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FROM ACCOUNTING SCANDALS TO GLOBAL CRISIS

MUHASEBE SKANDALLARINDAN KÜRESEL KRİZLERE

Asst.Prof.Dr.Cengiz YILMAZ[1]
Assoc.Prof.Dr.Cemal ELİTAŞ[2]
Assoc.Prof.Dr.Mehmet ERKAN[3]

ABSTRACT

This study suggest there are certain similarities between accounting scandal and expected global crises such as: lack of reliable and accurate accounting information, markets` negligence of basic rules and price bobbles. All these factors have brought an erosion of public confidence. Setting up public confidence requires radical changes such as: tough accounting legislations like SOX, continuous improvement in GAAP, introducing of insurance mechanism on auditing reports etc.

ÖZET

Bu çalışma Amerika Birleişk Devletleri'nde ortaya çıkan muhasebe skandalları ile 2002 yılında bu skandalları sonlandırabilmek umuduyla yürülüğe sokulan Sarbanes-Oxley Yasası (Sarbanes-Oxley Act/SOA) incelenecektir. Ayrıca bu çalışma ile finansal krizler ile muhasebe skandalları arasındaki ilişki incelenmeye çalışılacaktır. Bu amaçla konuya muhasebeciler, denetçiler ve finansal piyasa uygulayıcıları açısından ayrı ayrı bakılacaktır.

Accounting, Fraud, Global Crisis, Scandals.
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1. INTRODUCTION

This paper examines the US accounting scandals in 2002. Scandals proved that accounting profession have become less and less reliant on the gentlemanly professional characteristics that the audit function relied upon.

[1] Afyon Kocatepe University.
[2] Afyon Kocatepe University.
[3] Afyon Kocatepe University.

The business landscape is changing all around the world. Advances in finance and technological improvements have accelerated the rate of changes dramatically. Different parties such as; firms, governments, investors; especially small investors are struggling to keep up with these changes. Low degree of adaptation to changes weakens the market efficiency. This environment increased the significance of the accuracy, reliability, and timeliness the financial reports. Accounting scandals and other suspicious affairs occurred because of the lack of reliable and relevant information needed for feasible decisions. Immoral activities of executives, accountants and auditors can be considered as the center of the scandals which are enforced with market attitudes and deficiencies. Markets neglected the basic rules and theories during the scandals.

Accounting scandals resulted with pain: investors lost their money, workers lost their jobs, and decision makers stunned (politicians, managers etc.). What happened?

Several parties have been accused because of their attitudes, actions and roles as participant to the scandals. Investors' greediness and irrational behaviors to earn more, spread to whole investing community. CEOs` strong ego trips to for growth via dept finance and lacking of moral values might have been resulted with the tendency to cook books. Gatekeepers` negligence to analyze the market conditions, since the growth of the companies was satisfying governmental bodies. Auditing bodies earns their gains from the companies but preparing reports for investors (or governments); this created serious conflict of interest. Markets` negligence of basic rules and financial media's attitudes: highlighting the good news and overshadowing the bad ones.

Law makers and standard setting bodies hysterically searched the possible solutions. Some of the accounting principles are changed. Governments implemented new rules and regulations (ex: SOX) which are mainly strengthened the internal control mechanism. Corporate governance became more popular in the managerial and academic communities and in the governments. New targets, expectations planted in front of the public (investors). All these applications created an amazing sense of optimism. When there is good news or optimistic idea they are considered as revolutionary. Dark clouds of corporate corruption disappeared. Markets have rocketed and headed to new record levels.

What made these changes? Is everything fine now? If so, why the governments, economists and the majority of the society are scaring of global recession?

We believe that the main reason for the accounting scandal was the value traps formed by the accountants and managers (CEO`s CFO`s etc.) and these value traps are not monitored or neglected by the gatekeepers and auditors. Governments were happy with these value traps because they were plumping the indicators about the economy which can be called as bubbles and initially these numbers are considered as good indicators. In this trapping system everybody is happy as long as there is enough number of investors to be trapped. The problem occurred when the bobbles bust.

2. VALUE TRAPS: REASON FOR BOBBLES?

When a company's stock seems cheaper investors (compared to precedent price), by think it is undervalued and they might buy it with hope of higher future price. But this price would be correct and even overvalued; there could be even further decline in the price. This station is called value trap. If the investor buys the stock, he is caught by the (value) trap.

Value of the companies mostly based on cash flow of earnings and rarely book values. There are several methods to evaluate company values most common of the two are: fundamental analyses and technical (momentum) analyses. Factors influencing the quality of valuation can be listed as follows: choosing appropriate method, setting up assumptions, the quality of inputs (accounting information) etc. choosing inappropriate valuation method, setting up wrong assumptions, and inaccurate inputs can cause deficiencies in valuation.

During the accounting scandals mediators mostly used same or similar tactics by saying this price is cheap and will increase in the future. Especially small investors easily caught to these traps. They bought the stocks just taking into consideration of past prices without examining the other factors. Stocks, might worth four or five dollars, are sold with a price of sixty dollars with the expatiation of higher future prices. In fact some of the stocks` prices increased a bit more but the long term results were complete disaster. In these study we are trying to examine the actors who prepared or contributed to the value traps.

3. CHIEF OFFICERS

CEO`s and the CFO`s are (should be) individually responsible for the management of their companies and for the veracity of companies` financial statement. Their earnings consist of base salary plus bonuses: long-term incentives, benefits, and perquisites. Usually their premiums are much higher than their salaries which are generally associated with the growth of the firm. This payment system encourages or even forces them to growth. Another force for the growth is ego trips. Majority of the executives has strong egos and the best way to satisfy this ego is providing high sales numbers or or profits. In addition to this bonus schemes, fluctuates according to the level of performance, are also strong incentives for growth. Combination of these forces could create a strong incentive for the growth which could be inappropriate with the companies' resources. If the recourses are limited solution comes (for executives) from the dept financing which is mostly the case in accounting scandals. Using dept finance is a matter of coping with risks requires neat calculations and should be harmonized with well designed financial strategy, should not be designed and guided by the executives` egos. Jensen[4] suggests that executives cooking the books to get the inflated stock prices and to sustain them.

Bonus schemes encourage executives for the growth which means taking extra risk. ‘n case of taking too much of risk: if everything goes well, executives are entitled to have a share on earnings with the share holders, but if they fail, executives only lose their bonuses whereas shareholders lose their equities, premiers, share capitals or their pensions. The real burden of taking big risks is on shareholders. Hence, recklessly taking extra risks is mainly risking the shareholders` money.

If the things go wrong, executives` bonus schemes are in danger as well as their reputations, some executives reflects (the) loses to the financial papers whereas the others prefer to cook the books by thinking they could offset the loses in the next deal. Cooking books gives the wrong impression about company by providing camouflaged or false information which is used for the valuation. This situation can easily create an suitable environment for value traps. Obviously, to cook books there is a need of accounting expertise.

4. ACCOUNTANTS

In 1960’s the thought of positive economic science (PES) is introduced[5]. Later on there was high ambitions to make accounting more scientific[6]. But according to Flettwood[7] accountants haven’t understood the real functions of accounting. Instead are focused on more Newtonian system equations[8]. These Newtonian equations neglected the nature of human and moral values which are the basis for law and justice. Newtonian accounting doesn’t give enough information about strategies but only values or numbers about debits and credits. May be this is why on the date of Enron’s bankruptcy some of the accounting firms were still advising to the investor to buy Enron shares.

Accounting is the methodology which provides measurements, statements or provisions of assurance about financial status concerning firms` financial situations. Accounting can be described as "language of business"[9] because accounting information provides signals to end users, especially to investors. Accounting applications produce variety of information used by

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4 Jensen, M., 2004. Agency Costs of Overvalued Equity. Harvard NOMWorking Paper No. 04-26; ECGI FinanceWorking
Paper No. 39/2004

5 Williams PF.Modern accounting scholarship: the imperative of positive economic science [working paper]. North Carolina State University; 2002a.

6 Zeff S. American Accounting Association: its first fifty years. Sarasota, FL: American Accounting Association;
1966.

7 Fleetwood S. Why neoclassical economics explains nothing at all. Post-Autistic Econ Rev 2002;(17) [article 2].

8 Rosenberg A. Economics? Mathematical politics or science of diminishing returns. Chicago, IL: The University of Chicago Press; 1992.

9 Meigs, Walter B. and Robert F. Meigs. *Financial Accounting*, 4th ed. McGraw-Hill, 1970, p.1.

decision makers (managers), investors, tax authorities and public to take decisions according to their interests.

The information generated by the accountants is (or should be) the main source of valuation. Detailed cash flow information can be considered as an important indicator of future performance. Balance sheets designate the current levels of assets and liabilities. Details of the accounts provides numerous information about the companies` past and future performances, management and technological capability of a company etc. Decision makers analyze accounting information according to their expectations, knowledge and skills. So, the accuracy of accounting information plays a crucial role in the stock market for decision makers. Flow of wrong, mis-leaded or cooked accounting information to the market can cause serious problems during the valuation process. Deficiencies in valuation is reduces the efficiency of the market which is usually results with overvalued share prices. In addition to this usefulness of accounting information is also important. Information could be correct but if it is not suitable to make decision it is not useful for the end users and does not contribute to the efficiency of the market.

The Turkish version of the term "cooking book" is named as making up the books. At the end of the year, accountants of the firms meet with the owner-managers to decide a targeted profit to declare to the public and taxman. After the meeting accountant starts to make phone calls to find necessarily papers: invoices, bills etc, to use in making up (cooking) process. The reasons for cooking books varies: sometimes accountants do it with their own will to demonstrate they are capable of calibrating the numbers, sometimes they do it because of the pressures from the executives or to balance the overall results according to targets. For example while I was working in a (PAMUK) bank there were monthly targets to be reached, but it was difficult to reach these targets regularly: one month we were in excess of the targets while the next month there was in a shortage. To balance the performance we used to postpone some transactions of credit card applications when we were over the target.

Camouflaging real financial situation of the firm or the risks, is exhibiting the positive sides while shadowing the risks. For instance: while WorldCom taking over a telecommunication company they exhibit several financial projects which used to represent high profits. On the other hand they did not mention anything about the risk of disharmony between electronic systems which is resulted with huge loses.

Accountants are working under the command of executives. They have to act in order to executives` wishes. In addition to this, today's fierce competitive environment changed the nature of the relationship between the accountants and their clients. One might suggest that, nowadays ability to camouflage, shadowing or mis-leading information became a kind of competitive advantage. In this environment some of the accountants feel that they have to learn or apply how to cook books to get job. Besides some others thinks cooking books is the art of accounting.

After the scandals or crises there is always some intense discussion about the morals of "well educated" people's: politicians`, executives` accountants` morality. Accounting is such a profession that relies on confidence. Several parties` interests rely on the accuracy of the information generated by the accountants, in other words their interests deposited to accountants. In this perspective moral values are more precious than Newtonian calculation capabilities in accounting. Titart and others[10] suggest that recognition of importance of ethical values in accounting created an opportunity for American business schools and many of the business schools introduced the ethic related courses after accounting scandals.

In addition to ethic courses, tougher professional ethical committees can be a solution to avoid immoral activities. Even though these committees can not fix everything, they can be a deterrent factor for immoral activates. Unethical behaviors cannot be tolerated in accountancy because several parties` (investors`, governments`, debtors`, publics` etc.) rights deposited to accountants, their job is to produce correct and useful information. Honesty is the primary characteristic an accountant should have.

5. AUDITORS

Collapse of Enron exposed the dark side of the accounting firms: they could cook the books. After the Securities and Exchange Commission's (SEC`s) notice Arthur Andersen had destroyed the auditing documents. Traditional beliefs suggest accounting firms are reliable organizations which contributes to the market efficiency by providing correct and useful information in time.

There is an inherent conflict of interest between auditor and client relations. Auditors prepare auditing reports for external users: investors, government etc., but audit fee is paid by the client: audited company. The nature of the auditing requires independency (especially from their clients) but main revenues comes from their clients. Unfortunately, in the practice, keeping independency is very difficult task while having financially dependent on clients` fee. Executives` incomes more often correlated with their performance which can be influenced by auditors report. Meyers and partners[11] claims that the average director compensation of largest 200 US companies` executives was varying around $152,626 in 2001. Besides audit firms` earnings are also huge, for example: Enron's audit fee paid to Arthur Andersen was $25 million and consulting fee $27 million, or Disney's audit fee paid to PricewaterhouseCoopers was $8.7 million and consulting fee $32 million[12]. Hence auditors` (positive) approaches to executives can create

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[10] Pierre L. Titart, Robert L. Brown and Michael J. Meyer,. Accounting education: response to corporate scandals. Journal of accountancy November 2004 p59-65

[11] Pearl Meyers and Partners, 2002. Executive Pay Trends: Looking Forward and Looking Back

[12] James Tackett, Fran Wolf and Gregory Claypool, Sarbanes-Oxley and audit failure:A critical examination Managerial Auditing Journal Vol. 19 No. 3, 2004 pp. 340-350 P:340

mutual benefits (monetary, social, prestige etc.). Levitt`s[13] statement is quite impressive to explain this conflict of interest: ‘‘More and more, it became clear that the auditors didn’t want to do anything to rock the boat with clients, potentially jeopardizing their chief source of income. Consulting contracts were turning accounting firms into extensions of management—even cheerleaders at times. Some firms even paid their auditors on how many non-audit services they sold to their clients’’.

Mutual interests of auditors and executives can unite them to misrepresent companies` real returns, as if there was a high return while the actual return was small or even the company loses (as is happened in Enron and WorldCom).

Auditors are paid by the audited firms therefore audit firms are dependent on audited firm’s management. There is an agency relation between the auditors (agent) and audited firms (principle). Auditor client relation goes along with the interests of both sides but this direction may (do) not match with the investors interest. So there is need for more searches about how to unite all three parties interest in the same direction.

6. BROKERS AND ANALYST

Brokers are the mediators between the buyers and the sellers. In every transaction (sale) they earn certain amount of commission. Even though they have certain amount of fixed income their main source of income comes from the transactions. Number and the volume of transactions they made, seriously effects their income levels. According to Reuters North American brokers average earning fell about 27% between October market plunge and April when the number and the volume of the trade was comparatively lower[14].

Since their incomes dependent on the numbers of transactions they have to sell what ever the economical situation is. So they have to find or create good news or good stocks to recommend for buying to earn their lives even in the worst economical periods. The profitability of investment or accuracy of his/her advises do not affect his career or income as long as there is no compensation claim. Even if there is a compensation claim, it is too difficult and costly process for the client to prove his claims. Consequently, brokers love to hear and talk about good news, when there is bad news they prefer to camouflage it to get more commission without taking considerable risk. The burden of the risk is on the investor again, especially on the small investor.

This is not because of their personal mistake or fault; this is because of the nature of job which is forcing them to do so. But this kind of brokerage attitudes (or the nature of their job) enforces the factors that cause bobbles in the market. The solution to the problem would be establishment of brokerage

[13] Levitt, A., 2002. Take on the Street. Pantheon Books, New York. P:116

[14] The New york times march 24 2008

insurance which might provide a balance in risk sharing. Therefore rating firms and/or brokerage firms cannot make reckless recommendations as is happened on the date Enron's bankruptcy and the nature of the (brokerage) business would be little bit more fair on the behalf of small investors.

Second point to be made about the brokers and analysts is that they are mostly concentrated on technical analyses. Fundamental analyses: examines the certain fundamental factors or indicators to evaluate the companies` value. Analyzing of these factors, such as value of assets, human resources, local and global economical conjuncture, characteristics of the sector, financial ratios and rival companies, provides vital information for valuation. But fundamental analyses has certain disadvantages in the market place. First of all it is costly compared to technical analyses. It requires high technical knowledge to understand. That is why brokers do not want to involve with fundamental analyses and do not want to provide fundamental information to their customers. Even if they provide such information, level accounting education, knowledge and skills of small investors is not adequate for the assessment. In addition to these, fundamental analyze is a time consuming progress. Even representing the fundamental analyses takes time which brokers are trying to avoid because time is money for them. They should sell certain amount of shares in certain time limits to get higher income and even to keep their jobs.

On the other hand, technical analysis (momentum analyses) estimates the future stock prices by using statistical methods and assumes the momentum which has been started in the past will continue accordingly. The cost of technical analysis is comparatively less, could be prepared in a short time, and provides graphics which are quite useful instrument to persuade clients.; technical analysis gives simple and clear signals to understand for clients (prices will go up/down), client can interpret the graphics according to his feeling (as is in Rorschach test) with a mentor (broker) who can influence the client's perception. Using of visual technology enforces the clients` confidence to buy stocks. But technical analyses neglects several factors such as: risks (internal and external) fundamental ratios, management's capabilities (experiences, skills, knowledge) which small investors cannot easily assess. They need experienced consultancy for better valuation that should be provided by brokers and analysts but sufficient consultancy is not provided because consultants' interest does not match with the interest of small investors. Thus the bobbles or value traps flourishes in the market place.

7. FINANCIAL MEDIA AND GOVERNMENT

Financial media plays an important role during the pricing of stocks. Striking headlines can critically affect the demand or supply. Especially small investors are giving great importance to the financial media's comments. Media has certain relation with the companies and the government. Bad news (comments) irritates or disturbs these relations. In addition there may be compensation claims might come into reality against to media if the bad expectation or comment not realized. Bad news syndrome[15] is also prevents them to headline the bad news or makes them more cautious about it. They prefer to wait for a while or make sure that the news is correct. On the other hand if there is striking (good) news or expectation they print it immediately. Because the risks related to bad news does not exist in good news and the striking headlines can increase the sales. This kind of media strategies pumps the price bobbles and contributes to the scandals.

When the media's positivist approaches, which is mostly distant to conservatism, combines with the "they bought it and earned; I have to buy and earn as well" psychology, bobbles grows much more than it should be. A genuine sample for this was my cousin who lives in NY for years; he invested a great deal of money to Enron even though there was strong family opposition he take buying decision in parallel to media news, which is resulted with great disappointment.

Governments usually enjoys from the declaration of (exaggerated) company profits and results. For them these numbers are the proof of their economical policies' success. Beside, these numbers would provide them extra tax revenue. That is why governments and their auditors become reluctant to control the activities of such companies who declare high profits even though the numbers are not correct. But the governments', auditors' and the regulatory bodies' main objective should be finding the truths and exposing the risks to the public to whom they are responsible to.

8. A BRIEF REMEMBRANCE OF ACCOUNTING SCANDALS

In most cases, accountants and auditors are blamed for the scandals or financial frauds. Because it is accountants` responsibility to provide credible financial information and auditors` responsibility to confirm the accuracy of information presented to the public. Because of their responsibilities or the nature of the profession, accountants have played roles in accounting scandals. Some of these achievements are listed below as follows:

- Enron: it was of the fastest growing company of its time, is reached a high capitalization volume in the market by using leverage fınance and taking huge obligations without measuring the risks. These activities considered as innovative and genius ideas which are mostly admired by the financial media. Interest of financial media encouraged the managers and strengthened the share prices. But the risks and the financial situation of the company were inadequately reported which can be considered as book cooking or making-up. Enron is audited and consulted by Arthur Anderson. Arthur

[15] During the old times kings used to kill the Messenger who brought the bad news. That is why messengers preferred to delay massages.

Anderson received high revenues from Enron. They did not require major audit adjustments for years and often they signed the financial papers as they came, consequently financial statements of Enron were unclear and misleading[16]. Enron's mid and high level accountants and Arthur Anderson (as auditing and consultancy firm) could have (should have) given certain signals which exhibits the real financial situation but they did not. This was their responsibility. At the end, chief financial officer; Andrew Fastow indicted, chair and former CEO Ken Lay died in jail, and thousands of people lost their money, pension and jobs etc.

- WorldCom: capitalized local phone companies by leasing instead paying in cash. This improper procedure gave them a chance to camouflage their expenditure for only current period. Hence they could be able to delay the expenditures, and dilate their assets, turnover and P/E ratio, cash flow statement etc., for a while. At the end of the period, they needed more acquisition to camouflage accumulated depts. During the acquisitions technical details ignored for example disharmony between the switchboards etc., which is resulted with high cost expenditures afterwards. The operations resulted with $3.8 billion fraud; investors lost their money employees lost their jobs. CEO Bernard Ebbers found guilty of fraud and punished to 25 years in prison. In addition to Ebbers, CFO Scott Sullivan, CAO David Myers, Accounting Director Buford Yates are also involved with the fraud. Reinstein[17] commends about the involvement of accountants as follows "Ebbers and Sullivan often asked its accountants, Myers, Yates, Norman and Vinson to misstate accounts. Risking only their salaries (plus Myers' and Yates' bonuses) by this complicity … Given the relatively low unemployment rate at the time of the fraud and given the quality of their experience as corporate accountants, they most likely could have gone elsewhere for much of their WorldCom salaries."
- Parmalat: Italy's one of the biggest company, accused of setting up fraudulent transactions, using shell companies to cover loses and raise capital (unfairly) based on misleading (or illusionary) documentation. The fraud came to the public eye when the 4 billion dollars of deposit, which is claimed to be existed, does not exist. CEO of the Parmalat Calisto Tanzi and the company accountants were arrested with several accusations such as; issuing false information, hiding loses and dept, fabricating assets and deposits. Moreover Palmalat's auditor's (Deloitte & Touche) partner; Grant Thornton was also arrested. Because "When Grant Thornton checked with Bank of America, the auditor received a letter on Bank of America letterhead confirming the existence of the account.

16 Fisher, D. (2002), "Shell game", Forbes, February 14.

17 Reinstein, A (2006) "crime and punishment in the market place" Managerial Auditing Journal Vol. 21 No. 4, pp. 420-435 p:425

However, Bank of America said the letter was forged"[18]. Claudio Celani's[19] striking comment indicates that law firm also played a role in this case; "The New York-based Zini lawfirm named by Robbins, has played a role which seems to have come out of the movie *The Godfather"*. Palamat case exhibits a combined fraud accusations involves CEO's, accountants, auditors and even the law firms.

The list of accounting scandals and the involvement of accountants goes on as follows: Health South false entries, fabricated income statements and balance sheets. Tyco: CAO charged with tax evasion. Xerox: profits overstated by $1.4 billion. ESM government securities: securities sold to more than one customers and the auditor (had to) knew the risks about these transactions lead auditor Jose Gomes charged with 12-years prison term. HIH insurance: misleading financial reports.

The general characteristics of accounting scandals are similar to each other. First of all, there is usually a combined effort of executive officers, accountants and auditors. Since the nature of business, these parties have to work together and it is almost impossible them to do something without the others knowledge. One can imitate this relation as the triangle of interests. If triangle of interests works in the line with investors' interests everything is fine. Otherwise, accounting related scandals occurs.

Secondly, evidences indicates that in the scandals mis-leaded, fabricated or camouflaged information plays a curtail role which, is generated by the accountants who should act in according to GAAP. The number of scandals and the evidences indicate that even under the GAAP this triangle could be able to execute their illegal intentions, if they are ethically fragile but technically powerful. This shows us GAAP should be continuously examined and redesigned along with the changing business environment. Besides accountants independence should only be limited by the rules and regulations, not by the scarce of losing job or salary. As in the WorldCom case accountants can take huge risks just to maintain their considerably low salaries.

Finally, the role and the responsibilities of the auditors should be extended. In the US the responsibilities of auditors increased with SOX but in other countries they are not. Identifying the risks related to the investigated firm and proposing the possible protections to these risks should be the task of auditors, not only to control accounting numbers and accounting principles.

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[18] Mark Tran and Adam Jay guardian Wednesday October 6 2004 "**What is Parmalat alleged to have done?"**

[19] Claudio Celani The Story Behind Parmalat's Bankruptcy ***Executive Intelligence Review.*** *January 16, 2004*

9. SIMILARITIES BETWEEN ACCOUNTING SCANDALS AND THE EXPECTED GLOBAL CRISIS

Nowadays there is a popular debate about the expected global crisis which is supposedly similar to and as big as `great depression`. There are some basis for these expectations which similar to accounting scandals. Some of the central banks have ceased the announcements of certain basic indicators such as emissions, provisions and reserves. They are just publishing the financial analyses (results). This might mean; they are hiding the inputs and want the public to see only the result. This is something like when you are buying a car; seller exhibits only the paint, not the engine. Some other central banks and governmental bodies publishes certain numbers but this times there are a lot of numbers which are contradicts with each other and their methodologies are questionable. One might assume that there is a general attempt to camouflage certain monetary information which was usually the case in accounting scandals. Today there is a lack of credible monetary information in monetary markets.

Secondly, authorities do not give assurances regularly when the things go well but if there is a problem they usually makes public speeches to convince them. Enron's CEO Ken Lay spoke to TV just before the bankruptcy to give assurances about the future of the company. Before the 2001 crisis in Turkey authorities gave assurances about the economy. Nowadays we are haring similar assurances from presidents, prime ministers and central bank authorities more frequently.

During the accounting scandals financial markets neglected certain valuation methods for example asset pricing method despite of Greenspan's several warnings. Moreover, brokers and their firms prefer to neglect the fundamental analyses techniques. Today monetary markets are neglecting certain basic rules again. Majority of the finance books remarks on the balance between the risk and returns i.e; high risk investments should provide high returns or the other way around the low risk investments should provide lower returns. But global markets have forgotten this basic logic. Nowadays risk free rate of return is roughly about 2,5% (fed's rate) or little bit higher (LİBOR). If we assume the inflation rates vary around 3.5% to lets say 7%, so there is lower or no real return in financial markets even though central banks` incautious money printing activities. Because there is no balance between risks and returns. Today's financial troubles are usually called "credit crunch" in financial media, because no body wants to lend their money because there is almost no chance to earn money in real terms. ,

Table 1: Similarities Between the Accounting Scandals and Expected Global Crisis

	Accounting scandals	**Expected global crisis**
Information related deficiencies	Lack of credible accounting and financial information of related firms.	Lack of monetary information provided by the central banks: uncertainties on emission, provisions etc.
Abnormal assurances from authorities	Abnormal assurances to enforce public confidence about their firms (ex: ken lays speech before the collapse).	Several speeches by presidents, prime ministers and central bank authorities etc.
Negligence of basic rules	Asset pricing, fundamental analyses etc.	Bretton-Woods model, Purchasing power parity, fisher effect, international fisher effect etc.
Value traps; bobbles	High share prices	High currency values

Bretton-Woods model is designed to gain and maintain the public confidence and to provide stability in the financial markets. Today, Majority of the central banks have forgotten or neglected the model even though there is a strong need to gain and maintain the public confidence and to provide stability. Lack of confidence increased the gold prices from 200$ to 1000$ within the last 6 years.

Finally models explaining valuation of currencies such as purchasing power parity, fisher effect and international fisher effect could not be put into practice accurately because of statistical deficiencies. These models indicate that there is a strong relationship between the inflation rate and the value of currencies. This is: if inflation rate increases the interest rates also have to increase or the value of the currency has to fall. But in the market place it did not work as models explains. Firstly, there are big doubts about the decelerated inflation rates: governments decelerated inflations rates roughly about 3.5% to 7% but increase in commodity prices is much higher than these numbers for example price of gold, silver, petrol and other commodities increased almost 500%. This controversy arises questions like "are these inflation numbers correct? and credible? Secondly theories claim that if there is a high inflation rate, interest rates has to increase as well. But nowadays trend goes the other way around inflation increasing and the interest rates falling. Hence one might assume that central banks and the markets have neglecting or forgotten these theories. These doubts, are reducing the confidence to the economies and their currencies, create a depressive economical environment all over the globe. That is why there is a scare of global depression.

Combination of lack of ethical values, Information related deficiencies and negligence of basic rules and deficiencies in valuation caused crucial problems in the market which are reinforced or directed with market actors' (mediators, media, government etc.) manners to higher prices. Market actors prefer higher prices because it creates increased sales, revenues and taxes. These are usually called trophies or rallies but sometimes (or usually) these big rallies ends with big disappointments and failures and then it is called scandals or crises. During the accounting scandals there were price bobbles and it could be suggested that there might be bobbles in currency markets.

10. CONCLUSION

The name of the "accounting" scandals clearly explains the involvement of accountants to the scandals. Somehow, almost in every scandal, accountants associated with the scandals. Some did it to obtain big benefits, on the other hand some others did it to fulfill (immoral) instructions just to keep their jobs and considerably low salaries (as is in WorldCom). However when the cases analyzed as a whole, it is obvious that there are combined immoral activities of executives, auditors and the accountants which affirms that there is a strong need for "business ethics" courses in accounting programs. In addition to this, the health and the credibility of financial statement reports should be enhanced by increasing responsibilities of executives, auditors and the accountants, which is mostly put into practice in the US with SOX. In Europe and in developing countries there is still strong need for tougher rules like SOX.

Developments in technology and financial techniques are so fast in today's business environment, which creates loopholes and deficiencies related to GAAP, which reveals the need of regular updates in GAAP.

In addition to information based problems market attitudes also played a role in accounting scandal. Financial markets avoided or neglected the basic rules during the valuation. Even the most famous rating firms fail to represent the accurate financial situations of firms or governments because of negligence or immoral activities. Mandatory precautions, which makes compulsory to explain and represent basic rules and assumptions of analyses, would be a solution.

In the market, information users could only see the outputs of reports, which can be interpreted differently, and the basic assumptions and the methods they used, are usually camouflaged or hidden. More detailed reports with extensive explanation of accounting information and methodology can give a chance to investors for controlling and reanalyzing the data by themselves, which might mean multi-control over the financial papers.

Creating an insurance mechanism which ensures the accuracy and the credibility of financial reports would be another suggestion, which might be provided by auditors or mediators within the market. Therefore confidence to the markets would be increased; small investors' rights would be protected against to misused or mislead information, they could be able to compensate at least some of their loses in bad cases. At the same time, this kind of insurance might change the attitudes of mediators from “sell it no matter whatever the risks and earn money to “sell it if it is appropriate”.

As the historians say “history repeats” there are several similarities between the crises and accounting scandals. In fact, accounting scandals are also created comparatively small crises. Information related deficiencies exist almost in every economical crisis which weakens the market efficiency. Accountants or information providers plays a curtail role in this deficiencies. Accurate and credible information would prevent the crises or lighten its effects. Additionally markets mostly neglected the basic rules during these times, which created higher prices: bobbles in the market place. As accountants we are, we should investigate and find out the basis of accounting scandals to take necessarily precautions to prevent from the similar evidences in the future.

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