Detecting Earning Management Practices and Corporate Governance System

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Abstract: In this paper we are going to examine the role of corporate governance in preventing and detecting earnings management practices, treat corporate governance us a main factor of the Enron collapse because of the ineffectiveness role of auditing and the weak control system in this company, and use the Jones model of discretionary accruals, according to a sample of Enron financial statements from 1997 to2000, to detect the earning management practices

Keywords: Earnings management, Corporate Governance.

INTRODUCTION:

In the light of recent corporate scandals (Enron collapse, 2002), accounting today as an objective way of presenting economic reality is suffering from a real crisis of confidence. Central to system of corporate governance, it has been pushed into the public spotlight, where its impartiality and objectivity is being questioned. In widely held corporations with separation of ownership and control, a main objective of corporate governance is to mitigate agency costs between shareholders and managers. One manifestation of such agency costs is "earnings management" whereby the true financial performance of a company is distorted by managers for private gains .Thus, earnings management is window-dress financial statement.

Earnings management occurs when managers use judgment in financial reporting and in structuring transactions to alter financial reports to either mislead some stakeholders about the underlying economic performance of the company or influence contractual outcomes that depend on reported accounting numbers. Managers undertake earnings management for a variety of reasons, such as the use of accounting information in performance-based compensation contracts for managers, the use of accounting based covenants in debt contracts and the need to meet analysts' expectation and management forecasts about firm performance.

The purpose of this article is to bring together several components in order to construct an answer to the following question:

"What is the relation between corporate governance and detecting earning management practices?"

Using theoretical and practical investigation, this study aims to analyze the relationship between corporate governance and earnings management. Specifically, using a sample of financial statements from Enron company between1997 to 2000, we will verify the effect of corporate governance after collapse on earnings management.

There have been several attempts to investigate the relationship between earnings management and corporate governance. Beasley (1996) finds that financial statement frauds are more likely to occur in firms with insider-dominated boards. Klein (2002) shows that an increase in the number of insiders on boards or audit committees is associated with greater earnings management.

Leuz et al. (2003) examine the relationship between outside investor protection and earnings management using 31 countries data. Bergstresser and Philippon (2006) and Burns and Kedia (2006) show that the positive relation between the performance-based managerial incentive scheme and earnings management. Given the prior literatures, we attempt to provide a more comprehensive view about corporate governance by establishing the relation between various governance mechanisms and earnings management Additionally, Bushman and Smith (2001) define the role of the accounting information in the corporate governance as an input data to advance the corporate governance efficiently and propose to extend governance research to explore more comprehensively the use of accounting information (Anglin ,& Edelstein ,2009).

By contrast, in this paper, we mainly present the role of corporate governance which is defined as the system of disciplining managers, or a control system, to detect earning management practices. Using the Jones model 1991 test on financial statements, we are going to detect the earning management practices of Enron Company from 1997 to 2000.

According to our purpose we can formulate the following hypotheses:

Hypothesis1. The corporate governance has an effective tool to detect earning management practices,

Hypothesis2. Enron Exercised the earning management practices from 1997 to2000,

Hypothesis3. The ineffectiveness corporate governance system of Enron led this company to collapse.

The remaining paper is organized as follows. Section 1 describes the literature review of the link between the two variables earning management and corporate governance, Section 2 presents the Enron case and the Jones model test, in the section 3 we will present the conclusion.

I. Earnings Management and the Link with Corporate Governance:

Healy and Whalen (1999) define earnings management as situations "when managers use judgment in financial reporting and in structuring transactions to alter financial reports to either mislead some stakeholders about the underlying economic performance of the company or to influence contractual outcomes that depend on reported accounting practices" (Mulford, & Comiskey , 2002:3) The finance and accounting literature sub-divides earnings management into:

- Accruals earnings management,
- Real earnings management (real activities manipulation).

Accruals earnings management occurs when companies alter earnings by manipulating accounting accruals. It is usually achieved by managers choosing different accounting methods with no direct cash flow consequences. Real earnings management, in contrast, occurs when managers depart "from normal operational practices, motivated by managers' desire to mislead at least some stakeholders into believing certain financial reporting goals have been met in the normal course of operations" (Roychowdhury, 2006) . Hence, real earnings management usually has direct cash flow consequences. There is ample evidence of accruals earnings management in existing academic literature. Recent studies (e.g., Roychowdhury 2006; Gunny 2005) generate evidence of real earnings management, but suggest it may be harder to detect (e.g., Gunny 2005). Cohen, Dey and Lys (2008) note that accrual-based earnings management increased from 1987 until the enactment of the Sarbanes-Oxley legislation (SOX); since 2002, the decline in accrual-based earnings management seems to have been accompanied by an increase in real earnings management. Lobo, Zhang and Zhou (2008) confirm this time pattern, and note that the decrease in accruals earning management was smaller at firms with better corporate governance; presumably because it occurred less often in any case.
According to Shleifer and Vishny (1997), corporate governance operates within a firm through its charters or policies to create transparent, appropriate information to stakeholders about their investments. Two elements of governance are viewed as most effective for discouraging self-interested managers from manipulating financial results. First, the board of directors monitors management, thereby protecting shareholders' interests.

The quality of internal corporate governance is typically associated with the structure and composition of the board of directors (Beasley 1996; Vafeas 2005). Second, within the board, the audit committee members should be the lynchpin for monitoring financial reporting; and it is commonly believed that the quality of the audit committee indicates how well corporate accountability is enforced (Carcello and Neal 2000; Vafeas 2005). Prior research demonstrates that effective corporate governance prevents managers from engaging in accruals earnings management.

Examining a sample of 300 US firms, Chtourou, Bedard and Courteau (2001) show that audit committees with a clear mandate to oversee and to monitor financial reporting significantly reduce the level of corporate earnings management. Klein (2002) finds that the level of earnings management is lower for firms with boards consisting of more independent directors and an independent audit committee. Peasnell, Pope and Young

(2000), using a sample of UK firms, find that the likelihood of income-increasing earnings management (to avoid reporting losses and earnings decreases) is reduced when the proportion of outside directors is increased. However, they do not find an audit committee "effect" for earnings management. According to Xie, Davidson and Dadalt (2003), earnings management is lower when the directors or audit committee have corporate or financial backgrounds and meet more frequently.

Chen, Elder and Hsieh (2007) examine whether the independence, financial expertise, and voluntary formation of independent directorship are associated with earnings management for companies in Taiwan after the enactment of Corporate Governance Best-Practice Principles (CGBPP). They find that these corporate governance characteristics are associated with the lower likelihood of earnings management and the effect became stronger after the enactment of CGBPP. Carcello, Hollingsworth, Klein and Neal (2006) find that the audit committees with independent members having financial expertise are most effective in reducing earnings management. They also suggest that alternative corporate governance vehicles can be effective substitutes. Bowen, Rajgopal and Venketachalam (2008) aver that poor governance quality is associated with greater accounting discretion, resulting in a higher level of abnormal accruals, greater incidence of earnings smoothing and greater tendency to avoid negative earnings surprises(Joshua , Varda ,Lewinstein, & Yaari, ,2008: 177).

II. Data and methodology:

1. Sample:

The sample has been selected from the Enron financial statements for the period 1997-2000.

2. Hypothesis:

H_0: Enron exercised the earning management practices from 1997 to 2000,

H1: Enron didn't Exercised the earning management practices from 1997 to 2000.

In order to test the hypothesis different models by reviewing the literature have been opted to measure earnings management practices:

3. Models used to measure earning management practices:

In literature accruals have been intensively used as the proxy for earnings management. There are a number of empirical methods by which earnings management can be detected. The most common of these is the discretionary accruals method. It assumes that managers rely on their ability to use discretion regarding certain accruals and thus requires discretionary and non-discretionary components of accruals to be separated, so that the discretionary accruals can be used as proxy to test for earnings management.

The discretionary accruals method may be divided into two types:

The first is the discretionary total accruals method: Total accruals are divided into discretionary and non-discretionary, usually using either the Jones model 1991, or the modified Jones model1.

Under the Jones model, it is assumed that the level of unmanaged accruals is accounted for by gross property, plant, and equipment, and changes in revenues. The former determines the depreciation expense while the latter determines the changes in working capital. These two variables are used for regression, the residuals of which are considered the managed accruals.

The modified Jones model (below) assumes that credit sales could be a source of earnings management, and thus adjusts the changes in revenues by subtracting the same amount in receivables.

$$\frac{TAC\,i,t}{TA\,i,t-1} = \alpha_{oj}\left(\frac{1}{TA\,i,t\text{-}1}\right) + \alpha_{1j}\left(\frac{\Delta REV i,t - \Delta REC i,t}{TA\,i,t\text{-}1}\right) + \alpha_{2j}\left(\frac{PPE i,t}{TA\,i,t\text{-}1}\right) + \ell i,t$$

Where:

$TAC\,i,t$: The total accruals (net income before extraordinary items minus cash flow from operations) in year t for the ith control firm;

$TA\,i,t-1$: The total assets in year t for the ith control firm;

$\Delta REV i,t$: The change in revenues from year t-1 to year t for the ith control firm;

$\Delta REC i,t$: The change in receivables from year t-1 to year t for the ith control firm;

$PPE i,t$: The gross property, plant, and equipment in year t for the ith control firm;

$\ell i,t$: The regression error term, assumed to be cross-sectionally uncorrelated and normally distributed with mean zero.

The estimated coefficients from the control firm regression above are then used to estimate the level of managed accruals for each sample firm as below:

$$TAEM\,j,t = \frac{TAC\,j,t}{TA\,j,t-1} - \alpha_{oj}\left(\frac{1}{TA\,j,t\text{-}1}\right) - \alpha_{1j}\left(\frac{\Delta REV j,t - \Delta REC j,t}{TA\,j,t\text{-}1}\right) - \alpha_{2j}\left(\frac{PPE j,t}{TA\,j,t\text{-}1}\right)$$

Where $TAEM\,j,t$ is the managed component of total accruals for sample firm j in year t, which is equal to discretionary total accruals.

Both the Jones model and the modified Jones model have been criticized as the proxy can be 'noisy', detecting factors other than earnings management during testing; however, discretionary accruals are generally the most effective proxies in measuring earnings management.

An alternative method known as the single accrual method also exists, whereby only one kind of accrual, for example, bad debt provisions, depreciation estimates or deferred tax valuation allowances, is used. This method is not as effective as the total accruals method, as it is difficult to identify one unique accrual used to manage earnings, and the result may not be large enough to be statistically significant. In addition, a single accrual may be affected by other variables.

The distribution method is another way of testing for earnings management where reporting losses is being avoided. The distribution of reported earnings is tested to determine whether there is any evidence of earnings management. The advantages of this method are that no estimation of potentially 'noisy' accruals is required, and that it includes earnings management which relates to cash flows, such as reduced expenditure for research and development, or advertising. However, it cannot indicate the specific accruals used or the extent of earnings management (Ronen, Varda, & Yaari, 2008).

In our case study we will use the discretionary total accruals method.

III. The Enron case:

The Enron story comes in three stages:

Stage 1: The Company leveraged itself through debt, which it used to grow its non-core wholesale energy operations and service business. Some of this debt was reportable on the company's balance sheet, and some was not. No problem for the company, as long as the stock price held up.

Stage 2: The stock price fell. When that happened, off-balance-sheet liabilities put pressure on debt agreements, and eventually led to credit downgrades.

Stage 3: The margins in this business are very thin and lower credit quality increased Enron's cost of borrowing to the point where the whole company fell into a liquidity trap.

1. Background:

Enron was born in July 1985 when Houston Natural Gas merged with Omaha-based Inter-North. Kenneth Lay, an energy economist became chairman and chief executive. As the energy markets, and in particular the electrical power markets were deregulated, Enron's business expanded into brokering and trading electricity and other energy commodities. The deregulation of these markets was a key Enron strategy as it invested time and money in lobbying Congress and state legislatures for access to what traditionally had been publicly provided utility markets. Some of Enron's top executives became frequently named corporate political patrons of the Republican Party. Enron needed the federal government to allow it to sell energy and other commodities. According to the Center for Responsive Politics, between 1989 and 2001, Enron contributed nearly $6 million to federal parties and candidates. It was one of the first amongst energy companies to begin trading through the Internet, offering a free service that attracted a vast amount of customers. But while Enron boasted about the value of products that it bought and sold online – a mind-boggling $880bn in just two years – the company remained silent about whether these trading operations were actually making any money. At about this time, it is believed that Enron began to use sophisticated accounting techniques to keep its share price high, raise investment against it own assets and stock and maintain the impression of a highly successful company. Enron's 2000 annual report reported global revenues of $100bn. Income had risen by 40% in three years.

2. The Chronology of the fall:

20 Feb, 2001: A Fortune story calls Enron a highly impenetrable Co. that is piling on debt while keeping the Wall Street in dark.

On 14 Aug, 2001: Jeff Skilling resigned as chief executive, citing personal reasons. Kenneth Lay became chief executive once again.

12 Oct, 2001: Arthur Anderson legal counsel instructs workers who audit Enron's books to destroy all but the most basic documents.

16 Oct, 2001: Enron reports a third quarter loss of $618 million1.

24 Oct 2001: CFO Andrew Fastow who ran some of the controversial SPE's is replaced. 8 Nov 2001 The Company took the highly unusual move of restating its profits for the past four years. It admitted accounting errors, inflating income by $586 million since 1997. It effectively admitted that it had inflated its profits by concealing debts in the complicated partnership arrangements.

2Dec, 2001: Enron filed for Chapter 11 bankruptcy protection and on the same day hit Dynegy Corp. with a $10 billion breach-of-contract lawsuit.

12 Dec 2001: Anderson CEO Jo Berardino testifies that his firm discovered possible illegal acts committed by Enron.

9 Jan 2002: U.S. Justice Department launches criminal investigation.

Hence within three months Enron had gone from being a company claiming assets worth almost £62bn to bankruptcy. Its share price collapsed from about $95 to below $1(The rise and fall of Enron, 2011).

3. Detecting earning management practices in Enron Corporation (1997-2001):

Using the Enron financial statements we extracted the following results:

Estimation of total accruals:

According to the consolidated statements the total accruals are:

$$TACCi,t = NIi,t - OCFi,t$$

Where:

NIi,t: The net income in the year t

$OCFi,t$:The cash flows from operating activities in the year t

$TACC_{E,1998} = 703 - 1{,}640 = 701{,}36\$$ (in millions)

$TACC_{E,1999} = 893 - 1{,}228 = 891{,}772\$$ (in millions)

$TACC_{E,2000} = 979 - 4{,}779 = 974{,}221\$$ (in millions)

Estimation through Ordinary Least Square Method:

$$\frac{TAC_{E,1998}}{TA_{E,1997}} = \frac{701,36}{22,552} = 31,099$$

$$= \alpha oj\left(\frac{1}{22.552}\right) + \alpha 1j\left(\frac{10,987 - 379,688}{22.552}\right) + \alpha 2j\left(\frac{10,657}{22.552}\right)$$

$$\frac{TAC_{E,1999}}{TA_{E,1998}} = \frac{891,772}{29,350} = 30,384$$

$$= \alpha oj\left(\frac{1}{29.350}\right) + \alpha 1j\left(\frac{8,852 - (-314,03)}{29.350}\right) + \alpha 2j\left(\frac{10,681}{29.350}\right)$$

$$\frac{TAC_{E,2000}}{TA_{E,1999}} = \frac{974,221}{33,381} = 29,184$$

$$= \alpha oj\left(\frac{1}{33.381}\right) + \alpha 1j\left(\frac{60,677 - (-508,76)}{33.381}\right) + \alpha 2j\left(\frac{11,743}{33.381}\right)$$

In order to calculate α1, α2, α3 regression has been used. Total accruals calculated through cash flow statement approach have been regressed on difference between change in revenue in current year and change in receivable in current year and property, plant and equipment as depicted in the above equation. Then coefficient values have been adjusted in equation to calculate non-discretionary accruals1.

As a result following coefficients were obtained:

α 1	661,428
α 2	13,45
α 3	0,274

These values of coefficients α1, α2 and α3 were adjusted in equation to measure non discretionary component of total accruals. As we know discretionary accruals are equal to difference between total accruals and non discretionary accruals so following equation has been used to find out the discretionary accruals.

$$DACC\ i,t\ =\ TACC\ i,t\ -\ NDACC\ i,t$$

Where:

DACC i,t: Discretionary component of accruals in the year t

NDACC i,t : The non - discretionary accruals in the year t

Estimation of non-discretionary accruals:

$$NDACCi,t = \alpha_{oj}\left(\frac{1}{TA\ i,t\text{-}1}\right) + \alpha_{1j}(\Delta REVi,t - \Delta RECi,t)\ + \alpha_{2j}(PPEi,t) + \ell i,t$$

$$NDACCE,1998 = \alpha_{oj}(0,0443) + \alpha_{1j}(-368,701)\ + \alpha_{2j}(10,657)$$

$$NDACCE,1999 = \alpha_{oj}(0,0340) + \alpha_{1j}(322,882)\ + \alpha_{2j}(10,681)$$

$$NDACCE,2000 = \alpha_{oj}(0,229) + \alpha_{1j}(569,437)\ + \alpha_{2j}(11,743)$$

(α 1 -α 2-α 3) = (661,428-13, 45-0,274)

$$NDACCE,1998 = -4926,807$$

$$NDACCE,1999 = 4368,1779$$

$$NDACCE,2000 = 7813,6121$$

Estimation of discretionary accruals:

$$DACC\ i,t\ =\ TACC\ i,t\ -\ NDACC\ i,t$$

$$DACCE,1998 = 701,36 - (-4926,807) = 5628,167$$

$$DACCE,1999 = 891,772 - 4368,1779 = -3476,405$$

$$DACCE,2000 = 974,221 - 7813,6121 = -6839,391$$

Detecting earning management cases:

When we compare between the discretionary accruals and the discretionary accruals average we can detect the earning management practices As follows:

$$DACC\ i,t > \frac{\Sigma DACC\ i,t}{3}\text{: There are an earning management practices}$$

$DACC\ i,t < \frac{\Sigma DACC\ i,t}{3}$: There are not an earning management practices

$$\frac{\Sigma DACC\ i,t}{3} = -4687,629$$

$$DACCE, 1998 = 5628,167 > (-4687,629)$$

$$DACCE,1999 = -3476,405 > (-4687,629)$$

$$DACCE,2000 = -6839,391 < (-4687,629)$$

According to these results we can accept the H1; and say that ENRON Company practiced the earning management from 1997 to 2000.

IV. Corporate governance: One of the most important causes of downfall:

Healy & Palepu write that a well-functioning capital market "creates appropriate linkages of information, incentives, and governance between managers and investors. This process is supposed to be carried out through a network of intermediaries that include assurance professionals such as external auditors; and internal governance agents such as corporate boards". Enron had a model board of directors comprising predominantly outsiders with significant ownership stakes and a talented audit committee. In its 2000 review of best corporate boards, chief executive included Enron among its top five boards. Even with its complex corporate governance and network of intermediaries, Enron was still able to attract large sums of capital to fund a questionable business model, conceal its true performance through a series of accounting and financing maneuvers, and hype its stock to unsustainable levels.

Executive Compensation:

Although Enron's compensation and performance management system was designed to retain and reward its most valuable employees, the setup of the system contributed to a dysfunctional corporate culture that became obsessed with a focus only on short –term earnings to maximize bonuses. Employees constantly looked to start high-volume deals, often disregarding the quality of cash flow or profits, in order to get a higher rating for their performance review. In addition, accounting results were recorded as soon as possible to keep up with the company's stock price. This practice helped ensure deal-makers and executives received large cash bonuses and stock options.

Management was extensively compensated using stock options, similar to other U.S companies. This setup of stock option awards may have caused management to create expectations of rapid growth in efforts to give the appearance of reported earnings to meet Wall Street's expectations. At December 31, 2000 Enron had 96million shares outstanding under stock option plans (approximately 13% of common shares outstanding). Enron's proxy statement stated that, within three years, these awards were expected to be exercised. Using Enron's January 2001stock price of 83, 13$ and the directors' beneficial ownership reported in the 2001proxy, the value of directors stock ownership was 659$million for lay, and 174$million for skilling. The company was constantly focusing on its stock price. The stock ticker was located in lobbies, elevators, and on company computers. At budget meetings skilling would develop target earnings by asking "what earnings do you need to keep our stock price up?" and that number would be used, even if it was not feasible. Skilling believed that if Enron's employees were constantly cost- centered, it would hinder original thinking. As a result, extravagant spending was rampant throughout the company, especially among the executives. Employees had large expense accounts and many executives were paid sometimes twice as much as competitors. In 1998, the top200 highest-

paid employees earned 193$millions from salaries, bonuses, and stock. Two years later, the figure jumped to 1,4$billion.

Risk Management:

Before its falls, Enron was lauded for its sophisticated financial risk management tools. Risk management was crucial to Enron not only because of its regulatory environment, but also because of its business plan. In response to price and supply volatility risks in the energy industry, Enron placed long term fixed commitments which needed to be hedged. Enron's rapid decline into bankruptcy is linked to its aggressive and questionable use of derivatives and special purpose entities. By hedging its risks with special purpose entities which it owned Enron retained the risks inherent to the transactions. As such Enron effectively entered into hedges with itself. Enron's high-risk accounting practices were not hidden from the board of directors. The board knew of the practices and took no action to prevent Enron from using them. The board was briefed on the purpose and nature of the whitening LJM, and raptor transactions, explicitly approved them, and received updates on their operations. Enron's extensive off the –book activity was not only well known to the board, but was made possible by board resolutions. Even though Enron was running a derivatives business, it seems that those on the finance committee and, more generally on the board, did not have a sufficient derivatives background to understand and evaluate what they were being told.

Financial Audit:

Enron's auditor firm Arthur Andersen was accused of applying reckless standards in their audits because of a conflict of interest over the significant consulting fees generated by Enron. In 2000, Arthur Andersen earned 25$million in audit fees and 27$million in consulting fees (this amount accounted for roughly 27$of the audit fees of public clients for Arthur Andersen's Houston office). The auditors' methods were questioned as either being completed for conflicted incentives or a lack of expertise to adequately evaluate the financial complexities Enron employed. Enron hired numerous certified public accountants (CPA) as well as accountants who had worked on developing accounting rules with the financial accounting standards board (FASB). The accountants looked for new ways to save the company money, including capitalizing on loopholes found in the accounting industry's standards, generally accepted accounting principles (GAAP). One Enron accountant revealed "we tried to aggressively use the literature (GAAP) to our advantage. All the rules create all these opportunities. We got to where we did because we exploited that weakness". Andersen's auditors were pressured by Enron's management to defer recognizing the changes from the special purpose entities as their credit risks became clear. Since the entities would never return a profit, accounting guidelines required that Enron should take a write-off, where the value of the entity was removed from the balance sheet at a loss. To pressure Andersen into meeting Enron's earnings expectations, Enron would occasionally allow accounting firms Ernst & Young or Pricewaterhousecoopers to complete accounting tasks to create the illusion of hiring a new firm to replace Andersen. Although Andersen was equipped with internal controls to protect against conflicted incentives of local partners, they failed to prevent conflict of interest. In one case, Andersen's Houston office, which performed the Enron audit, was able to overrule any critical reviews of Enron's accounting decisions by Andersen's Chicago partner. In addition, when news of SEC investigations of Enron were made public. Andersen attempted to cover up any negligence in its audit by shredding several tons of supporting documents and deleting nearly 30.000 e-mails and computer files.

Audit Committee:

Corporate audit committees usually meet for just a few times during the year, and their members typically have only a modest background in accounting and finance. Enron's audit committee usually had short meetings that

would cover large amounts of material. In one meeting on February 12, 2001, the committee met for only one hour and 25 minutes. Enron's audit committee did not have the technical knowledge to properly question the auditors on accounting questions related to the company's special purpose entities. The committee was also unable to question the management of the company due to pressures placed on the committee. The permanent subcommittee on investigations of the committee on governmental affairs 'report accused the board members of allowing conflicts of interest to impede their duties as monitoring the company's accounting practices. When Enron fell, the audit committee's conflicts of interest were regarded with suspicion.

Other Accounting Issues:

Enron made a habit of booking costs of cancelled projects as assets, with the rationale that no official letter had stated that the project was cancelled. This method was known as "the snowball", and although it was initially dictated that snowballs stay under 90$ million, it was later extended to 200$ million. In 1998, when analysts were given a tour of the Enron energy services office, they were impressed with how the employees were working so vigorously. in reality, skilling had moved other employees to the office from other departments (instructing them to pretend to work hard) to create the appearance that the division was bigger than it was. This ruse was used several times to fool analysts about the progress of different areas of Enron to help improve the stock price (The rise and fall of Enron, 2011).

CONCLUSION:

From all of the above discussion it has been clear that quality of corporate governance is positively related with earnings management as far as ENRON corporate culture is concerned. We can conclude the following results:

- The corporate governance has an effective tool to detect earning management practices, according to the financial auditing missions and the audit committee.
- Enron Exercised the earning management practices from 1997 to2000,
- The ineffectiveness corporate governance system of Enron led this company to collapse.

There could be a lot of reasons which have already been discussed in the results section. One of these reasons could be the disclosure of corporate governance practices given by companies. That is some companies do not disclose their actual compliance of corporate governance practices and as our reliance is on the information given by the company so the results could be distorted due to this fact.

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