

THE NATION'S NEWSPAPER

# USA TODAY

Monday, June 17, 2002

## Verdict disappoints

### **Opposing view: Moves to criminalize accounting mistakes are counterproductive.**

By Fred L. Smith Jr.

Given the media frenzy over Enron, no one should be surprised that Arthur Andersen, its accountant, was found guilty. The formal charge was obstruction of justice, but the jury's difficulty in reaching a verdict seems to suggest that Andersen's real crime was its failure to publicize Enron's problems. For this reason, the verdict is especially troubling. Moves to prosecute "accountancy malpractice" are likely to slow development of accounting tools that will, in time, actually resolve this problem.

Those arguing for accountant responsibility note that Andersen was the financial "doctor" for Enron. Had it correctly diagnosed Enron's health, then investors would have realized its shaky status and never invested. Andersen should have warned us!

But this argument ignores the complexity of determining the financial value of the complex arrangements and intangible assets at the core of the modern New Economy firm. The desire for unambiguous objective information about the worth of such firms does not mean that accountants (or anyone else) can supply it. Accounting is, after all, a

fairly heroic effort to capture the essence, the élan, of a firm in numbers and words. Like the temperature taken by your doctor, the hope is that such accounting data will relate to the health of the firm. And sometimes, to some extent, it does. But the accounting data frequently fall short of that needed to determine the value of the firm.

When the assets are tangible and the organization has long been in operation, accountants do a pretty good job. However, much of the value of the modern firm is linked to its intellectual capital, its knowledge of newly emerging markets, the team spirit of that firm. For these dynamic firms, accounting data are less representative of their full value.

Accountants are well aware of the difficulty of assigning value to the "stuff" that constitutes the core of New Economy firms. But they haven't solved the problem yet — and if they must operate in an environment that views mistakes as crimes, they aren't likely to solve it quickly.

The verdict against Andersen was disappointing. If it becomes the pretext to criminalize mistakes in the accounting field, it will be a tragedy. And none of this will make future Enrons less likely.

*Fred L. Smith Jr. is president of the Competitive Enterprise Institute, a free-market think tank in Washington, D.C.*