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Original Paper

Accounting Scandals and Eye-Catching Frauds: USA-Japan Comparison by Considering the Role of Auditing

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Abstract

It is necessary to provide confidence to financial markets, so that they can function and develop in a successful manner. Inaccurate financial statements subject to fraud which initiate accounting scandals make it difficult for financial statements users to make the right decision. In order to assure transparency, reliability, objectively and standardization, financial statements are audited by independent auditors. However, the accounting scandals experienced in the 21st century has shown that, independent auditing firms do not always fulfill their duties completely. For this reason, legislation was introduced in United States of America (USA), Europe and Asian countries, including Japan. Public oversight bodies were also established. But despite the introduced laws, regulations, arrangements and public oversight bodies, the risk of accounting scandals still continues. This is partly due to the fact that laws, regulations, arrangements and introduction of public oversight bodies are delayed and they are not completely meeting the expectations of changing market conditions. Effective pro-active policies and actions are not in order as well. This paper investigates accounting scandals and eye-cathing frauds by making a comparison between USA and Japan, while considering and discussing the role of auditing.

Keywords

accounting, auditing, scandal, fraud, USA, Japan

1. Introuction

History of accounting can be traced back to oldest texts in 3200-3100 Before Century (BC) (Kızıl & Kocur, 2017). It is a scientific discipline that collects information related to financial transactions which take place in the business and communicates this information to stakeholders. Accounting can also be desribed as an art and science which records, classifies, summarizes, reports and analyzes transactions as well as events expressed in financial/monetary terms (Kızıl, C. & Kızıl, F., 2007). The accountant actually acts as a bridge between the enterprise and interest groups (Şimşek, 2001). The responsibility of the accountant is very broad, as accounting information of the business is used by a wide range of people and accounting information directly affects the decisions of several parties. Therefore, it is very important and critical for accounting professionals to pay attention to Generally Accepted Accounting Principles (GAAPs), laws, regulations, arrangements and ethics in accounting (Kızıl, C., Fidan, Kızıl, F., & Keskin, 2013, 2016).

However, the accounting scandals experienced especially in recent years show that, the relevant legislation, regulations, arrangements, social values and accounting ethics are not taken very seriously and still some problems do exist (Kızıl, Akman, Aras, & Erzin, 2015). Accounting scandals prevent financial information contained in financial statements from being reliable, understandable and comparable. Thus, frauds realized on financial statements play an important role in accounting scandals. This is especially the case for frauds, which take place at enterprises, mainly due to ineffective implementation of corporate governance and internal controls (Crain, 2017; Kızıl, C., & Kızıl, F., 2017; Kızıl, Çelik, Akman, & Şener, 2016; Kızıl, Şeker, Akman, Işık, Demirkol, & Kefeli, 2015).

After the accounting scandals were experienced in 21st century, a great majority of stakeholders started to believe that, independent auditing firms were not fulfilling their duties completely. For this reason laws, regulations and arrangements was introduced in USA, Europe and Asian countries such as Japan. Public oversight bodies were established as well. However, despite the introduced laws, regulations, arrangements and established public oversight bodies, it is a big question whether accounting scandals will continue or not. The reason is that laws, regulations and arrangementswere delayed and they don't completely satisfy the needs and expectations of changing market conditions. Effective pro-active policies are still not implemented as well in macro level. On the other hand, although several techniques are developed to challenge account fraud by firms in the micro level, risks are not eliminated as a whole (KPMG, 2014).

This study investigates accounting scandals and eye-catching frauds by making a comparison between USA and Japan, while considering and discussing the role of auditing. For this purpose, literature review is presented in the next section of this paper. Then, history of accounting scandals and eye-cathing frauds in the world are mentioned. Next, comparion of USA and Japan following accounting scandals and eye-cathing frauds is made. Conclusion and discussions section finalizes the research. It has been determined by the study that, accounting scandals and fraud occurred intensely between 1990 and 2007. Thus, the events which took place through the mentioned period are also included in the study.

2. Literature Review

Among the research performed for the purpose of analyzing accounting scandals and eye-cathing frauds, Lennox (1999) studied the relationship between auditing firm size and auditor turnover among client firms using data from the U.K. between the period of 1987-1994. The study of Lennox was based on the prediction by DeAngelo (1981) that, depending on the size of auditor firm, the auditor's appraisal would increase the company's reputation. Lennox found a positive relationship between auditor size and proxies for litigation. In addition, he found that auditor-client relationships are very stable: changes in the number of clients audited by the Big Six are consistently in the low single digits (Lennox, 1999).

As an alternative to this arguement, Dye had conducted another research presenting significant findings. His study stated that, large-sized auditing firms had deeper pockets. So, they were more likely to be open and accessible for audit failures as well as frauds when compared to small-sized auditing firms (Dye, 1993).

Razaee's research dated 2002 and titled Causes, Consequences, and Deterence of Financial Statement Fraud stated that, financial statement fraud costs had exceeded 500 billion dollars during the past several years. This cost was covering market participants such as investors, creditors, pensioners and employees. According to Razaee, financial statement fraud was a serious threat to market participants' confidence in audited financial statements. This type of fraud had gotten the attention of business community, accounting profession, academicians and regulators just in the recent years following the experienced accounting scandals such as Enron, Worldcom and Ahold. Razaee's research also defined financial statement fraud and presented a profile of it by reviewing a selective sample of alleged financial statement fraud cases. It also demonstrated that, cooking the books was causing financial statement fraud and resulting in a crime. In addition to these, Razaee's study presented fraud prevention and detection strategies in reducing financial statement fraud incidents (Razaee, 2002).

Barton (2005) examined auditor switches at the time when market participants had learned about the scope of Arthur Andersen's audit failure at Enron. He analyzed the variation in the timing of departures and found that, earlier departures had mostly occured for reputational reasons. A problem with interpreting this work was that, the events at Enron and the associated demise of Arthur Andersen had occured over a short period of time and this had made it difficult to decide whether the auditor switches were attributable to reputation or they were simply forced by Arthur Andersen closing its doors (Barton, 2005).

Another study related to accounting scandals and frauds was performed by Konishi in 2010. It was titled Fraud by Certified Public Accountants in Japan and the United States. This study provided a detailed probe into three major financial scandals in Japan and the United States (U.S.): Enron, Kanebo, and Livedoor. The study also outlined similarities and differences in accounting frauds perpetrated in both countries, and considered how cultural variations plaed a major role in producing these outcomes (Konishi, 2010).

Skinner and Srinivasan (2012) analyzed events surrounding ChuoAoyama's failed audit of Kanebo. In May 2006, the Japanese Financial Services Agency (FSA) suspended ChuoAoyama for two months considering its role in the Kanebo fraud. This unprecedented action followed a series of events that seriously damaged ChuoAoyama's reputation. Authors used these events to provide evidence on the importance of auditors' reputation for quality in a setting, where litigation plays essentially no role. Around one quarter of ChuoAoyama's clients stopped doing business with the firm after its suspension, consistent with the importance of reputation (Skinner & Srinivasan, 2012).

Yardımcıoğlu and Ada studied accounting and financial reporting irregularities and scandals in a chronological order in 2013. They proposed that, executives or employees were intentionally and illegally causing the mentioned accounting frauds. Authors stated that, creative accounting practices were usually accepted as legal. But, they were generally relying on accounting irregularities, which were the reasons of accounting scandals. These scandals actually dated back to ancient and medieval ages. However, accounting scandals were now given more importance in the 21st century, particularly as a result of scandals in large-scaled companies such as Enron, Worldcom and Parmalat. In Yardımcıoğlu and Ada's study, important accounting and financial reporting scandals as well as their causes were identified and analyzed covering the period from ancient ages to the present day (Yardımcıoğlu & Ada, 2013).

Kızıl, Akman and Korkmaz's study stated that, although the history of auditing in world dated back to very old times, the history of modern auditing concept in Turkey was considered new. Despite the mentioned situation, auditing was gaining more and more importance in the recent both in the world and Turkey. Auditing provided numerous advantages to businesses, investors, state enterprises and other stakeholders. Also, having financial statements which reflect the actual situation of firm, canalizing investments logically, arming business stakeholders with correct information, eliminating accounting mistakes and fraud, owning a fair tax collection system and ensuring transparency were all possible with auditing operations. Thus, with reference to the significance of auditing, this study analyzed the private sector and state sector auditing practices as well as viewpoints simultaneously. The research reached to eye-catching findings by implementing the interview methdology on indepedent (external) auditors in the context of private sector and assistant tax inspectors in the context of state sector (Kızıl, Akman, & Korkmaz, 2015).

Kızıl, Çelik, Akman and Okkaya's study analyzed forensic accounting concept, necessity of forensic accounting, forces behind the emergence of forensic accounting, importance of forensic accounting in avoiding fraud and corruption as well as the forensic accounting profession. For this purpose, a literature review was conducted in international and national context as a part of the study. Aim of this research was to show that forensic accounting was a solution for several problems and to create awareness by attracting attention on forensic accounting education. In order to test the familiarity and awareness about forensic accounting, first part of research methodology implemented and distributed a questionnaire to 50 undergraduate and graduate students of Yalova University. Second part of research methdology benefited from the interview methdology and a face-to-face interview was run with a Certified Public Accountant (CPA) residing in the city of Denizli. Study results showed that, knowledge and awareness level on forensic accounting was low (Kızıl, Çelik, Akman, & Okkaya, 2016).

Aslan, Kızıl and Din's study first focused on the differences between accounting mistakes and fraud. Also, the effects of accounting scandals which occured in Turkey and the world were presented. Then, a research was run on Public Accountants (PAs) and Certified Public Accountants (CPAs) residing in Yalova city of Turkey by using the questionnaire methodology. 46 PAs and CPAs were inculuded to the study. Reasons behind accounting errors and frauds as well as the relationship of these errors and frauds with professional ethics were analyzed. Concerning the research results, most accounting professionals reported that they were definitely behaving parallel to ethics. Parallel to this statement, a great majority of accounting profssionals completely disagreed that they were behaving against techinal and professional standards. Besides, a high percentage of accounting professionals disagreed that penalties and fines for individuals participating in transactions against professional ethics were adequate. Similarly, a great ratio of accounting professionals disagreed that arrangements in the context of professional ethics were at a satisfactory level in Turkey. On the other hand, most accounting professionals agreed that tax practices and ratios were effective on accounting errors and frauds. Finally, most accounting professionals agreed that insufficient auditing practices had an impact on accounting errors and frauds (Aslan Kızıl & Din, 2017).

Adalı and Kızıl's research examined the ethical dimensions of accounting professionals related to accounting errors and fraud. Firstly, general and technical information about accounting were provided. Then, some terminology on error, fraud and ethics in accounting were discussed. Study also included recent statistics about accounting errors and fraud as well as presenting a literature review. As the methodology of research, a questionnaire was distributed to 36 accounting professionals residing in Edirne city of Turkey. The collected data were then entered to the SPSS package program for analysis. The study revealed very important results. Accounting professionals were thinking that, accounting chambers do not organize enough seminars/conferences on errors and fraud. They also believed that supervision and disciplinary boards of professional accounting chambers fulfill their responsibilities partially. Attitude of professional accounting chambers in terms of errors, fraud and ethics was considered neither strict nor lenient. But, most accounting professionals were aware of colleagues who had disciplinary penalties. Most important and effective tool to prevent errors and fraud was indicated as external audit, but internal audit and internal control were valued as well. According to accounting professionals, most errors occured due to incorrect data received from clients and as a result of recording. Fraud was generally made in order to get credit from banks and for providing benefits to the organization by not showing the real situation of the firm. Finally, accounting professionals stated that being honest, trustworthy and impartial was the basis of accounting profession and accountants had to adhere to ethical rules (Adalı & Kızıl, 2017).

3. History of Accounting Scandals and Eye-Catching Frauds in the World

History of accounting scandals and eye-catching frauds in the world are discussed in this section. Actually, there are much more accounting scandals and eye-catching frauds when accounting history is examined. However, only the most important ones are mentioned in this part. Besides the accounting scandals and well known frauds discussed in this section, other memorable ones can be listed as Waste Management (USA, 1998), Cendant (USA, 1998), Healthsouth (USA, 2003), Freddie Mac (USA, 2003), AIG (USA, 2005), Nikko Cordial (Japan, 2006), Siemens (Germany, 2006), Lehman Brothers (USA, 2008), Bernie Madoff (USA, 2008), Saytam (India, 2009), Hewlett Packard (USA, 2011), Fuji Xerox (Japan, 2017), Çiftlik Bank (Turkey, 2018), Wells Fargo (USA, 2018) and Samsung BioLogics (South Korea, 2018).

3.1 Enron

Enron scandal is remembered by many individuals and several stakeholders among all accounting scandals, which occured in the world during past years. A bankruptcy scandal that had never been experienced in the world until that day was experienced as a result of the Enron scandal. Enron was founded in 1985 with the merger of several companies. It soon became USA's largest energy and gas distributor. Enron company went bankrupt in a short period of two years after its rapid rise. The most important factor on the way of the company's sinking had been to hide the risks and losses of company through other companies and put them off balance sheet. In fact, stocks were speculated, which were making them to appear profitable with accounting tricks. Thus, Enron was shown as a profitable company and its stocks were rising speculatively (Pavel & Encontro, 2003).

However, this rise ended with the company declaring its loss in October 2001. The process, which began with a clarification of historical accounting records, resulted in the bankruptcy of Enron in December 2001. At the beginning of 2001, Enron stocks which were trading for $80 went down to $0.20 at the end of February 2002. Because of this decline, shareholders who had invested their money in Enron stocks and employees of the firm suffered a great loss. This proves how much devastating the effects of any accounting fraud can be (Süer, 2006).

One of the most important factors which caused Enron to go bankruptcy was the irregularities and weaknesses on Arthur Andersen side, which was Enron's independent auditing firm at that time. Arthur Andersen, that was responsible for protecting and supervising the interests of investors as a requirement and principle had acted the opposite and closed its eyes on Enron's accounting tricks. The investors were misled by showing as if the company was making profits although it was losing millions of dollars. The most significant reason for this accounting scandal and fraud was that, Arthur Andersen was generating huge sums of revenues from Enron as its independent audit firm. At that time, Arthur Andersen was earning $27 million from consulting activities while earning $25 million from independent auditing. It was also determined later that, some Arthur Andersen auditing firm staff had been associated with Enron (Bayraktar, 2007).

3.2 Worldcom

Worldcom company was founded in 1983 by Bernand Ebhers. It grew up rapidly and in 1990, Worldcom reached 180 billion dollars in market value. In 1999, when the company was at its peak, the stock price was over $64. However, after the scandals in 2002, the shares of Worldcom declined to 9 cents and the company declared bankruptcy (Yardımcıoğlu & Ada, 2013).

It should be noted that, Worldcom had posted a profit of $3.8 billion for five quarters including the period between January 2001 and March 2002. The company had accounted this sum as a capital charge through using a number of accounting tricks. Worldcom announced that the profit figures for the last 15 months would be recalculated and disclosed. Following this, Worldcom announced that the statement made before regarding that company was making a profit of $1.4 billion in 2001 was not true. Also, a total of $3.8 billion of company expenses in year 2001 and in the first quarter of 2002 were inadvertently shown as investment of the firm in its financial statements (Ashraf, 2011).

Arthur Andersen was the independent auditing firm of Worldcom at that time. Actually, Arthur Andersen had realized that there was maximum risk on Worldcom. They had even noted on their audit working papers that, Worldcom was misapplying GAAP (Generally Accepted Accounting Principles) regarding certain investments of the company. Independent auditors of Arthur Anderson also mentioned that, the management of Worldcom had taken aggressive accounting positions in the past. On the other hand, Worldcom had reported that, income statement and balance sheets were presented in accordance with Generally Accepted Accounting Principles (GAAPs). Also, it was stated that Worlcom's financial statements were reflecting the true and actual state of company. In short, although Arthur Andersen had realized and recorded the accounting fraud of Worldcom, they were never announced and shared with the public (Ashraf, 2011).

3.3 Tyco International

Tyco International was a security systems firm incorporated in the Republic of Ireland. Their operational headquarters were in Princeton, New Jersey, USA. Tyco International was formed of mainly two business segments. These were Security Solutions and Fire Protection (Forbes, 2016).

In 2002, owners of Tyco International were detected to have siphoned hundreds of millions of dollars out of the maker of electrical, healthcare and safety equipment. Most of that money was used to fund the luxury lifestyle of Tyco's Chief Executive Officer (CEO), Dennis Kozlowzki. This included several houses, a $6,000 shower curtain and a $2m birthday party for Kozlowzki's wife. After the Tyco International accounting scandal and fraud, Kozlowzki and other firm managers were sent to prison for a period of 25 years (The Guardian, 2015).

3.4 Tesco

Tesco is known as a British multinational groceries and general merchandise retailer, which has headquarters in Hertfordshire, England, United Kingdom (Tesco, 2018). It is the third-largest retailer in the world based on gross revenues (Reuters, 2011). Tesco has shops in seven countries across Asia and Europe in addition to being market leader of groceries in the United Kingdom (UK). Tesco was founded in 1919 by Jack Cohen in the form of market stalls (BBC, 2013). Tesco's stocks are traded on the London Stock Exchange and it had a market capitalization about £18.1 billion as of 22 April 2015 (The Telegraph, 2015).

The firm was subject to dishonest accounting practices, which resulted in resignations. Tesco scandal and fraud were centered on £250 million accounting black hole in 2014. Here, the pull-forward accounting practices were used, meaning the early registration and recording of incomes. That was also an illegitimate interpretation of accounting practice (Business Insider UK, 2017).

3.5 Parmalat

Parmalat Company was established in 1961 by Calisto Tanzi as a milk pasteurization center in Parma. In a short time, it grew and became the 8th largest company in Italy. At the end of 2003, a deficit with the sum of $8 billion came to the foreground due to irregularities in accounting records. This would became one of the greatest accounting scandals and frauds of Italy as well as the world, considering accounting history (Yardımcıoğlu & Ada, 2013).

There were actually three main reasons for the appearance and occurance of Parmalat scandal. First, the company was lacking corporate governance and it was being managed as a family business. Second, there were problems in terms of independent auditing of Parmalat. Third, there existed weaknesses and missing points in terms of internal controls (Melis, 2005).

Also, it was noted that one of the leading reasons for Parmalat bankruptcy was the exhaustion of financial resources between the years 1990 and 2003. Financial resources of the company had been transferred to offshore accounts and special purpose institutions in foreign countries through banks within this period (Ogutu, 2016).

3.6 Ahold

Ahold is a supermarkets chain established by Albert Heijn in 1887 in the city of Oostzaaam in the Netherlands. Ahold had established supermarket chains in several regions and countries including Asia, Western Europe, Latin America, Portugal and the USA since 2000, with the administration being given to professionals. This rapid expansion had caused the appearance of unexpected major problems in Ahold. These problems were related to cultural differences, difficulties in obligations to adapt to different laws and regulations of separate countries. When Ahold had announced Initial Public Offering (IPO) in 1973, they signed a contract with Deloitte as their independent auditing firm (Knapp, M. C. & Knapp, C. A., 2007).

The scandal began in 2002 when Deloitte, the independent auditing firm of Ahold conducted audits and revealed irregularities in accounting records. As the result of these inspections, it was revealed that the company's profits were shown €500 million higher than the actual sum for 2001 and 2002. Ahold's stocks lost 63% value when the irregularities and accounting frauds were announced (Bosch, 2008).

3.7 Kanebo

The Kanebo company was founded in Japan in 1887. The company, operating in cosmetics field, grew rapidly and became one of the biggest cosmetics companies in the world. However, Kanebo was subject to an accounting scandal and fraud in 2006 (Skinner & Srinivasan, 2012).

Thus, Japan was also affected by accounting scandals and fraud when the Kanebo incident broke out in 2006. It should be noted that, Japanese Financial Service Agency (FSA) had suspected the activities of ChuoAoyama independent auditing firm, which was one of the four major auditing firms in Japan and also a partner of Price Waterhouse Coopers (PWC). ChuoAoyama was serving as the independent auditing firm of Kanebo at that time. As a result of the inspections of FSA, it was found that Kanebo had shown its earnings $1.37 billion higher than the actual sum over the last five years. Despite the fact that Kanebo had an $80 billion debt, it declared its assets as $7.9 billion in 2002. As the independent auditing firm of Kanebo, ChuoAoyama had remained silent as executives of Kanebo declared inflated earnings (Yardımcıoğlu & Ada, 2013).

3.8 Toshiba

Toshiba is a Japanese multinational firm, headquartered in Tokyo, Japan. It was established in 1939. The firm provides diverse products and services such as information technology and communications equipment and systems, electronic components and materials, power systems, industrial and social infrastructure systems, consumer electronics, household appliances, medical equipment, office equipment, as well as lighting and logistics. Toshiba is also organized under the categories of Digital Products Group, Electronic Devices Group, Home Appliances Group and Social Infrastructure Group. Toshiba's stocks are traded on Tokyo Stock Exchange (Toshiba, 2018).

It was revealed in 2015 that, Toshiba had overstated its profits by nearly $2 billion over the past 7 years. Inappropraite accounting and inflated profits were the center of Toshiba accounting scandal and fraud. As a result, Toshiba had faced suing by a group of investors (Fortune, 2016).

3.9 Olympus

Olympus is a Japanese manufacturer of optics and reprography products. It was established on 12 October 1919. Olypmus first concentrated and specialized in microscopes and thermometers. Currently, Olympus holds approximately a 70% share of the global endoscope market. This is predicted to be worth about $2.5 billion. Global headquarters of Olympus are located in Tokyo, Japan (Olympus, 2018).

Accounting scandal and fraud of Olympus is related with falsifying accounts to conceal losses of $1.7 billion. That is still one of the biggest financial events in Japanese history. As a result of the court, ex-chairman of Olympus, Kikukawa and five other managers were liable for $529 million. However, Kikuwawa and the other executives were never sent to jail. They were given suspended sentences of up to three years. The ruling of court is still a source of big discussions and debate (BBC, 2017).

4. Comparison of USA and Japan Following Accounting Scandals and Eye-Catching Frauds

Through accounting history, especially in the recent years, it has been seen that independent auditing companies are not enough for preventing accounting scandals and fraud. There is a need for an independent administrative authority with public power behind to supervise and control independent auditing firms in order to ensure that the lost trust environment is restored in the world. Actually, that is why Sarbanes Oxley Law in USA and J-Sox Law in Japan had entered into force. It should be noted that, similar laws are also in order around the world. For example, Europan Union (EU) adopted an Eighth Directive on securities disclosure, which tracked much of the contents of SOX In a great extent (Srinivasan & Coates IV., 2018). With the enactment of these laws, the establishment of public oversight bodies to oversee independent auditing firms had begun. Also, with the establishment of these institutions, independent auditing firms were tried to be controlled and it was aimed to protect the interests of investors in a timely manner by detecting the irregularities before they reach serious dimensions (Enomoto & Yamaguchi, 2016).

4.1 USA

With the introduction of the Sarbanes Oxley Act in 2002 to prevent accounting scandals and fraud, changes were made in the regulations of Securities and Exchange Commission (SEC). Revisions were made concerning the rules of securities exchanges, audit firms and accounting standards in USA. By the help of all these developments and innovations, it was hoped that accounting scandals and frauds would be eliminated. However, it seems that the scandals continue to occur (National Association of State Boards of Accountancy—NASBA, 2011).

It also looks like that the developments, laws, regulations and arrangements which followed the Sarbanes Oxley Act worked only to a degree. In order to reduce the likelihood of scandals emerging in the future, it is likely that new laws, regulations and arrangements should be effective. It is believed that, due diligence on audit and adequate regulatory funding in this regard would reduce the occurrence of accounting scandals and fraud (Giroux, 1998).

The Sarbanes Oxley Act brought about radical measures in the auditing sector, which are open for fierce discussions and debate, along with a number of costs. These costs can be examined under various headings such as the abandonment and decline of listed firms, the cautiousness of senior executives to take risks, and thus the inability to reach effective business management, as well as the increase of the workload of accounting-finance staff (The Economist, 2017).

4.2 Japan

Over the last ten years, changes in Japanese auditing system reflect broader changes in Japan's overall financial system and corporate governance. Following several decades of prosperity, the Japanese economy became mired in a sustained economic slump during the 1990s, which is known as the lost decade. Many commentators blamed this slump on Japan's financial system, which in many ways was unique and certainly different to those in the world's largest western economies. Also, it is now believed that corporate governance in Japan is driven by pressure from capital markets as well (Okabe, 2004).

Based on J-SOX, the Japanese version of the Sarbanes Oxley Act, publicly traded companies registered in the capital market of Japan were faced with new responsibilities. The imposition of Internal Control over Financial Reporting (ICFR) and the independent auditing of financial statements was introduced seriously since April 2008. This requirement was not only valid for the publicly traded companies which account for 4,000. It was also valid for the subsidiaries of publicly traded companies which had spread all over the world. Therefore, companies subject to J-SOX began to to create and establish internal control systems with a risk-based approach to ICFR (Skinner & Srinivasan, 2012).

A number of reforms were instituted between 2001 and 2003, which intended to transform the Japanese auditing profession from its traditional role as part of a relationships-based financial system to a model similar to that employed in western countries. While much was done to change the laws, regulations, arrangements and procedures which governed the auditing profession, it was unclear how quickly actual auditing practice changed, especially given the long standing relationships between auditors and their clients as well as the radical nature of changes (Skinner & Srinivasan, 2012).

5. Conclusion and Discussions

The confidence of shareholders and the investors were hurt after the accounting scandals and fraud, which started especially at the beginning of the 21st century. It was felt that, there was a need to supervise independent auditing institutions and to have an independent administrative authority with public power in order to ensure re-emergence of the lost trust environment and to avoid irregularities. Accounting scandals and frauds through accounting history showed that, it was not enough for companies to have independent auditors. For this reason, Sarbanes Oxley in USA, Directive No. 8 in Europe and J-Sox in Japan entered into force (Srinivasan & Coates IV., 2018).

With the enactment of mentioned laws, the establishment of public oversight bodies to oversee independent audit firms began. By the help of objective and unbiased institutions, independent auditing institutions were tried to be controlled and it was aimed to protect the interests of investors in a timely manner by detecting accounting fraud as well as irregularities before they reach serious dimensions. But despite these laws and established public oversight bodies, accounting scandals continued. For example, other scandals may be exemplified such as Waste Management (USA, 1998), Cendant (USA, 1998), Healthsouth (USA, 2003), Freddie Mac (USA, 2003), AIG (USA, 2005), Nikko Cordial (Japan, 2006), Siemens (Germany, 2006), Lehman Brothers (USA, 2008), Bernie Madoff (USA, 2008), Saytam (India, 2009), Hewlett Packard (USA, 2011), Fuji Xerox (Japan, 2017), Çiftlik Bank (Turkey, 2018), Wells Fargo (USA, 2018) and Samsung BioLogics (South Korea, 2018).

As a result, the existing laws, regulations and arrangements did not suffice to avoid accounting scandals and fraud. In order to prevent accounting scandals and fraud, effective legislative must be passed on in the most effective way by public authorities. In addition, the independent auditors of companies must be brought to the intended level by receiving adequate training/education in all levels.

It is also very important that, independent auditors reflect moral values and accounting ethics while they perform their duties (Kızıl & Doğan, 2017). Because of this reason, accounting education should be given more emphasis in the university to train students, which would reduce the likehood of future economic crises and accounting scandals (Kızıl, Çelik, Akman, & Danışman, 2015; Kızıl & Gencer, 2016; Kızıl & Çingöz, 2016). Also in this context, mandatory rotation and independence provisions covering independent auditing firms in USA, Japan and Europe need to be re-audited and implemented effectively. Because, mandatory firm rotation has the capacity to remove some negative consequences. It is for sure that, the absence of mandatory firm rotation affects the economy and market negatively. The market share of Big 4 in USA and Europe is parallel to this argument. In this framework, it is necessary to implement policies in favor of investors and shareholders in the long run, despite the current market structure, lobbying and the pressure of large-scaled firms and auditing companies.

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