

# LESSON NOT LEARNT

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The collapse of Enron marks the biggest scandal the United States ever experienced and arguably the biggest in the global financial market. As seen in the fraud triangle, all of the reasons contributed to the fraud were committed by Enron executives.

## THE FRAUD TRIANGLE



*The Fraud Triangle by Donald R. Cressey*

The pressure to commit fraud as greed creeps in followed by justification to commit fraud has clearly motivated their acts in committing fraud for self-satisfaction. With a complicated business model that only a select few understand, it's tough to get the full picture. More than 300 percent of Enron's profits were generated in 1998, compared to the 1990s, when the company initially began operating. It expands too fast as well. Despite the complexity of the financial reporting and corporate structure, many investors did not bother to look into the finer aspects when an investment seemed to be paying off. What could go wrong with a

company's trading in the energy and gas sector as the demand will always be there. Things eventually did go wrong. Once named the most innovative company, it collapsed in 2004 and all the ugly stories behind the so-called success were published. So many suffered from the collapse.

A healthy company must have strong capital in terms of financial, technological, human resources and social ethical. For Enron, it has the first three capital, unfortunately the fourth, with respect to social ethical values, they failed. Many control and monitoring measures were developed and put in action. Audit firms became more vigilant in carrying out their duties as the collapse of Enron brought down Arthur Andersen, one of the big audit firms worldwide. One would assume a lesson is learnt.

In June 2020, WIRECARD, a German company founded in 1999 filed for insolvency. The biggest fraudulent case in Germany rises and collapses within a ten-year period. Again, the red flags are there. WIRECARD's profit increases very high in a short time span, business expands very fast and complicated business structure. Report was made on the irregularities years before WIRECARD filed for insolvency, but the authorities took no action. Once again, the failure in human ethical has caused the collapse of the company. Auditor's integrity has again been questioned as Ernst and Young (WIRECARD auditor) might face charges of malpractice. In both cases, the red flags are clear but authorities failed to carry out their duties to investigate. What happened with Enron should be a lesson to all, sadly, the lesson was not learnt.

