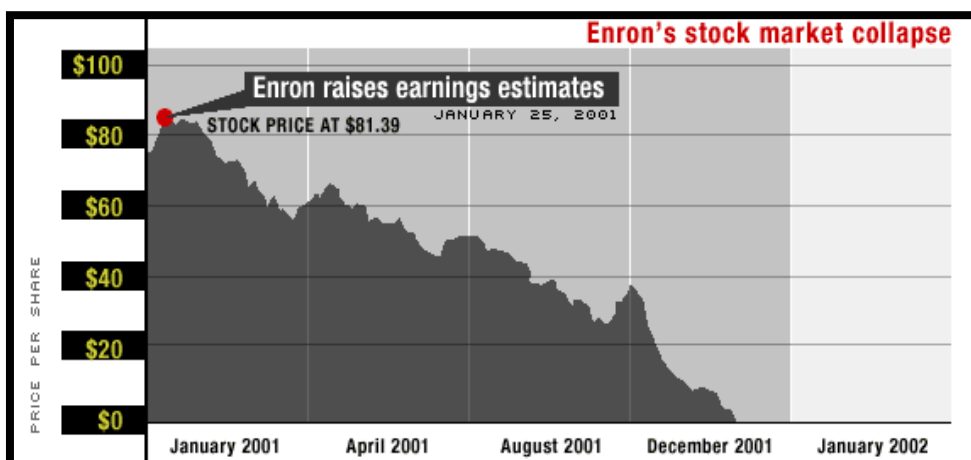
Enron

By using accounting scandals Enron allowed itself to be listed as the seventh largest company in the whole of America, when in actually fact it was the biggest corporate failure in history when it ended up bankrupt. The firm's failure started by lying about its profits, and excluding debts they had from the company accounts.

ENRON'S ACCOUNTS: THE TRUE PICTURE				
	Reported income	Revised income	True debt	True equity
1997	\$105m	\$77m	Up \$771m	down \$258m
1998	\$733m	\$600m	Up \$561m	down \$391m
1999	\$893m	\$645m	Up \$685m	down \$710m
2000	\$979m	\$880m	Up \$628m	down \$754m

On the 2nd December Enron filed for bankruptcy protection, Enron clamed there assets were worth £62 billion but all of a sudden they ended up to bankrupt. From \$95 there share price dropped to under \$1. This led to one of the worlds leading accounting firms, Arthur Andersen being fined \$500,000 (£322,000) and being sentenced to five years probation. This resulted in Arthur Andersen workforce decreasing to 3,000 from 85,000. The guilty parties to this day have still not been bought to justice.

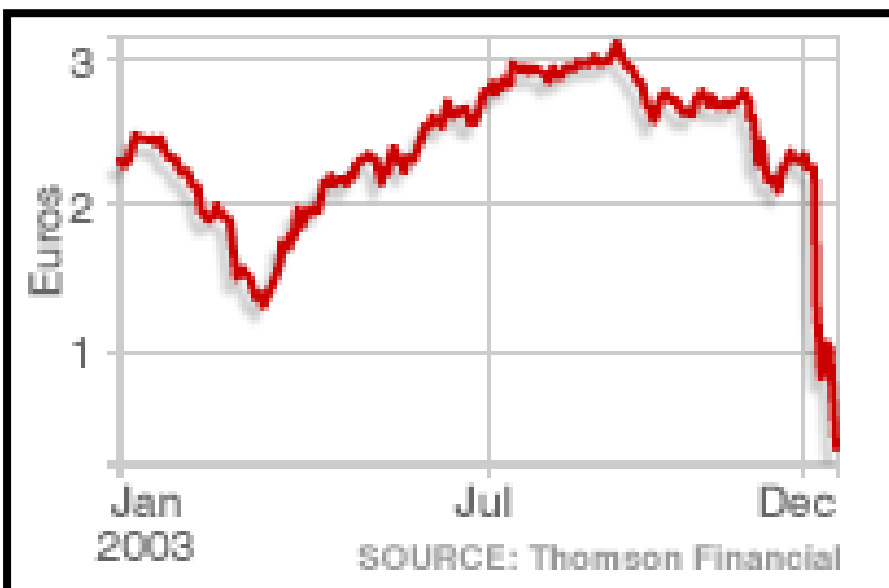
Share Price



Parmalat

Parmalat put itself on the list of accounting scandals by going bust after admitting 4 billion euros (£2.8 billion; \$5 billion) of false accounts. This scandal to date is the largest yet in the history of Italy. In the month of December it was revealed that a document showing 4 billion euros held in a Bank of America account was actually a large forgery. The company is now being run by the Italian government whilst 11 people are held by investigators. Former executive Calisto Tanzi, the firm's founder was questioned for more than 10 hours to find out how the firm developed a huge hole in its accounts. This has led to shareholders filing a lawsuit for misleading investors. The company's founder, Calisto Tanzi, is currently in jail, accused of having falsified the company's accounts for many years but no one has been charged. On the 26th January 2004 the truth came out of Parmalat showing that their debts are actually almost 8 times more than they had said at over 14 billion (£10 billion), Administrators still hope to bring the company which employs 36,000 staff in 30 countries, despite the fraud, is still doing brilliant business in the dairy market to this day. Parmalat's figures show that sales of long life milk in Italy were up 13.8% at the beginning of this year.

Share Price



WorldCom

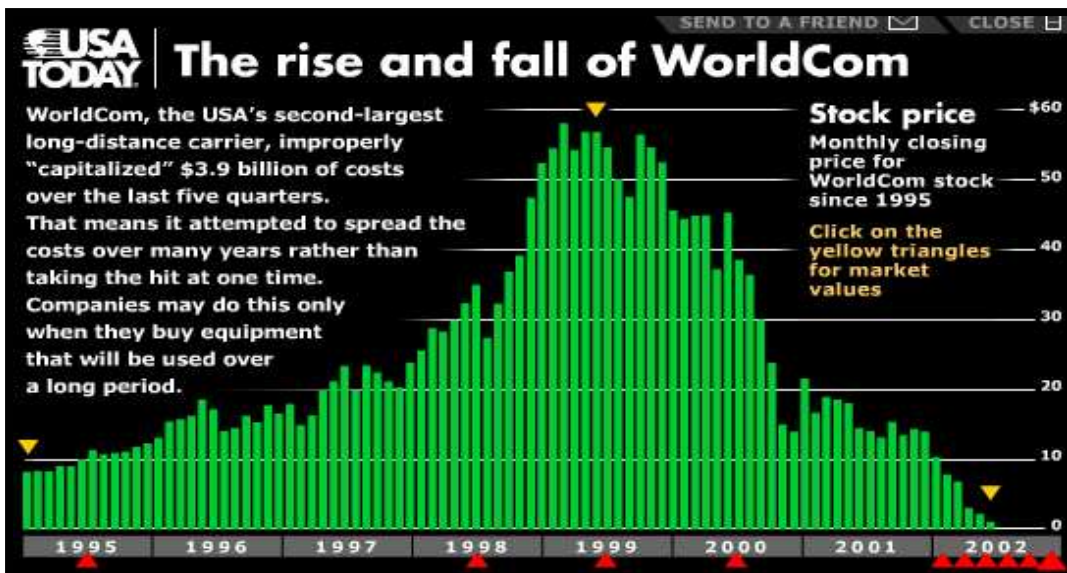
WorldCom had filed for bankruptcy after an accounting fraud they were involved in. WorldCom admitted of hiding costs of \$4 billion of costs, in 2001 WorldCom reported having a cash flow of \$2.393 billion when in actual fact it had a loss of \$662 million. In 2001 and 2002 the company pretended that \$3.8bn (£2.5bn) was the normal amount spent on expenses when in actual fact it was much worse, so instead of doing the right thing by entering it into the accounting



books as a whole figure they instead spread it out over a number of years to make their profits look good. So instead of making \$1.3 billion in profits in 2001 they were actually in the minus. Their share prices from \$16.00 slipped to as low as 5 cents this year, and over \$60.00 a few years ago. As a result of this WorldCom have been approved of a plan by the US Court to pay \$750,000 (£450,000) to investors who had lost money due to the scam. This resulted in former chief financial officer Scott Sullivan and ex-controller David Myers from WorldCom being arrested and charged with fraud facing seven counts of securities fraud. They were bailed after paying \$10m for Mr. Sullivan and \$2m for Mr. Myers, if convicted in the future the two may spend up to 65 years in jail due to their notorious behavior.



Share Price



Any Changes due to the Scandals?

US

Due to accounting scandals laws have become stricter than ever before.

President Bush has laid his message across yet that he will not tolerate corporate fraudsters.

As a result new laws have toughened up on penalties for fraudsters and tightened regulations for companies and accountants.

Bush said strongly fraudsters will now be "punished and exposed" if they had worked dishonestly. President Bush vowed to give corporate crooks "hard time" instead of "easy money".

He has increased the jail sentence time to 20 years for wire and mail fraud.

A new crime on security fraud will carry a 25 year maximum sentence

Altogether the president wants:

- Longer sentences for corporate fraudsters
- New corporate fraud taskforce
- More independent directors for firms
- Tougher laws against document shredding



UK

Trade and Industry Secretary Patricia Hewitt is trying to get rid of the power for executive directors in the UK to appoint company auditors, in an effort to prevent accounting scandals.

The Reason being because scandals involving companies such as WorldCom, Enron and Parmalat have frightened investors and made people question the relationship between senior company executives and their auditors.

Patricia Hewitt was also thinking about a rotation of auditors so that companies can't build up a relationship with there auditors. This way the rate of frauds will go down as companies wont be able to get to know there auditors very well.



Accounting Scandals in the UK

There have been many scandals in the UK; I'm going to go through some of them briefly.

1. Bank of England accused over BCCI

This is to date the biggest scandal that Britain has faced, this scandal has ended up in the Bank of England being sued by creditors for £1bn (\$1.8bn). BCCI went bust owing more than £10bn (\$18bn) to its creditors.

BCCI FIGURES	
• Total liabilities in 1991:	\$15bn
• Total recovered so far:	\$7.8bn
• Total paid to creditors:	\$5.5bn
• Total paid to others:	\$1.3bn
legal costs	\$305m
liquidators	\$487m
• Claim against BoE:	\$1.4bn
• Estimated court costs:	\$150m
• Reserve for liquidators:	\$1bn

2. The Personal Pension Scandal

This scandal is caused by people being persuaded, to move away from their occupational pensions into personal pensions during the late 80's and early 90's. This is being blamed all on the Conservative government in the 80's who stopped employers making their Occupational Pension plans compulsory for all employees. It has been estimated that almost estimated 2 million plus who have also been mis sold a personal pension.

3. WorldCom scale fraud

A Fraud detection company SAS Institute predicted that the UK could suffer a huge accounting fraud the size of WorldCom's in the near future, the size of the fraud is estimated to be around £14bn to £18bn per annum

Other Scandals in the world include scandals with companies such as Barings, Daiwa, Sumitomo, Credit Lyonnais, Bre-X, Lloyds, NASDAQ, Savings and Loan.

Conclusion

Altogether all three companies that I've researched on (Parmalat, Enron and WorldCom) have been involved in large accounting scandals that haven't resulted in the best. All three relate to each other the fact that they all made it look as if they had more in there accounts and less debts then reality.

All three companies lied about there accounts, all this did was increase there debts over the time period.

The overall effect was people being sued; fined, jailed and business take over, this all ended up in loss of customers and control.

This had many disadvantages, when one company went down other companies and shareholders around it also had received an effect, not only other branches of the company but other companies that bought and sold goods from and to the company.

This ended up with many businesses closing down and going into debt.

But there is one advantage from these scandals that have taken place, one being that now laws that have passed are stricter for example by giving more years to fraudsters, this has sent a strong message to all companies that were even thinking of committing a fraud.

Bibliography

I used many sources of information to complete my project, to get to these sources I had to first visit Google the search engine and search for the information I was looking for, the following list are all the websites that I visited that helped me complete my project, next to the website I'm also going to rate out of 5 how much each website helped (5 being a lot and 1 being not very much):

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|--------------------|--|-----|
| 1) Google | www.google.com | (5) |
| 2) USA Today | www.usatoday.com | (4) |
| 3) BBC | www.bbc.co.uk | (5) |
| 4) ezResult | www.ezresult.com | (3) |
| 5) Your Lawyer | www.yourlawyer.com | (2) |
| 6) Parmalat | www.parmalat.com | (2) |
| 7) WorldCom | www.mci.com | (2) |
| 8) Enron | www.enron.com | (2) |
| 9) Guardian | www.guardian.co.uk | (3) |
| 10) WorldCom Files | www.worldcomfiles.com | (2) |
| 11) CNN | www.cnn.com | (2) |



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