EARNINGS MANAGEMENT:
THE DARK SIDE OF FINANCIAL REPORTING

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Introduction

The objective of financial accounting information is to explain financial and economic reality, including both financial performance and financial position of an entity or company. The Chief Financial Officer (CFO), often in collaboration with the CEO, develops 'perspectives' on what this economic reality is and how it should be reported. Invariably, this invites earnings management of all sorts. Earnings management includes the whole spectrum from conservative accounting through to moderate accounting, aggressive accounting, and plain fraud involving a wide range for faulty and clearly indefensible accounting judgments and choices. Earnings management reflects the given financial reporting incentives of management.

Earnings management is not new to the world. Even in biblical days, various forms of fraudulent financial reporting have been documented as in the case of Ananias and Sapphira (Acts 5:1-10 (NIV)). It is therefore not surprising that in this modern world of extreme greed and conflict of interests, various parties that owe duty to account have resorted to many dubious ways to manipulate financial reports so as to advance their personal interests at the expense of all other legitimate stakeholders.

The accounting profession and the financial regulatory bodies all over the world have been engaged in rule making and standard setting designed to purify the public disclosure and reporting system - especially financial reporting in an environment of agency relationships. Despite the efforts by these bodies, the world is full of instances of an increasingly questionable financial reporting. Many entities resort to what is variously called or referred to as: earnings management, creative accounting, cooking the books or falsify the financial statements. Earnings management denies investors and analysts the right information for their investment decision-making to determine the attractiveness or otherwise of their investments. Management, at times with the open support or prodding of the board of directors, deliberately manipulate earnings so that the accounting income numbers match a predetermined target or expectations.

In the wake of continuing, highly publicized financial frauds and corporate failures over the last eight decades (especially the last two), the accounting profession has placed renewed emphasis on issues related to **earnings management and earnings quality.** The SECs of many nations and the public are demanding greater assurance about the quality of earnings. The Staff Accounting Bulletin (SAB) 101, *Revenue Recognition in Financial Statements*, which was issued in December 1999 in response to the Committee of Sponsoring Organizations of the Tread way Commission (COSO) report of 1992, illustrates the importance of earnings to the SEC.

Earnings Management

Preceding the first (1992) COSO Internal Control – Integrated Framework, in the August 1990 *Management Accounting*, William J. Bruns, Jr., and Kenneth A. Merchant reported the results of their survey of the readership of the *Harvard Business Review* (HBR).That survey described 13 earnings-management situations that the authors had directly or indirectly observed. The authors asked HBR readers to rate their acceptability or otherwise of the situations. They characterized the results as "frightening" and observed the following:

? It seems that if a practice is not explicitly prohibited or is only a slight deviation from rules, it is an ethical practice regardless of who might be affected either by the practice or the information that flows from it.

? This means that anyone who uses information on short-term earnings is vulnerable to misinterpretation, manipulation, or deliberate deception.

? We have no doubt that short-term earnings are being managed in many, if not all, companies.

? Some of these earnings-management practices can be properly labeled as "immoral and unethical".

Earnings management reflects on-the-job ethical conflicts and risks of the professional accountants and accounting firms. There are four main ethical conflicts that confront leaders in business:

- Conflict of Interest - A leader achieves personal gain from a decision he / she makes).
- Loyalty versus truth - A leader must decide between loyalty to the company and truthfulness in business relationships.
- Honesty and integrity – A leader must decide if he / she will be honest or lie; if he / she will take responsibility for decisions and actions or blame someone else.
- Whistle blowing – Does the leader tell others (media or government authorities) about the unethical behavior of the company or institution?

Earnings Management is defined in various ways by different theoreticians in the field. These definitions include:

"*...earnings management is the planning and control of the accounting and reporting system to meet the personal objectives of management.*"

"*...a purposeful intervention in the external financial reporting process, with the intent of obtaining some private gain.*" (SCHIPPER, 1989: "COMMENTARY EARNINGS MANAGEMENT", ACCOUNTING HORIZON).

"*... earnings management occurs when managers use their judgments in financial reporting and in structuring transactions to alter financial reports to either mislead some stakeholders about the underlying economic performance of the company, or to influence contractual outcomes that depend on reported accounting numbers.*"
(HEALY DAN WAHLEN, 1999: "A REVIEW OF THE EARNINGS MANAGEMENT", ACCOUNTING HORIZON)

"*... given that managers can choose accounting policies from a set of approved or generally accepted accounting principles (GAAP), it is natural to expect that they will choose policies so as to maximize their own utility and/or the market value of the firm. This is called earnings management.*"
(SCOTT, 2012, "FINANCIAL ACCOUNTING THEORY", SIXTH EDITION) "

"... *[the] misapplication of generally accepted accounting principles to actively manipulate earnings towards a predetermined target for purposes of creating an altered impression of business performance."*

"... earnings management occurs when managers use judgment in financial reporting and in structuring transactions to alter financial reports to either mislead some stakeholders about the underlying economic performance of a company or influence contractual outcomes that depend on reported accounting numbers.

(A REVIEW OF THE EARNINGS MANAGEMENT LITERATURE AND ITS IMPLICATIONS FOR STANDARD SETTING', ACCOUNTING HORIZONS, DECEMBER 1999, PP. 365–383)."

In other words, earnings or accounting income numbers are deliberately manipulated by management for the purpose of meeting the company's objectives, whatever they might be. In essence, earnings management is recognized as an attempt by management to influence or manipulate reported earnings by using specific accounting methods (or changing methods); recognizing one-time non-recurring items; deferring or accelerating expense or revenue transactions; or using other methods designed to influence short-term earnings. There are three main types of companies that are likely to adopt an earnings management policy. These companies are where executive compensation is tied to earnings; publicly traded companies because they are under constant pressure to meet or beat analysts' earnings forecasts; and companies getting ready for major debt financing or for an IPO (Initial Public Offering).

Most earnings management techniques are often within the boundaries of Generally Accepted Accounting Principles (GAAP). Indeed, all it takes is a well-trained accountant who understands how changes in accounting judgments, accounting estimates, and accrual accounting can be used to upwardly or downwardly affect earnings. The following represents the wide spectrum of financial reporting.

	Accounting Choices	"Real" Cash Flow Choices
	Within GAAP	
"Conservative" Accounting	Overly aggressive recognition of provisions or reserve Overvaluation of acquired in-process R&D in purchase acquisition Overstatement of restructuring charges and asset write-offs	Delaying sales Accelerating R&D or Advertising expenditures
"Neutral" Earnings	Earnings that result from a neutral operation of the process	
"Aggressive" Accounting	Understatement of the provision for bad debts Drawing down provisions or reserves in an overly aggressive manner	Accelerating sales Postponing R&D or Advertising expenditures
	Violate GAAP	
"Fraudulent" Accounting	Recording sales before they are "realizable" Recording fictitious sales Backdating sales invoices Overstating inventory by recording fictitious inventory	

Dechow & Skinner, 2000

Fraudulent Financial Reporting

Fraudulent financial reporting can have significant consequences for the organization and for public confidence in capital markets. Periodic high profile cases of fraudulent financial reporting raise concerns about the credibility of the financial reporting process and call into question the roles of auditors, regulators, and analysts in financial reporting. Due to sheer greed and conflicts of interest, the number, impact, and size of fraudulent financial reporting or financial statement frauds are increasing at an alarming rate. Some of the recent frauds include collusion between several people, as many as 20 to 30 in certain cases. This is clearly either a sign of or indication of pervasive, total moral decay in business and accounting. As a result, many investors have lost confidence in the credibility of financial statements and corporate reports. Consequently, there is now more or heightened public and professional interest in or concern about financial statement fraud than ever before. Many accounting programmes in universities now have required courses on fraudulent financial reporting, risk management, and internal control.

Misleading or questionable financial reporting range from conservative to neutral, aggressive, and fraudulent. At the apex of earnings management is fraudulent financial reporting, which goes beyond criminality and morality. Fraudulent financial reporting is defined by some as:

> *"... the intentional, deliberate, misstatement or omission of material facts or accounting data, which is misleading and, when considered with all the information made available, would cause the reader to change or alter his or her judgment or decision* - NATIONAL ASSOCIATION OF CERTIFIED FRAUD EXAMINERS, 1993."

Fraudulent financial reporting has been elevated to a symbol. There is a whole new level of uncertainty about profits or accounting income numbers, about the integrity of the accounting profession and of "Wall Street" or "High Street" or "Main Street" and their ever-greedy analysts and lawyers. Investors are now left painfully wondering whether they could trust corporate boards, corporations, auditors, or stock analysts.

The constraints to credible financial reporting and quality financial reports include weak or non - existent law enforcement mechanisms, abuse of shareholders' rights, lack of commitment on the part of boards of directors, lack of adherence to the regulatory framework, weak enforcement and monitoring systems, and lack of transparency, candor, and disclosure.

In accounting, many actions are classified as fraud or fraudulent. These include fraudulent financial statements and financial reporting, employee fraud, vendor fraud, customer fraud, investment scams, bankruptcy frauds, etc. The common element underlying the above schemes is deceit or trickery due to greed or unethical behaviour. The core dilemma is the management of conflicts of interest in agency relationships.

Fraudulent financial reporting often arises from conflicts of interest. It is inconceivable that all professionals in an organization simultaneously miss the red flags or signs of poor performance and imminent collapse as late as a quarter to the actual collapse. Professional competence does not often result in competent performance. Often, conflicting interests compromised independence of professionals such as accountants, credit raters, and analysts, lawyers, and consultants who become susceptible to management's undue influence. Accommodating interests of top management and the board often conflicts with a professional's duties to his or her clients. Some of these conflicts exist within such professional engagements as accountants consulting and auditing the same client; investment banker's financial services and research analyst responsibilities, and consultants serving as management experts and as consultants.

In addition to the earlier celebrated cases like Equity Funding and Crazy Eddie, recent globally celebrated financial statement or financial reporting frauds include Enron, WorldCom, Adelphia, Global Crossing, Xerox, Qwest, Cendant, Lincoln Savings and Loans, ESM, Anicom, Waste Management, Sunbeam, etc. The list goes on and on. Some of the normal categories of these frauds include Current Executive Fraud-Related Problems; Misstating Financial Statements (Quest, Enron, Global Crossing, WorldCom, etc.); Executive Loans and Corporate Looting (John Rigas (Adelphia), Dennis Kozlowski (Tyco)); Insider Trading (Martha Stewart); IPO Favoritism (John Ebbers); CEO Retirement Perks (Delta, PepsiCo, AOL Time Warner, Ford, Fleet Boston Financial, IBM); Consulting Contracts and Use of Corporate Planes, etc.)

Many in the public as well as the accounting profession wonder about the many financial statement frauds all of a sudden in the early 2000s. Various rationalizations include the fact that good economy often masks many problems; moral decay in society; executive incentives tied to reported profits and share prices; investment analysts' expectations which reward for short-term behavior reflected in earnings and share prices; nature of accounting rules which allows unbridled judgement of the auditor and management; unethical and unprofessional behavior of auditing firms; greed by investment banks, commercial banks, and investors; failure of higher education in business to inculcate life-long ethical and moral uprightness into their graduates. With increasing stock prices, increasing profits, and increasing wealth for everyone, no one worried about potential problems. When stock prices are tied to meeting earnings forecasts, the focus is normally on only short-term performance. Companies are heavily punished in the marketfor not meeting forecasts. Executives have been endowed with hundreds of millions of dollars' worth of stock optionswhich far exceeds normal compensation that is not tied to stock price or accounting income numbers. Often, performance is based on accrual accounting earnings and stock price, but not cash flows. Fraudulent financial reporting may also be due to the long period of refusal of external auditors to accept responsibility for fraud detection despite the fact that the SEC, the courts, and the public expect them to detect fraud. The issue has often been if auditors arenot the watchdogs, then who is. Many professional accountants have become greedy. The partners in auditing firms constantly audit and are exposed to executive compensation packages and see everyone else getting rich and not them. Audit has become a loss leader and receives very little serious attention, unlike tax, consultancy, or advisory services. It is easier to sell lucrative consulting services from the inside. The accounting firms all became largest consulting firms in the U.S. very quickly. Andersen Consulting grew to compete with Accenture and in the process, a number of auditors got too close to their clients for comfort.

Professional, very shameful, and embarrassing reason that fosters fraudulent financial reporting is the lack of critical and introspective thinking among accountants and investors. The following table represents revenue and earnings of Enron during the four years preceding the date of its total collapse. There is no way that an astute professional accountant would not question the astronomical increases in reported revenue and earnings during that period. Within four years, revenue increased five-fold ($20billion to $100billion) and earnings increased nearly ten times ($105million to $979 million).With sound professional skepticism, this trend is too obvious and improbable for any competent professional accountant to miss and not question.

Table 1: Enron's Revenues and Income

YEAR	REVENUE [BILLION $]	INCOME [REPORTED]- MILLION $	INCOME [RESTATED]*MILLION $
1997	20	105	9
1998	31	703	590
1999	40	893	643
2000	100	979	827
TTOTAL	191B	2,680M	2,069M

[a] Without LJM1, LJM2, Chewco, and the "Four Raptors" partnerships. There were hundreds of partnerships - mainly used to hide debt.

SOURCE: AICPA 2004, 2005

It is extremely very embarrassing that there are many unsophisticated techniques used to effect financial statement frauds by even low levels of staff.. These include:

- Revenue and Accounts Receivable Frauds (Global Crossing, Crazy Eddie, Quest, ZZZZ Best)
- Inventory and Cost of Goods Sold Frauds (PharMor)
- Understating Liability and Expense Frauds (Enron)
- Overstating Asset Frauds (WorldCom)
- Overall Misrepresentation (Bre-X Minerals)

By far, the most common accounts manipulated when perpetrating financial statement fraud are revenues and/or accounts receivable. The second most common way to commit financial statement fraud is to overstate inventory. The third method involve understating liabilities. Operationally or practically, the mediums used include not recording accounts payable, unearned revenue, accrued liabilities, warranty or service liabilities, loans, contingent liabilities, or simply keeping liabilities off the books. Fraudulent financial statements also disclose asset overstatement as a common technique. These involve overstating current assets (e.g. receivables or marketable securities), pension assets, capitalized interest, assets acquired through mergers and acquisitions, inventories, and receivables.

Table 2: Perpetrators of Fraud

TYPES AND FREQUENCIES IF INDIVIDUALS NAMED AS PERPETRATORS OF FINANCIAL REPORTING FRAUD		
TITLE OF PERPETRATOR	FREQUENCY NAMED %	
	2007 STUDY	1999 STUDY
CEO	72	72
CFO	65	43
CEO AND/OR CFO	89	83
CONTROLLER	34	21
COO	10	7
OTHER VPs	38	18
LOWER LEVEL STAFF	23	10
NO TOTLES GIVEN	16	15
OTHER TITLES	27	12

Source: Disclosed by the SEC in an Accounting and Auditing Enforcement Release (AAER) issued during the period 1998-2007, and 1987-1997

Table 2 above disclosed the identity of the perpetrators of the frauds handled by the SEC as covered by the studies. It also shows the percentage of the times that the individuals were identified as being part of the fraud. The COE and the CFO are clearly the top perpetrators of fraud in their organizations. The two combined account for 89% and 83% of the frauds in the two studies. The rest of the perpetrators account for far less percentage than the CEO and the CFO. The board seems to be subsumed or irrelevant in these fraud cases.

Disclosure Fraud

Other than fraud in the numbers reported in the financial statements, fraud also occurs with regard to financial statement disclosures in the notes to the financial statements. The three main disclosure frauds are (1) overall misrepresentations about the nature of the company or its products, usually made through news reports, interviews, annual reports, and elsewhere; (2) misrepresentations in the management discussions and other non-financial statement sections of annual reports, filings with the SEC and other regulatory agencies; and (3) misrepresentations in the footnotes to the financial statements.

It is obvious that fraudulent financial reporting comes in different forms of complexity. Compared to the other financial statement frauds, Enron was very complicated while WorldCom was a $7 billion fraud that involved simply capitalizing expenses (line costs) that should have been expensed. This is very simple and straight forward. Enron involved many complex transactions and accounting issues. In discussing the Enron Case, Senator John Dingell of the USA remarked: "... What we are looking at here is an example of superbly complex financial reports. They did not have to lie. All they had to do was to obfuscate it with sheer complexity -although they probably lied too."

Motivations for Earnings Management

The accounting literature is full of documented evidence regarding motivations for earnings management – in all of its various forms. These motivations or reasons for earnings management include: capital market expectations, contracting covenants, regulatory provisions, tax provisions, change in CEO, political expediency, and more.

Capital Market Motivations: The widespread use of accounting information by investors and financial analysts to help value stocks can create an incentive for managers to manipulate earnings in an attempt to influence stock price performance (including meeting analysts' expectation, or maximizing proceeds from initial share issues).

Contracting Motivations: Accounting data are used to help monitor and regulate the contracts between the firm and its many stakeholders (lending contracts or management compensation contracts)
Regulatory Motivations: The effects of two forms of regulation that exist i.e. industry specific regulation and anti-trust regulation. Accounting standard setters have demonstrated an interest in earnings management to circumvent industry regulation (banking, utility industries). Standard setters may also be interested in earnings management for anti-trust purposes.

Taxation Motivations: Income taxation is perhaps the most obvious motivation for earnings management (firms use LIFO for tax purposes). However, taxation authorities tend to impose their own accounting rules for calculation of taxable income, thereby reducing firms' room to maneuver.
Change of a CEO: CEOs of poorly performing firms may manage their earnings (income-maximize) to prevent or postpone being fired. Alternatively, CEOs may 'take a big bath' so as to increase the probability of positive or better earnings in the future. This motivation also applies to new CEOs, especially if large write-offs can be blamed on the previous CEO.

Earnings Management Techniques

In his remarks entitled "The Numbers Game" made on 28 September 1998 at the New York University Center for Law and Business, the then SEC Chairman Arthur Levitt described five techniques of "accounting hocus-pocus" that summarized the most glaring abuses of the flexibility inherent to accrual accounting as big bath charges; creative acquisition accounting; cookie jar reserves; materiality; and revenue recognition. The diversity of companies and motivations for earning management means that there are many techniques or methods of effecting earnings management. The most common of earnings management techniques involves simply using or taking advantage of the flexibility that exists in GAAP (include changing depreciation method, changing the useful lives and the estimates of salvage value for depreciation. determining the allowance for uncollectible accounts receivable, estimating the stage of completion of percentage-of-completion contract. different inventory valuation methods, etc.).According to Giroux (2004), earnings management techniques include: aggressive revenue recognition (recognizing revenues early in the operating cycle); capitalizing rather than expensing of operating cost; allocating cost of assets over a longer period (increasing the estimated useful lives of fixed assets).

INCOME SMOOTHING

In assessing the health of a company, lenders and investors alike almost always look at the quality of its earnings as a first step. However, it is nearly impossible for a company to consistently report stellar or significantly increasing periodic earnings over a long period of time. This is because a company's business activities can be affected by changes in economic cycles, seasonal changes, new legislation, and other extraordinary events. In order to "normalize" the continuous succession of ebbs and flows in financial results that is characteristic of any business or company, managers, more often than not, resort to earnings management in the form of "income smoothing".

Income smoothing is a practice under which, instead of reporting the actual good and bad earnings, an entity manipulates the earnings to report relatively stable or 'smooth' earnings by resorting to various mechanisms such as: accelerating revenues and/or delaying expenses; inappropriate accruals and estimates of liabilities; excessive provisions and generous reserve accounting;"cookie jar - income smoothing", because earnings are understated in good years and overstated in bad years; slush fund where earnings from one time frame are hidden just in case the profit from next time frame is not big enough for management to make their bonuses; material and intentional misrepresentation of results; may or may not follow rules of standard accounting practices but deviate from the spirit of rule.

The magnitude of the above constitutes the root causes of many accounting scandals over the years, especially in the developed economies. Some of these cases are very difficult to detect. In many cases, they can be very sophisticated and covert. At the heart of these are inappropriate uses of accounting practices in the form of aggressive accounting practice of inappropriately misreporting accounting income numbers or income statement amounts for the purpose of pleasing investors and inflating stock prices. In other cases, managers choose accounting policies so as to maximize their own utility and/or the market value of the firm.

In some cases, participants justify these questionable practices under the following:

- Share price effects whereby beating the analysts' estimates help to keep share price increasing;
- Borrowing cost effects where showing good results will lower costs of borrowing
- Bonus plan effects whereby management get higher bonuses for reported superior performance
- Political cost effects of keeping earnings within what is politically considered an acceptable range to make sure the firms (especially multinationals, monopolists, or oligopolies) do not attract undue citizens' wrath, strict regulatory oversight, or attention of tax scrutiny.
- Allowable accounting principle choices, estimates, and unquestioned professional judgments or extreme flexibility of accounting principles choices.

Even though there may be valid reasons for allowing accounting principle choices (entity size, economic environment, life-cycle of entity, industry peculiarities, etc.), the abuse defeats the purpose and creates problems for reliable and credible financial reporting.

One major objective of the Conceptual Framework (IASB) is to assist investors and creditors in making investing and lending decisions. The Conceptual Framework refers not only to the reliability (or truthfulness) of financial statements, but also to the relevance and predictive value of information presented in financial statements. Issues of earnings quality take into consideration those two characteristics of earnings i.e. earnings quality as a measure of the ability of reported earnings to reflect the firm's true earnings and to help predict future earnings.

RULE-BASED VERSUS PRINCIPLES-BASED ACCOUNTING

Accounting experts and professionals have been sharply divided for a long time now on the issue of fighting earnings management and manipulation of accounting income numbers. Most attribute the phenomenon to the rule-based foundation of accounting standard setting. They advocate for principles-based system instead. The current trend seems to be going in the direction of principles-based. This, by itself, is not a panacea. Misinterpretation of the principles and wrong judgements remain uncertainties to addressing the issues of earnings management and fraudulent financial reporting.

Principle-based accounting involves a situation wherein concise statement of substantive accounting principle are based on the accounting objective being incorporated as an integral part of the standard and where few, if any, exceptions or internal inconsistencies are included in the standard. On the other hand, rule-based accounting standards imply specific details in an attempt to address as many foreseeable and potential contingencies as possible in the standard setting process. Under the rule-based system, standards become much longer, wieldy, and more complex. It provides for arbitrary criteria for accounting treatments that allow companies to structure their transactions to circumvent unfavourable financial reporting or to project more positive outcomes than reality reflects. Another widely used means for effecting fraudulent financial reporting and transactions involve special purpose entities (SPEs). These are entities(corporate or otherwise) created to fulfill narrow, specific, or temporary objectives, primarily to isolate financial risk, usually bankruptcy, Sometimes, they are used specifically to evade a specific financial reporting, taxation, or regulatory risk. SPEs are often used in complex financial engineering schemes which have, as their main goal, the avoidance of tax or the manipulation of financial statements. Possibly, the most famous example of a company using SPEs to achieve the latter goal is Enron.

The question often arises as to whether earnings management is good or bad. This issue is often addressed from conflicting multiple perspectives – i.e. contracting, CEO, agency, abusive, and corporate governance. Under the contracting perspective, Scott, 2003, observed that under good earnings management point of view and under "efficient contracting", it is desirable to give managers some ability to manage earnings in the face of incomplete and rigid contracts (bonus, debt covenant, and political). Thus, we would expect some earnings management to persist for efficient contracting. In "a financial reporting context, earnings management can be a device to convey insider information to the market, enabling share price to better reflect the firm's future prospects. On the other hand, for bad earnings management from contracting perspective, this can result from opportunistic manager behavior. There is the tendency of managers to use earnings management to maximize their bonuses (Healy, 1985) and for covering up debt covenant violations (Dechow, 1996).

In a financial reporting context, earnings management can be used to increase reported net income in the short run to facilitate raising new share capital. From a CEO perspective, Mulford & Comiskey (2002) observed that good earnings management provides reasonable and proper practices that are part of operating a well-managed business and delivering value to shareholders. On the other hand, bad earnings management, that is, improper earnings management, is intervening to hide real operating performance by creating artificial accounting entries or stretching estimates beyond a point of reasonableness.

From the abusive earnings management perspective, Levitt, 1998, states that: "... abuses, such as earnings management, occur when people exploit flexibility in accounting. Trickery is employed to obscure actual financial volatility. This, in turn, masks the true consequences of management's decisions.

With regard to earnings management environment, we assume good corporate governance. The governance structure includes the board of directors, the functions of the committees, the interaction of the board with top management, internal controls, enterprise-wide risk management, and sound auditing. The external auditors must have the ability to discover significant discrepancies with GAAP (competence) and willingness to report the discrepancies to the audit committee or other relevant bodies (independence).Under the accounting regulation and standard setting, the Securities and Exchange Commission (SEC) is responsible for regulating the entire equity capital market structure in nearly all nations.

THE ENRON-ERA EPISODES

A number of celebrated international fraudulent financial reporting cases in the late 1990s and early 2000s has brought to the fore the issue of controlling them through proper, integrated internal control and enterprise-wide risk management frameworks. The need for properly regulating the financial reporting by publicly traded companies has also assumed heightened importance since the Sarbanes-Oxley Act of 2002 and the equally important Sarbanes-Oxley-like legislations of most developed economies. As a consequence, the COSO internal control – integrated framework of 1992 was significantly revised in 2013 to reflect current business environments or contexts and practices.

It is disturbing to note that the accounting profession and professionals do not seem to learn from even celebrated failed accounting and auditing practices. In this respect, the accounting firms and the educational institutions have failed the students of the accounting profession. It is imperative that our accounting educational systems produce and develop morally and ethically upright future practitioners. It is indeed disturbing that only a handful of accounting educators and students are conversant with these celebrated fraudulent financial reporting episodes and the related laws.

The next volume of this journal would focus on the issues of COSO Internal Control – Integrated Framework, Enterprise-Wide Risk Management Framework, and Sarbanes-Oxley equivalent laws within the context of sanitizing financial reporting (indeed reporting in general – under the 2013 version).

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