



Critical thinking about creative accounting in the face of a recent scandal in the Turkish banking sector[☆]

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Received 13 February 2007; received in revised form 15 June 2007; accepted 15 December 2007

Abstract

In the last two decades, serious accounting scandals occurred in large companies (e.g. WorldCom and Enron) and in the banking sector (e.g. BCCI, Barings, Allied Irish Bank and Baninter). Then the problem of creative accounting with its legal and illegal aspects has come into agendas of business firms and governments. In this paper, a certain type of creative accounting practices (i.e. fraud) has been examined in the light of a Turkish case (i.e. the Imarbank Scandal). It has been found that deficiencies in the legal frameworks for banking and accounting, inadequacies in the autonomy of governmental regulation and supervision bodies, practical difficulties in enforcing legal and ethical rules due to the slow functioning of the judicial system are significant reasons for creative accounting practices in addition to the personal greed of both owners&top management of Imarbank and its customers.

[☆] The initial Turkish version of this paper named as “The Ethical Dimension of Creative Accounting Practices” was presented by Mine Omurgonulsen at the Ist International Business and Professional Ethics Congress of Turkey, September 17–19, 2003 in Ankara, organised by Hacettepe University Research Centre for Business and Professional Ethics.

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However, the intention and capability of political power in combating such kind of corruption are also crucial.

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Keywords: Creative accounting; Fraud; Manipulation of accounting records; Agency theory; Independent supervision and auditing; Scandals in the Turkish banking sector; Uzan Group; Imarbank of Turkey; Savings Deposit Insurance Fund of Turkey; Banking Regulation and Supervision Agency of Turkey

1. Introduction

The subject of “creative accounting” has received importance due to the recent serious accounting scandals that occurred in large companies (e.g. WorldCom and Enron) and in the banking sector (BCCI, Barings, Allied Irish Bank, Baninter and Imarbank) of developed and developing countries. Since those scandals have deeply influenced both the national economies and the world economy, the concept of creative accounting and the ways of tackling this problem have come into agendas of business firms and governments. The interesting point with respect to creative accounting is that the creative accounting practices have both legal and illegal aspects due to the flexibility of accounting policy, as well as fraud, manipulation or deceit. In addition to the legal measures, the effective implementation of generally accepted accounting principles, the autonomy of auditing private firms and supervising governmental bodies, ethical rules and transparency are regarded as important professional–administrative cures for creative accounting practices.

In this paper, it is aimed to examine a certain type of creative accounting practices (i.e. fraud) deeply in the light of a recent banking scandal in Turkey (i.e. the Imarbank Scandal). Within this framework, the concept of creative accounting and its various forms, the reasons and cures for creative accounting practices will be overviewed. Then the process of creative accounting that occurred in the Imarbank case will be presented. It will also be questioned how effective legal and professional–administrative measures are in curing creative accounting practices and how important the intention and capability of political power are in combating such kind of corruption.

Creative accounting practices, which are highly influential in the largest corporate collapses in the U.S. economic history, i.e. Enron and WorldCom Scandals, can be analysed within the framework of “principal–agent relationship”. The “agency theory”, or in other words, information asymmetry between principals (owners or shareholders) and agents (managers and auditors), opportunistic behaviour of agents and the inability of the principals to control the desired action of the agent provides a theoretical framework to establish an understanding of how such companies collapsed (Arnold and Lange, 2004). Although Imarbank was not a publicly held company and it was not audited by independent private auditing firms, the relationship between the owners&top management of the Bank (so-called agents) and the depositors (so-called principals) may partly be considered within a similar principal–agent relationship. The owners&top management of the Bank manipulated information deliberately through creative accounting practices to present wrong image to the depositors and the banking sector authorities. This policy made it difficult for anyone outside the top-circle of the Bank to understand Imarbank’s financial condition truly. There-

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