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Accounting Fraud at WorldCom

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Accounting Fraud at WorldCom

Question 1

In a bid to increase profit, Ebbers, the CEO of WorldCom, pressurized employees that he wanted to lead on Wall Street. Hence, he instructed his workers to increasing revenues focusing on generating more returns together with acquiring capacity in handling projected expansion. Revenue was crucial in increasing WorldCom's market value, and due to Ebbers' demands, the managers and senior executives needed to show that the company was profitable. Hence they "cooked the books" (Kaplan & Kiron, 2007).

Also, new entrants in the market increased competition forcing WorldCom to reduce prices. Coupled with high pressure to grow its revenues, the company fought to maintain its momentum. Furthermore, WorldCom was no longer inspiring investor confidence. When Ebbers gave a zealous speech about how the high-ranking managers and directors will lose everything, they decided to alter the financial records to preserve their jobs. Pressures like meeting the company's expectations, intense rivalry, and the economic downturn forced managers and executives to tamper with the company's financial registers.

Question 2

The illegal actions at WorldCom were not discovered earlier because the top management colluded with the auditors in hiding fraudulent activities in the company. Furthermore, the company had a flawed corporate culture because the ones involved in the fraud led the organization. For instance, the CEO, CFO, and the financial controller were corrupt and would use their positions for personal gain and cover up their criminal engagements (Kaplan & Kiron, 2007).

Also, communication is crucial in any organization as it enables the exchange of communication, updates, and decisions are made via communication. Poor communication, lack of awareness, and mindset of the employees are also factors that contributed to the failure to detect the actions of the managers. In this regard, to help prevent or quickly detect the actions of such managers, the company should enhance its corporate governance strategies and ensure that corrupt individuals are not at the helm of the company. Moreover, companies must have a clear whistleblowing policy that does not victimize whistle-blowers. Such a policy should be communicated to every employee. In addition to that, communication between different levels of the organization should be enhanced. The auditor's performance should be reviewed annually to ensure they do not hide financial fraud, and audits should be conducted proactively to help prevent the actions that transpired WorldCom.

Question3

The board of directors and the auditor are blameworthy in the case of WorldCom. Arthur Andersen, WorldCom's external auditor, lacked professional scepticism. He just took the corporate ledger compiled by General Accounting and presumed that its substances were correct (Kaplan & Kiron, 2007). Andersen overlooked serious fraud because WorldCom's environment was inefficient.

The company restricted the information external auditors were allowed to see, yet the external auditors failed to alert the audit committee. The board is also to blame for its predicaments because they failed to participate during board meetings actively. The external board of directors failed to meet the CEO Ebbers, Sullivan, including other WorldCom employee outside board meeting. Thus, the remaining way an external director communicated with internal director to comprehend WorldCom's operations is via a board meeting held six times annually,

with each session taking thirty minutes to one hour. This is not enough time to understand the dealings at WorldCom as an outsider.

Question 4

Betty Vinson, the Director of Management Reporting at WorldCom, was asked to alter the company's financial results by making illegal entries to bolster WorldCom's revenues and she obliged (Kaplan & Kiron, 2007). Her action indicates that she was also morally responsible for the fraud at WorldCom; hence, she is a co-conspirator in the company's fraudulent activities. She pleaded guilty to securities fraud and criminal conspiracy, which carries a maximum sentence of fifteen years. However, she spent five months in jail and five months under house arrest.

When their employer orders employees to do something they feel is illegal or uncomfortable doing, they should consider future assured action by abiding by the company's code of conduct. In the case of WorldCom, there was no such code of ethics or guidelines. More importantly, the employees should ask themselves whether the actions in consideration are illegal, unfair to other entities, and their personal feelings about the decision. If they are uncomfortable, they should respectfully decline to do something they are not comfortable with because consequences abound.

Reference

Kaplan, R. & Kiron, D. (2007). Accounting Fraud at WorldCom. Harvard Business School.

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