Chapter 2
Corporate Collapse: Regulatory, Accounting and Ethical Failure

Frank Clarke and Graeme Dean

Abstract Outlined below are some underlying ideas pursued in our *Corporate Collapse: Accounting, regulatory and ethical failure*, which first appeared in 1997, revised in 2003, followed by a Chinese translation in 2006. Primarily case-based, it examined material over many decades in several countries, but mainly concentrated on Australian *causes célèbres*. Also detailed is our later book *Indecent Disclosure: Gilding the corporate lily*, published in 2007—it is theme based, reviewing similar material, but post-2000. Very little had changed during the 10 years interregnum, despite regulators' and governments' promises of rigorous corporate reforms. Both books were set against a background of repeated official inquiries into discrepancies between what corporations had disclosed about their trading affairs and their actual financial outcomes. The matters in focus have been concerns over many decades. They continue to be, as regulatory reforms have been piecemeal and ill-directed. The recent global financial crisis (GFC) revealed behavior suggesting that it is more likely the 'truth' that under the present regulatory regimes many corporations habitually 'gild the lily'.

This Chapter includes some material first published under the title "Corporate Collapse: Regulatory, Accounting and Ethical Failure" (Cambridge University Press) in 1997 and 2003, which is augmented by the author's comments by way of a post-script on further developments on the *Corporate Collapse*. The chapter is based on the original paper presented at the First International Workshop on Accounting and Regulation in 1998.

F. Clarke · G. Dean (✉)
The Business School, The University of Sydney, Room 314, Building H69, Sydney, NSW 2006, Australia
e-mail: graeme.dean@sydney.edu.au

F. Clarke
e-mail: frank.clarke@sydney.edu.au

R. Di Pietra et al. (eds.), *Accounting and Regulation*,
DOI: 10.1007/978-1-4614-8097-6_2,

2.1 Backdrop: Consider Some of Those Inquiries and Regulatory Responses

As the dust settled in the US in the mid-2000s Enron emerged as a watershed in corporate affairs. The *Crooked E* was the catalyst for the Bush administration's sudden interest in corporate America not living up to its financial reporting responsibilities, particularly its dismal performance in meeting even its quarterly earnings disclosures. Against a backdrop of other US failures at Sunbeam, Cendant, Waste Management, Tyco, Adelphia, Qwest, and (say) Vivendi, plus the frequency of early 2000s restatements downward from quarterly earnings predictions (Clarke and Dean 2007), Enron was possibly the straw that broke the *corporate* camel's back. Enron was too big and too well connected with Capitol Hill to ignore. And all the more so when WorldCom collapsed soon afterwards. However, as a commentator noted, this period and events had all been seen before –'with their Gilded Age predecessors, combining financial legerdemain and political influence peddling'.[1]

As in the 1930s, the regulatory response was swift. Somewhat attempting to mimick Roosevelt's 1930s New Deal 'truth in securities' mantra, 'corporate governance reform' dominated the first decade of the twenty-first century. New *rules of corporate engagement* in the US were promulgated through the 2002 *Sarbanes- Oxley Act* (SOX). Supposedly the 'problem was fixed'!

Australia in the early 2000s also had its equivalent Enron-like dramas. They were in the form of the collapses and subsequent revelations of financial distress at (for example) insurer HIH and the telecommunications company One.Tel (*Corporate Collapse*, 2003, Chaps. 15 and 16). Australian regulatory response was likewise swift, though, as in the US, underpinned by questionable wisdom. For arguably, with the subsequent failures in Australia of Westpoint, Opes Prime, ABC Learning, Centro, Allco, Babcock and Brown and the like, matters worsened. Once again corporate governance matters have been up front in the regulatory rhetoric—this time the plea primarily has been to ensure auditor independence and to rein in unreasonable executive remuneration. By mid-2001 the federal government had postured with its commissioning of an inquiry which produced the Ramsay (2001) Report, *Independence of Australian Company Auditors: Review of current Australian requirements and proposals for reform*. There, auditor independence was the main focus. It was submitted for ministerial approval in October of that year. Concerns about executive remuneration practices would await inquiry until the end of the decade when Australia's Productivity Commission released its final report into *Executive Remuneration in Australia* (2010).

The follow-up legislative initiatives took longer than in the US. There was greater resistance to endorsing government-imposed black-letter law prescriptions. In Australia the proposed independence and other audit-related reforms promoted

[1] S. Jacoby, review of Skeel (2004), in *Business History Review* (2005, No. 3).

by the Ramsay Report were eventually included in deliberations by the federal government as part of its ongoing corporate and economic law reform program (CLERP). After a lengthy submission and review process legislative reforms would eventually be proposed in the September 2002 *CLERP* 9 Discussion paper, *Corporate Disclosure—Strengthening the Financial Reporting Framework*. The enactment of the *Corporate Law Economic Reform Program (Audit Reform and Corporate Disclosure) Act* on 30 June 2004 included a number of reforms to the *Corporations Act 2001* (Cth).

Drawing on such developments, the contestable claim being made by some at that time was that corporate governance was no longer a *fad*, that the altered system now had teeth. But attempts to water-down the regulations were just over the horizon.

Concurrently with the Enron fallout, European courts and regulators were busy untangling the Parmalat failure in Italy. There, the somewhat different corporate ownership structure of 'closely held' shareholding patterns (in contrast with the diffused US, capital-ownership pattern), revealed that misleading disclosure was a critical factor in befuddling regulators, financiers and the investing public at large. Members of the well-placed Tanzi family were claimed to be the corporate malefactors. Their alleged deeds rivalled those in Italy a quarter of a century earlier by 'God's bankers', Michele Sindona and Roberto Calvi in the Banco Ambrosiano affair,[2] and in the US three-quarters of a century earlier of the likes of the household names, Carlo Ponzi, Ivar Kreuger and Samuel Insull. Particularly significant is that neither the different legal framework underpinning (say) Parmalat's incorporation nor different board structures, prevented a stark similarity between the alleged deceptive acts by Parmalat and those by its contemporary US corporates. Nor did the rules relating to auditor appointments of the kind subsequently injected into the Sarbanes–Oxley regime.

Meanwhile in Australia ASIC was riding high, having achieved minor convictions of HIH's Ray Williams and Rodney Adler though on charges not directly related to the causes of HIH's collapse in 2001. So it was not surprising that

[2] See AAP item, '64 face charges as Parmalat case starts', *Australian Financial Review*, 7 June 2006, p. 66. Coincidentally, the circumstances of Calvi's supposed suicide (he was found dead hanging from scaffolding under London's Blackfriars Bridge, with rocks attached to his legs, and with his pockets stuffed with thousands of pounds in cash) were re-examined in a trial of five persons charged with having murdered him—see *BBC News* as reported BBC News, 18 May 2004; on the web at:<http://news.bbc.co.uk/go/pr/fr//1/hi/world/europe/3732485.stm>(downloaded 25 August 2006); and 'Calvi murder trial opens in Rome', *BBC News* as reported BBC News, 06 October, 2005; on the web at:<http://news.bbc.co.uk/2/hi/europe/4313960.stm >(downloaded 20 September 2006). An original inquest of Calvi's death had returned a suicide verdict. See also Raw (1992). For an update on the trial outcome see Wikipedia which reports that 'On 7 May 2010, the Court of Appeal confirmed the acquittal of Calò, Carboni and Diotallevi. The public prosecutor Luca Tescaroli commented after the verdict that for the family "Calvi has been murdered for the second time." On November 18, 2011, the court of last resort, the Court of Cassation confirmed the acquittal.' (http://en.wikipedia.org/wiki/Roberto_Calvi accessed 12/11/2012).

Australia's corporate regulator ASIC pursued recovery of $90 million from One.Tel's Jodee Rich and Mark Silbermann for overseeing trading by an alleged insolvent One.Tel—ASIC was only partially successful. In 2009 Rich was found not guilty by Justice Robert Austin (see *Australian Securities and Investment Commission v Rich* (2009) NSWSC 1229). Earlier, other One.Tel directors and executive members had been convicted on various charges. Of particular interest in the One. Tel deliberations were the insights into the workings of non-executive directors in the revelations by Lachlan Murdoch and James Packer that they are able to recall very little about their involvements with One.Tel, other than that they were 'profoundly misled' by the disclosures to them of the company's financial performance and position. A *performance* and *position* so poor as to cost their companies in the order of $900 million! Amongst other things, their performances raised a cloud over the corporate governance movement's claim of the invaluable monitoring role of independent, non-executive directors.

Throughout 2006 other matters involving corporate groups and difficult to unravel transactions were being examined. Evidence was taken at the federal government's Cole Commission of Enquiry into alleged bribes associated with the Australian Wheat Board Ltd's contracts for the sale of wheat to Iraq under the United Nations' 'Oil-for-food' program. Under scrutiny were allegations that monies were reported as 'trucking fees' under the AWB program so as to not disclose alleged kick-backs to Saddam Hussein's Iraqi government in contravention of UN rules. At issue was who knew what, and when it was known. Disclosure was again the issue. On the final days of the Cole Enquiry directors and other witnesses revealed contrary disclosures to those previously in the public domain for years.[3]

On the other side of the country at that time, the Western Australian Supreme Court was considering two major corporate group imbroglios. Those deliberations would continue for years. In the first, ASIC claimed that the directors of the Westpoint property group had misled investors about the use of funds raised by its 'mezzanine' finance companies through an apparent use of a loophole in the corporate reporting regime. Westpoint allegedly used investment schemes to seek funds from investors via $2 companies rather than licensed responsible entities. In this context, questions emerged in respect of the corporate regulator's supposed inaction, evoking questions such as 'Did ASIC fail over Westpoint?'. Legitimate grounds were raised here for asking whether the national regulator's role should be that of an (essentially) *ex post* corporate policeman, apprehending and prosecuting, or of a more proactive agent bringing pressure to create an orderly commercial

[3] Lee (2006) and 'AWB's $US8 m to be sanitised, deductible', *Australian Financial Review*, 28 September 2006, p. 5. The Cole Report was released in late November 2006, recommending that actions be taken *inter alia* in respect of tax offences, money laundering, terrorist financing, and breaches of the Corporations Law. The allegations of the trucking fees being bribes were not supported. These previously undisclosed matters epitomise the difficulties that persist in Australia's so-called *continuous*, but what still amounts to *indecent* disclosure system. Corporate governance issues were clearly to the fore in the AWB affair.

environment. Westpoint's particulars recalled Australia's notorious 1990s Estate Mortgage Trusts real estate property saga, with its convoluted shuffling of funds between trusts investing in several property projects that already had obtained supposedly secured finance. Such similarities would emerge in late 2010 with matters revealed relating to the collapse in 2009 of Trio Capital (see *Parliamentary Joint Committee on Corporations and Financial Services inquiry into the collapse of Trio Capital*, www.gov.au). Commonalities include complex corporate structures and equally complex financing arrangements, factors that eventually cost unaware investors dearly, many of whom were pensioners.[4]

A second 2006 case before the WA Supreme Court, *The Bell Group Limited (In Liquidation) and Ors v Westpac Banking Corporation and Ors*[5] had begun over decade earlier with interlocutory hearings. The Bell Group liquidator, with the financial backing from the WA Insurance Commission, had sought legal action to the tune of up to $1.5 billion (including interest on the amount being sought over more than 15 years). This action concerned the allegation 'that when the [twenty major—Australian and overseas] banks took security for [the $250 million] loans in 1990 they knew the companies were close to insolvency'.[6] The main case finished in October 2006. By then, it was the longest running court case in Australia's history with over 400 days of evidence in 3 years, estimated legal costs of $300 million, 63,000 items of evidence and more than 36,000 pages of transcript, not to mention the many trees that had been felled in response to the legal discovery process. Eventually Justice Neville Owen held in favour of the litigants in 2009. It would not be long before the banks appealed the decision—as this monograph goes to press, a three-judge panel of the Court of Appeal of Western Australia by a 2-1 decision upheld the $AUD1.56 billion awarded by Supreme Court of Western Australia Justice Owen in 2009 and added additional interest, damages and costs of litigation to the judgment.

Briefly, the *Bell* action involved financing arrangements entered into as the Bell Group (comprising around 80 companies) sought loan refinancing from six major Australian and overseas banks, in response to what some have described as a financial meltdown in 1989 and 1990. The liquidator argued that the banks agreed to extend (restructure) loans to the Bell group of companies, provided they obtained senior security over other unsecured creditors. It needs to be understood that, previously, nearly all debt had been arranged primarily on a negative pledge basis.[7] At issue is how to assess solvency or insolvency from internal and reported financial information within a group setting.

---

[4] Unexpected collapses of entities in 2012 in Australia's property trust non-banking sector reveal that little has changed. This, notwithstanding ASIC's 2007 disclosure guidance for that sector following the Westpoint particulars.

[5] *The Bell Group Limited (In Liquidation) and Ors v Westpac Banking Corporation and Ors.* Supreme Court of Western Australia Action No. CIV 1464 of 2000.

[6] Jacobs 2006.

[7] See Dean et al. (1995).

2.2 A Primary Theme

The general theme coursing through our 1990s analyses, such as those in *Corporate Collapse …* (1997) is that *creative*, misleading, accounting is more the consequence of compliance with the Accounting Standards of the day than deviations from them. The significant point is that auditors face an uphill task when the financial statements are inherently misleading. Little did we anticipate that a decade later accounting would play a vital role when mark-to-market accounting became a critical issue in respect of banks' disclosures during the GFC.

Corporate failures provide unique insight into how accounting misleads. In this respect we draw an analogy with how autopsies inform. For, more can be learned about the way things work from enquiry into anomalies—in this case why companies have stopped operating efficiently, than from the myriad *Do it Yourself* explanations of how they succeed. It would seem that so many of the companies that collapsed reported healthy states almost up to immediately before they collapsed. Post failure investigations revealed what had actually been their positions year by year. In this way the company became the 'control' in the analysis.

Further, the GFC experience introduced a novel twist. Novel, insofar as the banks' defense against mark-to- market prescriptions was to argue that openly, disclosing their financial problems, was worse for the public than hiding them. Yet, only by analyzing the *reported* against the *actual* (from investigations) has it been possible to show how the drift in their actual financial states was not revealed in the accounts. Why? Primarily because accounting data prepared (mainly) in accord with the Accounting Standards then, as now, do not disclose a company's *wealth* and *progress.*

2.3 Secondary Themes

2.3.1 Very Little Changes

The 2000s failures in Australia and elsewhere were no different—for whereas most of the failures examined over many decades entailed some deviant behaviour, for the most part their accounting complied generally with the Standards. Compliance with the standards mostly produced grossly misleading data. At the margin there is always likely to be deviation. In some instances the deviations from the approved practices made more sense and possibly produced data that were more informative than would have compliance with the current Standards.

Over time, such occurrences are not all that unusual—Samuel Insull's depreciation accounting in the 1920s often made more sense than the conventions of the time, namely, his alternative replacement reserve accounting to 'depreciation' being regarded merely an *allocation of cost* (McDonald 1962). Regarding consolidation accounting consider more recently Australian corporate mariner

Adsteam's tactics to avoid the use of misleading consolidation techniques Clarke et al. 2003, Chap. 11). There, misleading consolidation data were avoided, though arguably for the wrong motives.

As we demonstrate in *Indecent Disclosure* (2007, Chap. 9) analysis of consolidated data in accord with the Standards is shown to be grossly misleading, based upon false premises, employing senseless procedures, and invoking analyses contradicting both company law and financial fact.

This continues. Consider again the Enron case—most of its supposed manipulation of SPEs was in accord with SEC approved practices. Of course some of Enron's practices were not. But even those that were compliant produced misleading data. Enron's *mark-to-model* method of recording periodic gains on energy contracts *up-front* had been approved by the SEC in the early 1990s—so for 10 years it was basically a compliant practice. Consider the general rules for bringing into account periodic gains on construction contracts—in principle, how different from what Enron did are they?

Consider how perverse the allegations that WorldCom improperly *capitalized expenses*. No doubt WorldCom over-stepped the bounds of common sense. But conventional accounting practice is essentially an expense capitalization system. The boundary is a grey line.

Think about the reasoning underpinning accrual accounting. WorldCom's manipulations could just as easily have occurred without any intention to deceive, mislead, or improperly massage the outcomes. And similarly, consider Waste Management and their depreciation policies on their vehicle fleet.

2.3.2 Feral and Creative Data: Auditors on a Hiding to Nothing

Most companies do not collapse. And most that do, have had only a small engagement in accounting practices designed to deceive. In contrast most companies comply with the prescribed Accounting Standards. Contemplate the consequence of that—if misleading data are more the consequence of compliance with the Standards than deviation from them—the misleading data arising from the intention to deceive is a relatively minor problem, and those arising from compliance are by far, the major problem. Yet *creative* accounting is generally presented to be the result of the intention to deceive. Arguably that is back-to-front—it makes more sense to label 'misleading' the data that arise from the intent to deceive —*feral* accounting, and the misleading data arising from compliance with the Standards with the best of intentions—*creative* accounting.

Contrary to the recent attacks on auditors, a reasonable take is that auditors are poorly served by those setting the accounting standards. Regulation 'by sanction' is the common regulatory mode in the western world. ASIC, Australia's corporate regulator, almost annually threatens local auditors with a 'get tough' monitoring of their clients' compliance with the accounting standards currently in vogue. Arguably, the post-2005 IFRSs are little better than the national Standards that preceded them in respect of making an auditor' task possible.

Our proposition is that the auditors cannot win, that they are between a rock and a hard place when they report that the financials 'comply with the standards' and yet 'show a *true and fair view*. They are almost certain to be stating the impossible. Sometime, somewhere, somehow, someone amongst their number will be found *wanting* when quizzed on how compliance with (now the IFRSs).

Standards could likely show a 'true and fair view' of a financial performance and financial position of a legal entity. For that rests upon the perfectly reasonable proposition that *true and fair* means something sensible in a functional sense. Eventually, sometime down the track, accountants are going to be quizzed in Court about the serviceability of the data prepared in accord with the Standards—whether for example, they show the wealth and progress of a business entity, whether they can be used to determine a business's likely solvency, calculate for it a meaningful: rate of return, earnings per share, the financial relationship between debt and equity, asset backing, and the like.

The answers to such a quiz would have to be *generally no*, once financially meaningful explanations were settled as to what each of those financial indicators are indicative. In this regard consider the deliberations of Justice Middleton in the 2010 Centro case [*Australian Securities and Investments Commission v Healey* (2011) FCA 717 (27 June 2011)] and related civil class actions.

They may prove to be a watershed. Issues to the fore there include what is meant by financial position and solvency and whether standards compliance versus true and fair view should have dominance.[8]

2.3.3 Serviceability: The Consumerism Criterion

Against that background it is reasonable to argue that the same general criterion that applies to consumer protection (in respect of virtually everything other than accounting data) ought to apply to accounting data—that accounting data ought to be serviceable in the uses ordinarily made of them. And we can readily observe how published financial statement data are used to make those financial evaluations, and to calculate or otherwise derive those financial indicators. Furthermore, there is little dispute regarding as to what those derivatives are indicative. We don't have to know whether, or if so how, those financial indicators are used in decision making. It is unequivocal that general purpose financial statement data are used in that way, at least. As a minimum they ought to be fit in those uses. We label that *serviceability*—a simple quality criterion that one might expect everyone to understand and, indeed, expect to govern quality in their world of goods and

[8] Bowers (2012), Lenaghan (2012).

services. It is curious that nothing like that is said about accounting in the current cacophony on corporate governance—the primary quality criterion elsewhere protecting the public interests doesn't get a mention!

2.3.4 Consolidation and Misrepresentation

Most of the commentaries regarding companies' financial performance and financial position draw upon the data in consolidated financial statements, yet they are the most misleading aggregations of financial data. They rest upon a number of propositions that contradict both financial commonsense and the law. They lift the corporate veil and thereby offend the capital boundary rule; the notion of a *group* is an accounting fiction; the notions of 'group' assets, liabilities, revenues and expenses, do not accord with the legal financial outcomes of the transaction. For consolidation techniques inject data that frequently do not appear in the financials of the separate related companies, require a 'not-at-arms-length' assumption irrespective of the transactions' commercial reality, and require the application of the standards to the consolidated data that can produce opposite outcomes to those reflected in the accounts of the constituent companies.

Interestingly, at the time this publication is being finalised Australian legislative reforms have relieved Australian parent companies of disclosing their financials to their shareholders [Corporations Amendment (Corporate Reporting Reform) Act 2010, *Improving Australia's Corporate Reporting Framework*]. Only consolidated data, supplemented with aggregative parent data, need to be published. Curiously, most company analyses appearing in the business press entail the analysis of consolidated data only. Yet nobody (human or artificial) owns a share in a 'corporate group' *per se*. Shareholders of Australian listed companies are thus to be denied under such a reform (in most instances) the financial statements of the companies in which they *do* hold shares. A very peculiar practice, indeed!

Consolidated data are thus extremely creative. Nonetheless, virtually every financial assessment and evaluation made of listed companies continues to be on the basis of them. Most of those assessments and evaluations are nonsensical, counterfactual! The James Hardie affair in Australia illustrated the extent of the general confusion regarding the group notion and consolidated financial data—and the related issues of directors' obligations. Many, including politicians and financial journalists, have paraded their misunderstandings of financial reality and legal status.

James Hardie has justified all of our complaints regarding the group notion and the accounting for the group. It is no surprise that corporate groups have played a significant role in corporate failures. The general public, company officers, and (it seems) legislators and regulators are conditioned into accepting misinformation that fuels corporate distress. This point is reinforced in our 2005 article, Clarke and Dean (2005b).

2.3.5 True and Fair: A Functional Corporate Governance Test

In Chapters 17 and 18 of *Corporate Collapse* … (2003) we argued that the accounting profession by failing to impose prescriptions through which the data would be serviceable is abandoning its historical ethos. By placing the primary focus on complying with the Standards—comparability of methods has replaced comparability of outcome. Most of the 'conceptual framework' drafts specify *relevance*, *reliability*, *comparability* and *understandability* as the essential qualitative characteristics of general purpose financial statements. But none of the Standards, collectively or individually (including more recently the IFRSs) has explained how those characteristics emerge from compliance with them. Accountants' professionalism is at stake (West 2003). Though the *true and fair* criterion is a quality heritage that accountants uniquely enjoy, it is treated rather shabbily by them. Yet, *serviceability* is the qualitative characteristic that makes financial statement data true and fair.

Note, were it that the data in general purpose financial statements were serviceable, they would have to be 'relevant, reliable, comparable, and understandable'. Whatever the financial outcomes they would be exposed in the wash-up of it all. Whatever Boards of Directors had done, no matter in whose interests they acted; whatever use was made of the intangibles at their disposal; whatever the acumen applied to running their company; irrespective of the supposed inducements to act in their own or ethical ways; independently or otherwise; whether the auditors were independent or not, been rotated or are long-serving, had or had not provided non-audit services, all would be reflected in the financial outcomes. The corporate governance rules, like most of the talk of corporate sustainability, Triple Bottom Line reporting and the like, are promoted arguably because the financial statements do not inform of the financial outcomes from how companies are managed, including the economic outcomes of whatever use is made of the financially measurable and the non-financial non-measurable resources at their disposal. Recall, all the governance rules and the *avant garde* accounting movements are directed toward adding value—and if we take a stakeholder point of view, perhaps adding value to meet a kind of Pareto optimum.

Corporate failure is a natural enough event. As Schumpeter and others have noted—failures are necessary. They are the product of the capitalist winds of *creative destruction*. It is reasonable in a world of scarce resources to argue that companies unable to add value by their operations ought to be liquidated. But an orderly commercial environment is a necessary condition for mature economies. Those acting in markets need to be adequately and equally informed. Only then can proper risk/return assessments be made. But a pervading feature of failures has been their unexpected nature; *unexpected* by virtue of the means of advising companies' financial wealth and progress being neither true nor fair.

2.3.6 Indecent Disclosure: A Dubious Legacy

Central to those discussions are questions regarding the reliability, accuracy and overall probity of corporate financial disclosures. Contestable phrases or words, often touted by regulators and standards setters, imply a desire either to achieve *quality in accounting information* or *transparency*. Such issues are supposed to be at the forefront of those seeking to produce an international conceptual framework, viz the IASB and FASB who jointly continue to undertake such an exercise. While not questioning the motives, elsewhere the current authors have provided an assessment of the less than fruitful outcomes accompanying earlier national exercises that were underpinned by similar desires.[9]

The above illustrations are important for the light they throw on the role of financial disclosure in creating the orderly commercial environment, essential to the proper functioning of market economies. Importantly, the defaults and anomalies might be taken to be indicative of the new corporate governance mechanisms biting into and exposing corporate wrongdoing. However, on closer analysis they frequently emerge to be repeat performances of the *indecent disclosure* by companies over the past nearly 170 years. Matching the current corporate governance regimes against those of the past offers little comfort, for they indicate that, for the most part, the current regimes contain 'more of the same'. Little that is new has been introduced. It would seem unlikely that the judicial reviews of failures already examined or those under current review would have been prevented had the latest IFRSs been in place in their current formats.

In fact, the current talk of corporate governance and the various codifications, schema and recommendations might be doing more harm than good. For if, as we argue here, the regimes specified are impotent, passing them off as panaceas for corporate ills is likely to lure investors into a sense of false security. There is a burgeoning literature reporting research associating compliance with the various governance regimes and 'superior corporate performance'. In contrast, there is little addressing the problems of the modern corporation in this age of globalisation. 'Legacy thinking' draws upon experiences in the different corporate environments of the past, seducing would-be reformers into massaging the past ways of dealing with corporate problems, without much explicit recognition of differences between the past and the present. A critical issue is whether the conventional corporate form with which most are familiar (and in respect to which the current governance regimes are directed) can indeed be governed adequately, if by 'governing' we are referring to its original notion of controlling or *steering*.[10]

---

[9] A special issue of *Abacus*, Vol. 39, No. 3, October 2003 contains several articles that discuss the positive and negative aspects of those national conceptual framework exercises. The current authors were among several expressing their views.

[10] In an earlier unpublished work, IIR Corporate Governance seminar, October (2002) Clarke and Dean noted that the word 'governance' is taken arguably from the Greek *cybernetics* (or Latin *gubenatore*) which refers to the ability of the navigator effectively to steer a vessel—a skill

The relatively easy access to international capital markets and the ease with which companies might move between alternative jurisdictions, possibly eased the way for the doubtful practices underpinning the GFC. Globalisation certainly made it easier to exploit perceived advantageous trading, labour, stock exchange listing, and financial disclosure rules. Such corporate antics militated against exercising control over conventional corporate structures with updated versions of past regulatory mechanisms. For these had already failed to override arrangements less sophisticated and less complex than those to which they were then being applied. There is little ground to expect that they ever will be any more successful in the future than they were in the past.

As briefly noted earlier the (now Ireland-based; previously Netherlands and before that Australian-based) James Hardie group's contemporary, worldwide ongoing battle with governments, unions and the victims of asbestos related diseases, is a salient example of the problems with the conventional corporate structure. That the form of the corporation as it is generally understood and accepted, has a legitimate *place* in modern society is contestable. Doubt that the grouping of subsidiaries under the umbrella of 'limited liability within limited liability'—can provide a net benefit for a modern commercial society is evoked by the conflict between commercial and legal realities inherent in the notion of a sacrosanct *corporate veil*. That situation is exacerbated by the seeming inconsistency between the traditional notion of the corporate objective to maximise shareholder wealth. Especially so in view of the now popular notions of: corporate social responsibility, the limiting of financial statements to only those 'Standards compliant' to show present financial position and past financial performance, the potential conflict between legal obligations and alleged ethical responsibilities and the frequent misunderstanding of public perceptions regarding the nature of the corporate vehicle and the reality of it. Possibly, the Hardie asbestos affair has better served to highlight those matters than various other failures.

The series of transactions in 1997/98 involving the Lang Corporation (loosely described as the Patricks/MUA Waterfront affair) perhaps comes a close second.[11] The legislative likes of the US's *Sarbanes–Oxley*, Australia's *CLERP 9* and the ASX Corporate Governance Council's *Corporate Governance Guidelines* (and their equivalents elsewhere) have poured out rules in particular for the internal management of corporations. In contrast, the Hardie affair has drawn an outpouring of proposed rules regarding companies' interactions with the public at large. Of particular interest is the manner in which the debate regarding Hardie's

(Footnote 10 continued)
that required information about the vessel's current position, the speed it is travelling, sea currents, other vessels' positions, land etc. Information needed was spatial and required continual updating. This was again discussed in Clarke and Dean (2005a). Walker and Walker (2000), similarly note that governance has its roots in Greek, where the relevant word can mean 'manage', 'oversee', 'direct' or lead'.

[11] For details of the way the use of the corporate veil in the *Waterfront* affair affected employees' entitlements see Dean et al. (1999); see also Clarke and Dean (2007).

alleged misdeeds has renewed the personification of corporate ethics. But whereas the artificial persona of the corporation has been translated (as we noted above) into an almost human equivalent, in a twist its true fictional character has been reinforced by the NSW state government's threats to 'lift the corporate veil'. This sanction would be imposed were Hardie to not meet its perceived financial obligations to those suffering from or having died as a consequence of its asbestos products.

In mid 2006 a partial proposal was put forward by the NSW Attorney-General. It sought to have a federal inquiry examine ways to prevent the type of episode at James Hardie. There, aptly illustrated was the problem of a wealthy (solvent) parent company avoiding responsibility for the personal injury and death compensation obligations of insolvent subsidiary companies'.[12] This reform did not occur. But the significance of the issue had been stressed.

In a curious way, the plight of those victims of asbestos-related diseases has made it clear, possibly the clearest in around 170 years, that the corporate structure (especially where groups are prevalent) is not sacred. At the end of the day, if it is no longer serving commerce in the way the UK Gladstone Committee and those 1840s politicians intended when pressing the British Parliament to enact the *Companies Act of* 1844 (with its general registration provisions), the present company structure can and ought to be changed.

That possibility doesn't seem to have been contemplated by those reacting to the successive waves of corporate collapses and crises over the past century. Particularly over the past several decades when shareholders', finance and trade creditors' and (more recently) employees' financial woes have been to the fore. It is no surprise then, that the solutions are being presented in the form of corporate governance rules framed with an underlying assumption that accepts without question the current form of the corporate vehicle. The modern corporation with its 'limited liability within limited liability' facility, shareholder sovereignty and corporate veil framework, is assumed to be untouchable.

A peculiar feature of the current debate over corporate shenanigans is the similarity they bear to those revealed following the 1929 crash and ensuing Depression. The financial statements of many companies then were grossly misleading. Grossly misleading, not only by virtue of deliberate acts of deceit, but also as a consequence of following the prescribed accounting conventions (rules) of the day, possibly with the best of intentions. Now, as then, few seem to appreciate the prospect that the reported financials of the companies that have not failed, those deemed the current high-fliers and 'travelling swimmingly', are equally misleading as were those that crashed or were noted to be in trouble. In the early 1930s the general lead taken in the US was to specify accounting 'rules' (incorrectly labelled then, and now, as 'principles') for the processing of financial aspects of business transactions, and disclosure rules for reporting the financial outcomes of them.

---

[12] Sexton (2006). See also *ASIC Media Release 07–35* 'ASIC commences [civil] proceedings relating to James Hardie', 14 February 2007.

That push for rules (enabling the 'tick-a-box' mentality) to govern accounting practices that has been pursued for the best part of 80 years, underpinned by the idea that comparability would be achieved were each company's financials prepared to accord with the same rules. The mistaken proposition is that uniformity of essentially *input* and processing rules would produce uniform *output* in the form of comparable financial statements. Yet the falsity in the reasoning of that proposition was clearly demonstrable, and clearly evidenced by the variances in the outputs in the financial statements of companies following the same rules.

Few seem to recall that, just as in the 1920s when the UK Royal Mail's drawing upon past profits to pay current dividends accorded with the generally accepted accounting disclosure *rules* of the day,[13] Enron's (and more recently in the GFC, the shadow banking sector's) use of special purpose entities to hide debt was facilitated by a professionally prescribed [and ad-hoc, not theoretically driven] ownership *rule*. Nor do they recall that the mark-to-model valuations to bring prospective profits to account had regulatory approval, as did the 1970s Australian financier-cum-property company, Cambridge Credit's 'front-end-loading' mechanism to calculate current profits while in the new millennium WorldCom's expense capitalisation was arguably the product of the conventional accrual system that differed little from Australia's Reid Murray's capitalisation of development expenses in the 1960s. Little has been recalled in the context of WorldCom's woes of the UK's Rolls-Royce's 1970s fall following its capitalisation of the costs of developing its innovative RB-211 engine (see Gray 1971). Waste Management's alleged depreciation charge scam is as much a product of accountants' contestable idea that depreciation is an easily manipulable 'allocation of cost', rather than a 'decrease in price'. Again, that the same problem had arisen with US airline companies in the 1950s passes without mention. Perversely, following the rules has emerged a legitimate, often as much well-intentioned as intentionally deceitful, means of misleading accounting, a simulacrum of a quality mechanism.

Significantly, the practices causing the shaking of heads in outrage in the March 2000 dotcom crash and then also in the 2007–2008 GFC have, in one form or another, all happened previously. In other disciplines the habitual recurrence of undesirable events would provoke thoughts that perhaps there was something awry with the system within which they were being repeated. And certainly, failed means of preventing the repetition of unwanted outcomes would be abandoned. Curiously, in business matters the response of legislators and professional

[13] Green and Moss (1982), support this claim, noting that the defence 'case made much of the auditor's use of the phrase "after adjustment of taxations reserves" to describe the falsification of the 1926 and 1927 accounts. They were also able to plead that, rightly or wrongly, the secret transfer of inner reserves was a fact of life in large conglomerate companies, particularly in the shipping industry where transfers were an accepted method of ironing out the effects of the business cycle. In this the evidence of Lord Plender was especially persuasive. As a result Kylsant and Morland were cleared of the balance sheet charges'. Notably the complexity of the structure is captured by Green and Moss's reference to the Royal Mail being a conglomerate.

standards setters has been precisely the opposite. The vacillation surrounding the mark-to-market of (in particular banks') securities during the GFC bears witness to companies' penchant for 'not telling it how it is'. The failed remedies of the past have not only been repeated, in most instances they have been multiplied—more rules of the kind known to have failed in the past have been replicated with a vengeance, even though their deterrent effect and their clout when imposing penalties on individuals for wrongdoing have dismal histories.

Throughout all this the ways and means of lessening culpability have been encouraged by regulators. Plea-bargaining which has become the norm in the US and seems to be growing in Australia is apt. Regulators have traded off their responsibility to apprehend and penalise wrongdoers with the prospect of the potentially easier convictions of others. At times, achieving 'heads on poles' has dominated. This has been at the expense of the presumably critical regulatory quest of achieving an orderly financial market. Plea-bargainers trade their guilt to become primary witnesses for prosecuting regulators. Andrew Fastow, for instance, was a primary witness against Kenneth Lay and Jeffrey Skilling in the Enron case. The evidence shows that the case against those officers rests more upon what their previous collaborators disclose, than what the regulatory machinery has uncovered from examining public data. In the Australian cases against HIH offenders, an HIH executive Bill Howard turned 'Crown witness', in return for indemnity against conviction. It may not be unkind to suggest that the sentiment underlying Roosevelt's (perhaps apocryphal) quip that 'you have to set a thief to catch a thief' still prevails. Legend has it that Roosevelt was responding to criticism that he had appointed Joseph Kennedy (then considered by many to be a modern-day robber baron) to be the first head of the newly formed SEC in 1934.[14]

Lack of transparency, misleading disclosure—*indecent disclosure*—characterised traumatic failures of the Enron, HIH variety. In particular, annual statements of financial performance and financial position have not presented accurate, reasonably reliable, portrayals of companies' dated wealth and periodic financial progress. In today's and yesterday's jargon they have not ensured 'transparent', 'truthful' financial reporting. Were they to have done so, for the most part the financial outcomes disclosed would have facilitated informed evaluations, signalled the appropriate questions to ask of managers and executives, alerted those with an eye for wrongdoing. It would have been irrelevant how company directors had acted—with propriety or with deception, in their own best interests or in the interests of the shareholders or a wider stakeholder cohort, with or without regard for social and environmental wellbeing, with or without business acumen. Fair dealing is a hallmark of a civilised society. It is grossly *indecent* that the commercial environment lacks the *order*, the *framework*, necessary for fair dealing. There is a real lack of trust by participants based on a perception that the regulated market system is actually a 'fair game'. The mark-to-market episode during the

[14] See Chatov's (1975); and more recently, David Radler's SEC plea bargain in return for being a witness against Conrad Black (*Australian Financial Review*, 19 March 2007, p. 11).

GFC has more than justified that perception. It is consistent with many participants' view that the market fails to operate *as if*, as Oscar Wilde's Sir Robert Chiltern quipped in *An Ideal Husband*, it has a 'commercial conscience'. Recall the earlier James Hardie observations.

So, it is probably not surprising that during the GFC those who opposed the move to have banks and other financial institutions mark-to-market their financial assets, jumped on the bandwagon. Quickly, there were cries of 'told you so' from those who opposed the introduction of the relevant accounting standards FAS 157 in the US and international financial reporting standard (IFRS) 39 in Europe. Academics soon followed suit (see Katz 2008; Ryan 2008; Whalen 2008; Magnan 2009). US politicians such as past Speaker in the US House, Newt Gingrich, enthusiastically mouthed such a litany with the apparent approbation of 2008 Republican Presidential candidate John McCain. The refrain was that having to write-down assets to their market prices had 'caused' the financial collapses of Bear Sterns, Lehman Brothers, AIG, and Northern Rock, and the near collapse of numerous others. That causation chain is said therefore to have necessitated the $US700b *cash for trash* bailout in the US. It was also suggested that Iceland's near bankruptcy was another 'fair value' (mark-to-market) casualty. Such sentiments soon resurfaced in the discourse surrounding Ireland's bankruptcy and the sovereign debt problems of Europe's so-called 'PIIGS', namely Portugal, Ireland, Italy, Greece and Spain.

Thus, having to report market prices were, for some, the cause of the GFC crisis, or at the very least that they unnecessarily exacerbated it. This was by no means the first time that the use of market values had been the subject of controversy in the US and elsewhere (Dean and Clarke 2010). In 2005 numerous countries adopted the International Accounting Standards (IAS), including IAS 39 which specified that certain financial instruments (which featured particularly in bank balance sheets) be accounted for at 'fair value through profit and loss'—that is, that they be *marked-to-market*. In 2007 a renewed US push for the application of a current value accounting system came with the FASB's promulgation of FAS 157. And, whereas FAS 157 was voluntary with respect to many assets, other FASs permitted current values to be used. Where assets were 'held for sale' or for 'trading' it meant that, like their European counterparts, US banks and other financial institutions (securities firms, mutual funds, hedge funds and the kind) had to mark-to-market many of their financial instruments.

Consider Greece's sovereign debt crisis. It aptly illustrates the impact of false or misleading messages. There, Lynn (2011) alleges that (what amounts to) deliberately false communication by the Greek Government to the European Union countries, understating the level of Greek debt, paved the way for Greece's entry into the EU and the Eurozone. Moving away from Continental Europe, O'Toole (2009) claims that Ireland's politicians were bathing in a false impression of their country's financial position, fully knowing that its building bubble was about to implode. Again, alleged communication of false financial information had disastrous effects when the truth was revealed.

Mark-to-market matters came to a head after Lehman Brothers' collapse in October 2008, when Congress rose to the cause. Accusations we heard above suggested the mark-to-market rule of FAS 157 'caused the financial crisis'[15]. This illustrated a misunderstanding of accounting's communicative role of informing financial decisions, by 'telling it how it is'.

As well as the management intent issue about whether financial assets are held-for-sale, another major bone of contention was the noted necessity under FAS 157 to write down financial assets, given an *inactive market*. Market inactivity was presumed by many to be 'temporary'. The continuing inactivity for several years highlights the lacuna in such an argument. The proposition put was that marking-to-market failed to take into account the future prospects of the assets, that (in particular for the banks') capital was being eroded erroneously and that doing so exacerbated the credit crisis. Accounting's mark-to-market prescriptions were said by some to be exacerbating the financial system's *procyclicality*. In their *Alchemists of Loss*, Dowd and Hutchison (2010: 310) opine that 'In the event, FAS 157's timing was terrible' for Goldman Sachs and Bear Stearns.

The FASB attempted to meet the inactive markets problem by injecting FAS 157 with a *fair value hierarchy* of assets for valuation purposes—those that it labelled, respectively: *level 1*—for which a market and its prices were available; *level 2*—where a market for like assets allowed some discretion by owners regarding which prices they chose and; *level 3*—where the markets are inactive, and owners could mark-to-model or 'mark-to-myth' as Buffett (quoted in Davies 2010: 114) called it. The recent IASB's IFRS 13 (2011) has adopted the same 3-level hierarchy in its measurement standard equivalent to FAS 157.[16] But the hierarchy did little for some. It merely exposed their perilous state—Goldman Sachs was, for example, shown to have level 3 assets amounting to '3 times its capital', and Bear Stearns $28 billion in level 3s with 'a net equity position of only 11.1 billion' (Dowd and Hutchison 2010: 311).

Complaints from compliant institutions being forced to make considerable write-downs as a result of mark-to-market accounting (FAS 157 in particular in the US) were common, as evident in this comment by Zandi (2009: 237): 'The [mark-to-market] rules put pressure on institutions to quickly adjust the book value of their assets to market prices … markdowns were so large and cut so deeply into their capital that it threatened their survival … To keep this from happening in the future mark-to-market accounting rules could be tweaked so that changing assets [read also liabilities] values could be phased in over time … Banks would still have to lower their holding as prices fell, but not as rapidly'.

The introduction of the mark-to-market accounting rules has been perceived a serious problem. Munchau (2011: 211), for example, noted that 'If accounting

---

15 Magnan and Makarian (2011: 216) note the following as examples of this group: Katz (2008), Whalen (2008), Gingrich (2009) and Zion et al. (2009).

16 The hierarchy is arbitrary—others have been proposed, entailing up to five levels.

rules had not been temporarily relaxed many banks and insurance companies would have had to file for bankruptcy'.

2.4 The Anguish of the Sad Experiences over the Last 15 Years

The hullabaloo from 1997 to the present has not been without its benefits. Misleading reporting of financial outcomes has been at the centre of the numerous inquiries into and prosecutions for corporate wrongdoing. Inappropriate disclosures have been noted. Earnings management practices were alleged to have facilitated companies like Enron, WorldCom, Tyco, Vivendi, Waste Management, Sunbeam, Disney and the like in the US to meet analysts' quarterly earnings predictions. Allegedly they underpinned many of the analysts' questionable 'buy' recommendations uncovered by Attorney-General Eliot Spitzer, and to have assisted the alleged tactics of some, like the US analyst guru, Jack Grubman, to push up WorldCom's share price.[17]

A spotlight on financial disclosure has evoked the questioning not only of the rules directing how companies account and report, but also whether the system should remain *rules-based* or become a more *principles-based* system.[18] A primary claim by many regulators has been that the rules are followed frequently, but the intention underpinning them is not. But there has been little compelling argument to support the proposition that the principles said to underpin the post-2005 IFRSs (of whatever persuasion) differ from the earlier described rules (sometimes labelled principles) prescribed by national accounting bodies. That convoluted debate has witnessed those promoting the IFRS to argue that they, in contrast with the practices in accord with the rules promulgated by (for example) the US Financial Accounting Standards Board, are principles-based. But the debate is bereft of any undergirding, primary principle identified, suggested or specified. The discussions related to the joint IASB/FASB Conceptual Framework exercise which began in mid-2006 continue to fail to accept that any accounting conceptual framework needs to be grounded in the realities (principles even) of commerce, linking accounting with the ethical, legal, financial, economic, metrical and other foundations of business (Chambers 1991).

Achieving this on an international basis is a huge challenge. Consider one such principle, the legal (based on ethical) *true and fair view* principle. One might presume that the British (and European generally) true and fair criterion governing the quality of financial disclosures, has the historical and potential technical credentials to fit that role. From our analyses, outlined above, we find it curious that it

[17] Anon (2002).

[18] See, inter alia, AAA Financial Accounting Standards Committee (AAAFASC), 'Evaluating concept-based vs rules-based approaches to standard setting' (2003); Schipper (2003).

is not universally accepted by practitioners nor standards setters as a basis for overriding a required compliance with the rules, viz the accounting standards specified.

Our analyses suggest that, repeating history, rules will prevail. This is a situation which, in the present climate, conveniently satisfies auditors' responsibility to form and report an opinion as to whether a company's financials are truly and fairly indicative of, or fairly present, its wealth and progress. For whereas auditors' performances have been criticised in the fallout from company failures, given the faulty foundations of accounting, their verification task is all but an 'impossibility'.[19] It is suggested *in Corporate Collapse* and pursued further in *Indecent Disclosure* that it is problematic whether extant accounting standards (including IFRSs) facilitate or hinder the making of such professional judgments about whether accounts show a true and fair view.

Unexpected corporate failures, warped ideas regarding the function of accounting, the production of financial data that are not serviceable for the uses habitually made of them and dodgy accounting that doesn't *tell it how it is*, demonstrate, that in the corporate world all that glitters certainly is not gold.

References

Anon (2002). Is Jack Grubman the worst analyst ever?, *CNN Money*.

Bowers, S. (2012). Share price ruling this year. *The Australian Financial Review*, 48.

Chambers, R. J. (1991). Accounting and corporate morality—the ethical cringe. *Australian Journal of Corporate Law*, *I*(1), 9–21.

Chanos, J. (2009). We need honest accounting: Relax regulatory capital rules if need be, but don't let banks hide the truth. *Wall Street Journal*, *23*.

Chatov, R. (1975). *Corporate financial reporting*. NY: Free Press.

Clarke, F., & Dean, G. (2005a). Corporate governance: A case of misplaced concreteness?. *Advances in public interest accounting,* 11, *Corporate Governance: Does any size fit*? (Elsevier: JAI, 2005a), pp. 15–39.

Clarke, F., & Dean, G. (2005b). Corporate officers' views on cross-guarantees and other proposals to "lift the corporate veil". *Company and Securities Journal*, 23, 299–320.

Clarke, F., & Dean, G. (2007). *Indecent disclosure.* Cambridge: Cambridge University Press, pp. 41–44.

Clarke, F. L., Dean, G. W., & Oliver, K. G. (1997). *Corporate collapse: Regulatory, accounting and ethical failure*. Cambridge: Cambridge University Press.

Clarke, F., Dean, G., & Houghton, E. (2002). Revitalising group accounting: Improving accountability. *Australian Accounting Review*, *12*, pp 58–72.

Clarke, F., Dean, G., & Oliver, K. (2003). *Corporate collapse: Accounting, regulatory and ethical failure, rev* (2nd ed.). Cambridge: Cambridge University Press.

[19] This point was demonstrated throughout, using case particulars, in Clarke et al. (1997, 2002) and then again in Clarke and Dean's 2007).

Clarke, F., Dean, G., & Margret, J. (2008). Solvency solecisms: corporate officers' problematic perceptions'. *Australian Accounting Review*, 71–80

Dean, G. W., & Clarke, F. L. (2010). 'Unresolved methodological questions at the cross-section of accounting and finance. In T. Wise & V. Wise (Eds.), *A Festschrift for Bob Clift, special issue of International Review of Business Research Papers*, (Vol. 6(5), pp. 20–32).

Dean, G., Clarke, F., & Houghton, E. (1995). Cross guarantees and negative pledges: A preliminary analysis. *Australian Accounting Review*, *5*, 48–63.

Dean, G., Clarke, F., & Houghton, E. (1999). Corporate restructuring, creditors' rights, cross guarantees and group behaviour. *Company and Securities Law Journal, 17*, 73–102.

Davies, H. (2010) *Financial Crisis: Who is to Blame*?, Malden, MA: Polity Press.

Dowd, K., & Hutchinson, M. (2010). *Alchemists of loss: How modern finance and government intervention crashed the financial system*. New York: John Wiley.

Gray, R. (1971). *Rolls on the Rocks: The history of Rolls Royce*, Tisbury, Salisibury

Green, E., & Moss, M. (1982). *A business of national importance: The royal mail shipping group, 1902–1937*. London and New York: Methuen.

Gingrich, N. (2008) 'Suspend mark-to-market now!', Forbes, 29 September. Online Available http://www.forbes.com/2008/09/29/mark-to-market-opedcx_ng_0929gingrich.html (accessed 21 September 2011).

Jacobs, M. (2006). Bell fight goes down to the wire as case winds up. *Australian Financial Review*, 9.

Katz, I. (2008). *SEC recommends keeping fair-value rule with changes*. Bloomberg.

Lee, T. (2006). Clarity comes too late for Cole's liking. *Australian Financial Review*, 4.

Lenaghan, N. (2012). Centro chiefs had the jitters. *The Australian Financial Review*, 48.

Lynn, M. (2011) *Bust: Greece, the Euro, and the Sovereign Debt Crisis*, Hoboken, NJ: John Wiley

Magnan, M. (2009). Fair value accounting and the financial crisis: messenger or contributor?, Working paper, CIRANO—Scientific Publications Paper No. 27.

Magnan, M., & Markarian, G. (2011). Accounting, governance, and the crisis: Is risk the missing link? *European Accounting Review, 20*(2), 215–231.

McDonald, F. (1962). *Insull*. Chicago: Chicago University Press.

Munchau, W. (2011). *The meltdown years: The unfolding of the global economic crisis*. New York: McGraw Hill.

O'Toole, F. (2009) *Ship of Fools: How Corruption and Stupidity Sank the Celtic Tiger*, London: Faber & Faber.

Productivity Commission Report. (2010). *Executive Remuneration in Australia, Australian Government printer;* http://www.pc.gov.au/projects/inquiry/executive-remuneration, Australian Government Printer, accessed on 6 March 2012.

Ramsay, I. (Chairman) (2001). *Independence of Australian company auditors: Review of current Australian requirements and proposals for reform, Australian Government Printer.*

Raw, C. (1992). *The money changers: How the Vatican Bank enabled Roberto Calvi to steal $250 million for the heads of the P2 Masonic Lodge*. London: Harvill.

Ryan, S. (2008) '*Accounting in and for the sub-prime crisis*', The Accounting Review, 83: 1605–1639.

Schipper, K. (2003). Principles-based accounting standards. *Accounting Horizons*, 17(1), 61–72.

Sexton, E. (2006). Nothing to stop another Hardie. *Sydney Morning Herald*, 17–18.

Skeel, D. (2004). *Icarus in the boardroom: The fundamental flaws in corporate America and where they came from*. Oxford: Oxford University Press.

Walker, R. G., & Walker, B. C. (2000). *Privatisation—sell off or sell out?:The Australian experience*. Sydney: ABC Books.

West, B. P. (2003). *Professionalism and accounting rules*. London: Routledge.

Whalen, R. C. (2008). The subprime crisis: cause, effect and consequences, Networks Financial Institute Policy Brief No. 2008-PB-04. Online. Available http://ssrn.com/abstarct=1113888. Accessed 12 Sept 2011.

Zandi, M. (2009). *Financial shock*. Upper Saddle River, NJ: FT Press.

Zion, D., Varshney, A., & Cornett, C. (2009). *Focusing on fair value*. Credit Suisse Equity Research Report, June 27.