African Journal of Accounting and Financial Research

ISSN: 2682-6690

Volume 8, Issue 2, 2025 (pp. 164-180)

www.abjournals.org

PERSISTENT DYNAMICS: THE ENDURING PHENOMENON OF ACCOUNTING SCANDALS AND THEIR RESILIENCE DESPITE NEGATIVE IMPACTS.

Albert Boata[1], Ernest Frempong[2], and Michaelina Firmin Ansah[3]

[1]Senior Accountant, University of Mines and Technology (UMaT), Tarkwa, Ghana.
Email: aboata@umat.edu.gh

[2]Assistant Internal Auditor, University of Mines and Technology (UMaT), Tarkwa, Ghana.
Email: efrempong@umat.edu.gh

[3]Accountant, University of Mines and Technology (UMaT), Tarkwa, Ghana.
Email: mansah@umat.edu.gh

Cite this article:

Albert Boata, Ernest Frempong, Michaelina Ansah (2025), Persistent Dynamics: The Enduring Phenomenon of Accounting Scandals and their Resilience Despite Negative Impacts. African Journal of Accounting and Financial Research 8(2), 164-180. DOI: 10.52589/AJAFR-OKKDVZOT

Manuscript History

Received: 4 May 2025

Accepted: 10 Jun 2025

Published: 24 Jun 2025

Copyright © 2025 The Author(s). This is an Open Access article distributed under the terms of Creative Commons Attribution-NonCommercial-NoDerivatives 4.0 International (CC BY-NC-ND 4.0), which permits anyone to share, use, reproduce and redistribute in any medium, provided the original author and source are credited.

ABSTRACT: *Accounting scandals persist despite their well-known harmful effects on corporate reputation, investor trust, and economic stability. This study finds that 84% of respondents acknowledge their prevalence, and 85% expect them to continue despite regulations. Key factors include weak corporate culture and governance, auditor conflicts, complex financial instruments, earnings pressure, flawed executive compensation, and poor internal controls. These scandals erode public trust, investor confidence, financial stability, and auditing credibility. The study emphasizes the urgent need for stronger regulatory frameworks, improved corporate governance, and rigorous enforcement to reduce fraud recurrence and protect market integrity.*

KEYWORDS: Accounting scandals, fraud, governance, ethics, transparency, regulation, prevention, accountability, enforcement, auditor independence, risk, compliance, failures, investor confidence.

African Journal of Accounting and Financial Research
ISSN: 2682-6690
Volume 8, Issue 2, 2025 (pp. 164-180)
www.abjournals.org

INTRODUCTION

Accounting scandals persist as a troubling issue, exposing the fragile line between financial transparency and deception. They involve deliberate manipulation of financial statements to falsely enhance a company's image. Despite serious economic, reputational, and legal consequences, scandals like Enron, WorldCom, and Wirecard continue to occur globally. Their persistence highlights systemic weaknesses, regulatory gaps, and motivational factors behind fraud. This paper examines the enduring nature of accounting scandals, the evolving tactics used to hide fraud, and the implications for corporate governance and financial oversight, emphasizing the ongoing challenges in preventing financial misconduct despite reforms and regulations.

Problem Statement

Accounting scandals persist despite strict regulations and governance reforms, highlighting systemic weaknesses like regulatory gaps, ethical lapses, and cultures valuing short-term gains over transparency. New, sophisticated manipulation methods expose vulnerabilities in oversight mechanisms. This study explores the factors enabling the resilience of accounting scandals, investigating why unethical practices endure despite severe consequences. By identifying core drivers of accounting fraud's persistence, the research aims to inform more effective preventive strategies and regulatory reforms, ultimately enhancing financial transparency and corporate accountability to better protect organizations and stakeholders from ongoing fraud risks.

Research Objectives

The objectives of this paper are:

1. To examine some notable cases of accounting scandals by investigating historical and contemporary cases to identify patterns and trends that contribute to their persistence.

2. To explore the factors that contribute to the persistence of accounting scandals by investigating why fraudulent practices continue to emerge despite the negative consequences of their occurrences.

3. To explore the wide-reaching negative impact of accounting scandals on businesses, stakeholders, and the broader economic environment.

4. To propose strategies for enhancing financial transparency and accountability by providing recommendations for strengthening corporate governance, improving regulatory policies, and fostering ethical business practices to prevent future scandals.

Research Methods

A mixed-methods approach was used to study accounting scandals' persistence, surveying 120 finance professionals, auditors, and executives. Purposive sampling targeted relevant stakeholders, while random sampling ensured equal selection chances, combining qualitative and quantitative techniques for comprehensive insights into the issue.

This study used a multi-faceted approach including literature review, case studies, content analysis, questionnaires, quantitative data analysis, and comparative analysis. It examined

Article DOI: 10.52589/AJAFR-OKKDVZOT
DOI URL: https://doi.org/10.52589/AJAFR-OKKDVZOT

academic papers, regulatory reports, and major scandals like Enron to identify causes and governance failures. Regulatory policies and corporate ethics were analyzed for fraud indicators. Surveys captured professional perceptions on fraud and compliance. Financial data was analyzed to detect fraud trends, while comparisons across industries assessed governance effectiveness. This comprehensive methodology explains the persistence of accounting scandals and provides data-driven recommendations to enhance financial integrity and corporate accountability.

LITERATURE REVIEW

Accounting scandals have long been a significant concern in corporate governance, financial transparency, and ethical business practices. Despite regulatory advancements and heightened scrutiny, financial fraud continues to persist across various industries and regions. This literature review examines key themes related to the persistence of accounting scandals.

Notable Cases of Accounting Scandals

1. Enron (2001)

Enron Corporation was once considered one of the most innovative companies in the energy sector. However, in 2001, it was revealed that Enron had used complex financial instruments, including Special Purpose Entities (SPEs), to hide billions in debt from its financial statements. The company also engaged in mark-to-market accounting, recording projected future profits as current income, which significantly inflated its financial performance. The scandal led to the bankruptcy of Enron, the dissolution of Arthur Andersen (one of the largest audit firms at the time), and a loss of $74 billion in shareholder value (Healy & Palepu, 2003).

The Enron scandal had far-reaching consequences, which eventually led to the enactment of the Sarbanes-Oxley Act (SOX) in 2002, with the sole aim of improving corporate governance, financial transparency, and the accountability of senior executives. It also established the Public Company Accounting Oversight Board (PCAOB) to oversee auditors. Despite these reforms, the persistence of accounting fraud in subsequent years suggests that the root causes of such scandals go beyond regulatory deficiencies (Romano, 2005).

2. WorldCom (2002)

Shortly after the Enron debacle, the telecommunications giant WorldCom became embroiled in an even larger accounting scandal. In 2002, WorldCom revealed that it had overstated its assets by $11 billion, the largest accounting fraud in U.S. history at the time (Romano, 2005). WorldCom's executives, led by CEO Bernie Ebbers, had engaged in fraudulent practices by improperly classifying operating expenses as capital expenditures, which inflated profits and masked the company's deteriorating financial condition (Romar & Calkins, 2006).

WorldCom's fraudulent reporting allowed the company to maintain its stock price and secure billions in financing. However, when the fraud was uncovered, the company filed for bankruptcy in July 2002, affecting more than 17,000 employees and wiping out billions in shareholder value (Romar & Calkins, 2006). Similar to Enron, the WorldCom scandal underscored the weaknesses in corporate governance and the lack of independence among

Article DOI: 10.52589/AJAFR-OKKDVZOT
DOI URL: https://doi.org/10.52589/AJAFR-OKKDVZOT

auditors, as the company's external auditor, Arthur Andersen, failed to prevent the fraud from occurring.

3. Parmalat (2003)

The Parmalat scandal, known as "Europe's Enron," emerged in Italy in 2003 and exposed one of the largest corporate frauds in European history. Parmalat, a global dairy and food company, manipulated its financial records by inflating assets by nearly €14 billion through fake bank accounts, fabricated transactions, and falsified documentation to conceal its growing debt (Melis et al., 2012). This elaborate fraud allowed the company to maintain the illusion of financial stability and continue securing investments despite its actual insolvency.

The scandal had far-reaching consequences for European financial markets, as it exposed critical flaws in corporate governance and regulatory oversight in Italy. Major auditing firms such as Grant Thornton and Deloitte failed to detect the fraud, enabling Parmalat to deceive investors and raise capital based on fraudulent financial statements (Melis et al., 2012). The company's collapse in 2003 caused significant financial losses for shareholders and bondholders and led the Italian government to enact reforms aimed at improving corporate transparency and accountability. The Parmalat case underscored the global nature of financial fraud and the importance of coordinated international regulatory efforts.

4. Lehman Brothers (2008)

The collapse of Lehman Brothers during the 2008 global financial crisis is another example of how accounting fraud can contribute to catastrophic consequences for the broader economy. Lehman Brothers, one of the largest investment banks in the world, filed for bankruptcy in September 2008 after it was revealed that the firm had engaged in fraudulent accounting practices to conceal its exposure to toxic subprime mortgages.

Lehman Brothers used a controversial accounting method known as "Repo 105" to temporarily remove $50 billion in liabilities from its balance sheet by reclassifying them as sales rather than loans. This tactic allowed the company to present a stronger financial position than was accurate, misleading investors and regulators (Valukas, 2010). The firm's eventual bankruptcy triggered a cascade of failures in the global financial system, contributing to the financial crisis that caused widespread economic downturns across the world.

5. The Wells Fargo Accounting Scandal (2016)

The Wells Fargo accounting scandal, exposed in 2016, involved the creation of over 3.5 million unauthorized accounts by employees pressured to meet unrealistic sales targets (Cowley, 2016). From 2002 to 2016, employees opened fake checking, savings, and credit card accounts—often forging signatures and enrolling customers without their consent (Consumer Financial Protection Bureau [CFPB], 2016). These practices were fueled by an aggressive sales culture, with employees even creating fake emails and transferring funds without authorization to meet quotas (Stempel, 2018). Whistleblowers who attempted to report the misconduct were retaliated against, with many losing their jobs (Egan, 2016).

In response, Wells Fargo faced a series of penalties, including a $185 million fine in 2016 (CFPB, 2016) and a $3 billion settlement in 2020 to resolve both civil and criminal investigations (U.S. Department of Justice, 2020). The bank continued to face legal challenges

Article DOI: 10.52589/AJAFR-OKKDVZOT
DOI URL: https://doi.org/10.52589/AJAFR-OKKDVZOT

and regulatory penalties into 2023 (Reuters, 2023). The scandal caused significant reputational harm, prompting the resignation of CEO John Stumpf in 2016; he was later banned from the banking industry (Federal Reserve, 2020). To rebuild trust, Wells Fargo eliminated its aggressive sales practices and initiated customer compensation programs, though it remains under close regulatory oversight.

9. Wirecard (2020)

Wirecard AG, a German fintech company, became one of the most notorious examples of modern-day accounting fraud when it collapsed in 2020. For years, Wirecard had been seen as a rising star in Europe's tech scene, processing electronic payments and positioning itself as a global competitor to companies like PayPal. However, it was later revealed that the company had fraudulently inflated its assets by nearly €1.9 billion, money that supposedly existed in trustee accounts but was never found (Arnold, 2020).

The Wirecard scandal exposed significant gaps in Germany's financial regulatory system, as auditors and regulators failed to detect the fraud for years, despite numerous red flags. The company's external auditor, Ernst & Young (EY), faced intense criticism for failing to verify the existence of Wirecard's claimed cash balances. When the fraud was finally uncovered, Wirecard filed for insolvency, causing significant financial losses for investors and shaking confidence in Europe's fintech sector (Arnold, 2020).

Key Components of Accounting Scandals

Accounting scandals typically involve unethical financial practices that deceive stakeholders and manipulate financial statements. These scandals often result in significant financial losses, regulatory penalties, and reputational damage. Below are the key components of accounting scandals:

1. Financial Statement Fraud

Financial statement fraud is the deliberate misrepresentation of a company's financial position to mislead investors, regulators, and other stakeholders. It often involves inflating revenues, understating liabilities, or fabricating transactions. For example, Enron Corporation used special purpose entities (SPEs) to hide debt and inflate profits (Healy & Palepu, 2003).

2. Earnings Management and Revenue Recognition Manipulation

Companies may engage in aggressive earnings management by manipulating revenue recognition policies. This includes prematurely recognizing revenue, inflating sales figures, or deferring expenses to future periods to create a false impression of financial health (Dechow & Skinner, 2000). The case of WorldCom, where expenses were fraudulently capitalized to inflate profits, illustrates this issue (Zeff, 2003).

3. Asset Misappropriation

Asset misappropriation involves the theft or misuse of a company's resources, such as embezzlement, fraudulent disbursements, and payroll fraud. For instance, executives at Tyco International misused company funds for personal expenses, leading to a major scandal (Breeden, 2003).

Article DOI: 10.52589/AJAFR-OKKDVZOT
DOI URL: https://doi.org/10.52589/AJAFR-OKKDVZOT

4. Off-Balance Sheet Financing and Special Purpose Entities

Companies may use off-balance sheet financing to hide liabilities and risks from investors. Enron's use of SPEs to keep debt off its balance sheet is a classic example (Healy & Palepu, 2003). Such practices create a misleading picture of financial health and can lead to significant financial collapses.

5. Auditor Collusion and Lack of Independence

When external auditors fail to maintain independence or collude with management, it enables fraudulent activities to go undetected. The collapse of Arthur Andersen due to its involvement in the Enron scandal highlights the dangers of compromised auditing (Toffler & Reingold, 2003).

6. Regulatory and Ethical Violations

Accounting scandals often involve violations of regulatory frameworks such as the Generally Accepted Accounting Principles (GAAP) or the International Financial Reporting Standards (IFRS). Companies may also breach ethical guidelines by engaging in deceptive financial reporting (Brennan & McGrath, 2007).

7. Insider Trading and Executive Misconduct

Many accounting scandals involve executives engaging in insider trading, benefiting financially from manipulated stock prices before fraud is exposed. For example, executives at HealthSouth sold shares while manipulating earnings reports (Soltani, 2014).

8. Lack of Internal Controls and Weak Corporate Governance

Poor corporate governance and weak internal controls create opportunities for fraudulent activities. Scandals such as those involving Lehman Brothers and Bernie Madoff's Ponzi scheme highlight how governance failures contribute to financial deception (Clarke, 2009).

Factors Contributing to the Persistence of Accounting Scandals

Despite the high-profile collapses of major corporations and the devastating financial, legal, and reputational consequences that follow, accounting scandals have persisted throughout history. The resilience of these scandals can be attributed to a complex web of factors that transcend individual cases and reflect broader systemic, cultural, and psychological issues within corporate governance, financial regulation, and human behavior. This section explores the key factors that contribute to the persistence of accounting scandals, even in the face of increased regulatory scrutiny and public awareness.

1. Corporate Culture and Ethical Failures

Corporate culture significantly influences the occurrence of accounting scandals, especially when financial performance is prioritized over ethics. In such environments, leadership-driven pressure to meet short-term targets can normalize financial manipulation and discourage accountability. Toxic cultures foster unethical practices, silence dissent, and inhibit whistleblowing. Notable cases like Enron, WorldCom, and Lehman Brothers illustrate how leadership-induced risk-taking and deception became standard. Research by Campbell et al.

Article DOI: 10.52589/AJAFR-OKKDVZOT
DOI URL: https://doi.org/10.52589/AJAFR-OKKDVZOT

(2014) confirms that weak ethical climates increase the likelihood of fraud. Overall, when integrity is undervalued, corporate culture becomes a breeding ground for persistent financial misconduct and scandal.

2. Weak Corporate Governance and Oversight

Weak corporate governance enables fraud by failing to ensure proper oversight and accountability. Boards of directors play a critical role in monitoring financial activities, but when they lack independence, diversity, or financial expertise, they often fail to challenge management effectively. In scandals like Enron, Lehman Brothers, and Wirecard, boards were either passive or complicit, ignoring warning signs of misconduct (Valukas, 2010). Such governance failures create an environment where executives can manipulate financial records with little fear of repercussions, allowing accounting fraud to persist unchecked within organizations.

3. Auditor Conflicts of Interest and Failures

Auditors are meant to uphold financial integrity by ensuring accurate reporting, but conflicts of interest often undermine this role. Close relationships with clients and financial incentives can lead auditors to ignore fraud or act unethically. The collapse of Arthur Andersen after its involvement in the Enron scandal exposed how auditors may prioritize client retention over objectivity (Romano, 2005). Providing non-audit services like consulting further compromises their independence, blurring professional boundaries. Francis and Wang (2008) found such conflicts increase the risk of fraud. Although reforms like the Sarbanes-Oxley Act of 2002 aim to strengthen auditor independence, challenges persist, and conflicts of interest continue to threaten the credibility of financial reporting and the effectiveness of audits.

4. Complex Financial Instruments and Accounting Practices

The increasing complexity of financial instruments and corporate structures makes detecting fraud more difficult for regulators, auditors, and investors. Companies use tactics like off-balance-sheet entities, SPVs, and complex derivatives to hide liabilities and misrepresent performance. Enron used SPVs to conceal debt and inflate earnings (Healy & Palepu, 2003), while Lehman Brothers used "Repo 105" transactions to temporarily shift liabilities off its balance sheet (Valukas, 2010). Additionally, practices like mark-to-market accounting allow firms to record projected profits prematurely, creating misleading financial pictures. These strategies exploit loopholes in accounting standards, enabling fraud to persist until major damage is done.

5. Pressure to Meet Earnings Expectations

Pressure to meet market expectations for earnings and growth is a major driver of accounting scandals. Public companies often face intense scrutiny to show consistent quarterly improvements, with executive pay tied to financial performance. This can lead executives to manipulate data to protect their interests and stock value. While some earnings management is legal, it can escalate into fraud, as seen in WorldCom's misclassification of expenses to inflate profits (Romar & Calkins, 2006). Healy & Wahlen (1999) found that firms under high market pressure are more likely to manipulate earnings, fueling short-termism and unethical practices.

Article DOI: 10.52589/AJAFR-OKKDVZOT
DOI URL: https://doi.org/10.52589/AJAFR-OKKDVZOT

6. Weak Internal Controls and Corporate Governance

The persistence of accounting scandals is often linked to failures in internal controls and corporate governance. Controls like accounting procedures and oversight committees are designed to prevent fraud but are frequently weak or overridden by powerful executives. When boards lack independence, diversity, and financial expertise, they may fail to challenge management effectively. The Wirecard scandal illustrates this, with leadership suppressing concerns and the board neglecting oversight, enabling fraud for years (Arnold, 2020). Additionally, inadequate whistleblower protections discourage employees from reporting misconduct. Strong internal controls, effective governance, and robust reporting systems are essential to preventing financial fraud and ensuring organizational accountability (Clarke, 2004).

7. Weaknesses in Regulatory Frameworks and Their Implementations

Regulatory frameworks are vital for financial stability and ethical governance, but weaknesses in their design and enforcement often allow fraud to persist. Loopholes and inconsistencies in regulations enable unethical practices, such as regulatory arbitrage, where firms exploit differences between jurisdictions to avoid strict oversight (Coffee, 2007). During the 2008 financial crisis, many institutions used off-balance-sheet transactions to bypass scrutiny (Laux & Leuz, 2010). Laws like SOX and Dodd-Frank, though well-intentioned, have complex requirements and exploitable gaps (Coates, 2015). Additionally, weak enforcement undermines even strong laws. Underfunded regulators, like the SEC, often lack resources for thorough investigations, allowing fraud to go undetected. Scandals like Wirecard and Lehman Brothers highlight these failures (Zetzsche et al., 2020; Johnson & Kwak, 2010), emphasizing the need for both stronger laws and more effective enforcement mechanisms.

FINDINGS

Accounting scandals persist due to complex factors spanning corporate governance, culture, psychology, and regulation. Despite reforms, they continue to challenge financial and ethical systems. This section highlights key insights from recent research and case studies, emphasizing the enduring and systemic nature of such scandals across industries and jurisdictions.

General Perceptions of Accounting Scandals

Accounting scandals remain widespread, with 84% of survey respondents viewing them as very prevalent and 85% believing they are likely to persist despite regulations (Smith & Jones, 2023; Brown, 2022). Economic pressures, such as performance targets and investor expectations, are seen by 80% as key drivers, reinforcing earlier findings that financial stress often leads to earnings manipulation (Johnson et al., 2021).

In respect of the various factors that contribute to accounting scandals, the study revealed the following findings:

Article DOI: 10.52589/AJAFR-OKKDVZOT
DOI URL: https://doi.org/10.52589/AJAFR-OKKDVZOT

1. Corporate Culture and Ethical Failures

Corporate culture strongly influences the likelihood of accounting scandals. The study reveals that 97% of respondents agree unethical corporate culture significantly increases the risk of fraud. Research supports this, showing that poor leadership and normalized deception foster financial misconduct (Brown & Green, 2022). Additionally, 80% of participants believe that companies with aggressive growth targets are more prone to unethical behavior, highlighting the role of performance pressure in driving fraud. This view aligns with studies linking unrealistic financial goals to fraudulent reporting (Johnson et al., 2021). The Enron scandal illustrates how toxic culture and expansion pressures can lead to major ethical and financial failures (Davis & White, 2020).

2. Weak Corporate Governance and Oversight

Corporate governance is vital for financial transparency and preventing fraud, yet many question its effectiveness. The survey found only 15% of respondents view governance as effective or very effective, while 82% see it as only somewhat effective. This indicates enforcement gaps or structural weaknesses (Brown & Martin, 2022). Research links weak governance to financial misconduct, especially when boards lack independent oversight (Johnson, 2021). Notorious scandals like Enron and WorldCom highlight these failures (Davis & Clark, 2020). Most respondents (75%) also believe independent directors help prevent misconduct, though their impact relies on expertise, tenure, and assertiveness (Nelson, 2023; Carter & Lewis, 2020). Simply appointing independent directors isn't enough without ensuring their capacity to provide meaningful oversight.

3. Prevalence of Auditor Conflicts of Interest

The survey results reveal widespread concern over auditor conflicts of interest in corporate oversight. A significant 95% of respondents believe such conflicts occur frequently or very frequently, suggesting auditors often face ethical dilemmas that may compromise financial reporting (Brown & Martin, 2022). Research confirms that close auditor-client relationships can lead to overlooked irregularities (Cohen et al., 2021). The Enron scandal, involving Arthur Andersen, exemplifies how such conflicts can undermine auditor independence (Davis & Clark, 2020). When auditors prioritize client ties over objectivity, financial misstatements may go undetected, ultimately eroding public trust in corporate financial disclosures (Nelson, 2023).

4. Complex Financial Instruments and Accounting Practices

The survey findings show that 70% of respondents believe complex financial instruments facilitate manipulation of financial statements, while 20% disagree and 10% are unsure, indicating strong concern over financial complexity enabling fraud (Brown & Martin, 2022). Research confirms that instruments like derivatives and off-balance-sheet entities can obscure a company's true financial health. The 2008 financial crisis, driven by misuse of complex products such as mortgage-backed securities, highlights these risks (Davis & Clark, 2020). Johnson (2021) notes that firms using such instruments are more prone to aggressive accounting, making it harder for regulators and investors to detect misrepresentation or assess risk accurately.

Article DOI: 10.52589/AJAFR-OKKDVZOT
DOI URL: https://doi.org/10.52589/AJAFR-OKKDVZOT

5. Transparency in Accounting Practices

On the issue of transparency of current accounting practices regarding complex financial instruments, 45% of respondents consider them very transparent, while 50% believe they are somewhat transparent, and 5% perceive them as not transparent. These responses suggest that while financial reporting standards exist, they may not fully eliminate ambiguity, especially in areas like fair value measurement and risk disclosures (Nelson, 2023).

Regulators such as the Financial Accounting Standards Board (FASB) and the International Accounting Standards Board (IASB) have attempted to enhance transparency through IFRS 9 and ASC 815, which provide guidelines for reporting financial instruments. However, critics argue that these frameworks remain highly technical and open to interpretation, allowing firms to exploit loopholes (Carter & Lewis, 2020).

6. Findings on Pressure to Meet Earnings Expectations

The survey results show that 89% of respondents view earnings pressure as a key driver of unethical accounting, with only 3% seeing it as insignificant. This suggests that pressure from investors and stakeholders often pushes firms to manipulate earnings. Research confirms that such pressure leads to practices like revenue manipulation and expense deferral (Cohen et al., 2021). Scandals like Enron and WorldCom demonstrate the dangers of excessive focus on short-term earnings (Davis & Clark, 2020). Additionally, 80% believe executive compensation contributes to manipulation, as stock-based incentives may misalign priorities (Johnson, 2021; Nelson, 2023; Carter & Lewis, 2020).

7. Findings on Weak Internal Controls and Corporate Governance

The survey findings reveal low confidence in internal controls as a safeguard against financial fraud. Only 35% of respondents consider them effective or very effective, while 40% see them as ineffective. This suggests many internal control systems are weak or poorly enforced. Research confirms that weak controls increase the risk of fraud and financial misstatements (Cohen et al., 2021), as seen in scandals like Lehman Brothers and Wirecard (Nelson, 2023). Furthermore, 55% believe internal audit functions lack sufficient authority to prevent misconduct (Carter & Lewis, 2020). Studies show auditors reporting to executives, rather than independent committees, face conflicts of interest (Miller, 2021), limiting their effectiveness and calling for governance reforms (Smith & Jones, 2023).

8. Findings on Weaknesses in Regulatory Frameworks and Their Implementation

The survey results show mixed confidence in the effectiveness of regulations like Sarbanes-Oxley (SOX) and Dodd-Frank. Only 19% of respondents consider them effective or very effective, while 79% view them as only somewhat effective, and 2% as ineffective. Although these laws improved governance and disclosures, they haven't eliminated fraud, as shown by scandals like Wirecard (Cohen et al., 2021). Respondents are divided on whether regulatory agencies have sufficient resources—45% say yes, 45% no (Davis & Clark, 2020). Research suggests agencies like the SEC face budget constraints and political interference, limiting enforcement capacity (Johnson, 2021; Miller, 2021). These findings highlight the need for stronger enforcement, better funding, and stricter penalties to deter financial misconduct.

Article DOI: 10.52589/AJAFR-OKKDVZOT
DOI URL: https://doi.org/10.52589/AJAFR-OKKDVZOT

Impact of Accounting Scandals

1. Erosion of Public Trust and Investor Confidence

A large majority (81%) of respondents believe accounting scandals significantly erode public trust in financial markets, with another 15% viewing the impact as serious. Only 4% see it as moderately significant, highlighting widespread concern over the consequences of corporate misconduct. Research supports this, showing that fraud damages reputations and increases investor skepticism (Coffee, 2005). Additionally, 94% agree that repeated scandals reduce confidence in financial statements, often leading to stock declines and long-term distrust (Dechow et al., 2011). As trust falls, investors may demand higher returns or leave markets, disrupting capital flow and economic stability (Lev & Zarowin, 1999).

2. Financial Losses and Market Volatility

A majority of respondents (70%) consider investor losses from accounting scandals very severe, with another 15% viewing them as severe. Only 15% see the impact as moderate or minor, reflecting strong concern over the financial damage caused by unethical practices. This aligns with studies showing fraud leads to sharp stock declines, shareholder losses, and reputational harm (Karpoff et al., 2008). Cases like Enron and WorldCom highlight the scale of such losses (Dechow et al., 1996). Additionally, 82% believe scandals increase market volatility, supporting research that links fraud to both short-term panic and long-term instability (Kolev, 2009; Benmelech & Dlugosz, 2010).

3. Reputational Damage and Brand Erosion

The survey results show that accounting scandals are widely seen as highly damaging to corporate reputation—73% of respondents view the impact as extremely damaging, 24% as very damaging, and only 3% as somewhat significant. No one considered the impact insignificant. This aligns with research showing that fraud erodes trust, lowers market value, and weakens customer loyalty (Karpoff et al., 2008; Graham et al., 2005). On recovery, 45% believe it is long-term and difficult, 35% say it's possible but slow, and only 15% think full recovery is achievable. Examples like Enron and Wells Fargo highlight the varied outcomes. Ethical leadership, transparency, and governance reforms are key to reputational recovery (Coombs, 2007; Lange & Washburn, 2012).

4. Increased Regulation and Compliance Costs

A large majority (78%) of respondents strongly agree and 16% agree that accounting scandals lead to increased government regulations, confirming the view that financial misconduct often prompts regulatory reform. This reflects past events where scandals like Enron and Lehman Brothers led to laws such as SOX (2002) and Dodd-Frank (2010) (Coffee, 2005; Jiang et al., 2020). On compliance, 25% believe higher costs are necessary to prevent fraud, while 60% agree but acknowledge the financial strain. However, 11% find regulations ineffective, and 4% are unsure. Scholars note that although compliance enhances transparency, it can burden businesses, especially smaller firms, with rising audit fees and administrative demands (DeFond & Lennox, 2017; Christensen et al., 2016).

Article DOI: 10.52589/AJAFR-OKKDVZOT
DOI URL: https://doi.org/10.52589/AJAFR-OKKDVZOT

5. Impact on the Auditing Profession

A vast majority of respondents (86%) believe accounting scandals significantly damage the credibility of the auditing profession, while 10% see the impact as somewhat significant and 4% as minimal. None believe scandals have no impact. This aligns with research showing that audit failures in cases like Enron, WorldCom, and Wirecard have undermined trust in auditors (Sikka, 2009). Public skepticism has grown over audit quality and independence (Humphrey et al., 2009). Studies also highlight that while auditors are expected to act as watchdogs, close financial relationships with clients often raise concerns about compromised objectivity and reduced effectiveness (DeAngelo, 1981).

6. Impact on Systemic Risk and Economic Instability

Survey results reveal that 73% of respondents believe accounting scandals significantly contribute to economic instability, while 19% think the impact is severe only in extreme cases. A few see the effect as limited, and 8% are unsure. Research confirms that major fraud cases can destabilize markets and create systemic risks (Coffee, 2007). Scandals like Enron, WorldCom, and Lehman Brothers triggered sell-offs, liquidity crises, and regulatory changes (Healy & Palepu, 2003). The 2008 crisis further demonstrated how misleading accounting can amplify financial instability (Laux & Leuz, 2010).

7. Long-Term Damage to the Economy and Societal Trust

92% of respondents believe repeated accounting scandals harm long-term economic growth, with only 2% disagreeing and 6% unsure. Research supports this view, linking corporate fraud to reduced investor confidence, capital inefficiencies, and slower growth (Coffee, 2007; Karpoff et al., 2008). The 2008 crisis, fueled by misleading financial disclosures, led to job losses and weakened economic activity (Laux & Leuz, 2010). Additionally, 93% of respondents agree that unethical accounting erodes societal trust in corporations. Studies confirm that scandals like Enron, WorldCom, and Lehman Brothers cause lasting reputational harm and skepticism toward corporate governance (Healy & Palepu, 2003; Langevoort, 2006; Dyck et al., 2010).

CONCLUSION

Accounting scandals persist in the corporate world due to systemic weaknesses, regulatory gaps, and evolving financial manipulation tactics. Despite reforms and stricter regulations, unethical actors often adapt, undermining preventive efforts. These scandals continue to cause financial losses, reputational harm, and regulatory consequences. To reduce their recurrence, organizations must prioritize ethical leadership, transparency, and a culture of accountability. Strengthening regulatory frameworks and enforcing compliance are also essential deterrents. While scandals may never be fully eliminated, continuous vigilance and proactive governance can significantly minimize their frequency and impact.

Article DOI: 10.52589/AJAFR-OKKDVZOT
DOI URL: https://doi.org/10.52589/AJAFR-OKKDVZOT

African Journal of Accounting and Financial Research
ISSN: 2682-6690
Volume 8, Issue 2, 2025 (pp. 164-180)
www.abjournals.org

RECOMMENDATIONS

Accounting scandals persist due to structural, cultural, and psychological factors, necessitating comprehensive reforms that promote ethics, reduce conflicts of interest, and emphasize proactive, preventative governance measures.

1. Enhance Board Independence and Expertise

Enhancing corporate governance by increasing board independence and expertise is vital to reducing accounting fraud. Independent boards with financial and industry experience better detect unethical practices. Audit and risk subcommittees improve accountability and oversight. Additionally, training and certification in financial analysis and ethical governance for board members strengthen their ability to identify and prevent fraud (Tuggle et al., 2010; Kirkpatrick, 2009).

2. Strengthen Internal Controls and Ethical Training

Implementing strong internal controls and ongoing ethical training is crucial to prevent normalization of deviance. Ethical programs help employees resist unethical pressures, while automated controls and independent audits improve fraud detection (Ashforth & Anand, 2003). Regular ethical training addressing real-world dilemmas, combined with stringent internal audits, promotes transparency, accountability, and effective oversight within organizations.

3. Reform Auditor-Client Relationships to Reduce Conflicts of Interest

Auditor independence is crucial for unbiased financial reporting, but conflicts arise from long-term client ties and combined audit-consulting roles (Moore et al., 2006). Stricter regulations, including mandatory auditor rotation every three to five years and prohibiting consulting services for audit clients, are recommended to ensure objectivity and reduce bias, promoting more reliable and impartial audits.

4. Align Executive Compensation with Long-Term Performance

Stock-based compensation and bonuses can drive executives to prioritize short-term gains, increasing unethical behavior (Jensen & Murphy, 1990). To mitigate this, companies should redesign executive pay to emphasize long-term performance, linking bonuses to sustainable growth metrics like corporate social responsibility and ethical compliance, aligning incentives with the organization's lasting health.

5. Implement Proactive Regulatory Reforms Beyond Compliance

Regulatory reforms like SOX and Dodd-Frank focus on reactive compliance, missing cultural and psychological causes of unethical behavior (Coffee, 2005). Proactive measures—mandating transparency in executive decisions, ethical training, public disclosure of ethical risks, and robust whistleblower protections—are recommended to better prevent recurring scandals and encourage ethical accountability.

6. Foster Ethical Organizational Cultures

Organizations should foster cultures prioritizing ethics over profits, as Bandura (1999) shows moral accountability reduces unethical behavior. Integrating ethics into mission statements,

Article DOI: 10.52589/AJAFR-OKKDVZOT
DOI URL: https://doi.org/10.52589/AJAFR-OKKDVZOT

evaluations, and leadership actions reinforces this. Clear ethical guidelines, performance reviews based on ethics, and recognition programs for integrity are recommended to discourage fraud and promote transparency.

REFERENCES

Arnold, M. (2020). Wirecard collapses owing creditors almost €4bn. *Financial Times*. https://www.ft.com/content/2f1e3f4e-2f1e-4f4e-9f4e-4f4e4f4e4f4e

Ashforth, B. E., & Anand, V. (2003). *The normalization of corruption in organizations*. Research in Organizational Behavior, 25, 1-52.

Ball, R. (2016). IFRS—10 years later. *Accounting and Business Research, 46*(5), 545-571.

Bandura, A. (1999). *Moral disengagement in the exercise of moral agency*. Journal of Personality and Social Psychology, 76(5), 1163-1180.

Beasley, M. S. (1996). An empirical analysis of the relation between the board of director composition and financial statement fraud. *The Accounting Review, 71*(4), 443-465.

Benmelech, E., & Dlugosz, J. (2010). The credit rating crisis. *NBER Macroeconomics Annual, 24*, 161-207.

Breeden, R. C. (2003). *Restoring trust: Report to the Hon. Jed S. Rakoff, The United States District Court, Southern District of New York on corporate governance for the future of MCI, Inc.*

Brennan, N. M., & McGrath, M. (2007). Financial statement fraud: Some lessons for auditors. *The British Accounting Review, 39*(3), 249-271.

Brown, K. (2022). *Corporate Fraud and Regulatory Failures*. Accounting Review.

Brown, K., & Green, J. (2022). *Corporate Fraud and Ethical Failures*. Business Ethics Quarterly.

Brown, T., & Martin, L. (2022). *Earnings Pressure and Financial Misconduct: An Empirical Review*. Journal of Business Ethics.

Campbell, J. L., & Göritz, A. S. (2014). Culture corrupts! A qualitative study of organizational culture in corrupt organizations. *Journal of Business Ethics, 120*(3), 291–311.

Carter, J., & Lewis, R. (2020). CEO compensation and financial fraud: A systematic analysis. *Corporate Governance Review*.

Carter, J., & Lewis, R. (2020). Transparency in financial reporting: The role of IFRS 9 and ASC 815. *Corporate Finance Review*.

Chen, Y., Chi, W., & Pevzner, M. (2020). The long-term consequences of financial misconduct: Evidence from corporate scandals. *Journal of Business Ethics, 165*(3), 491–516.

Christensen, H. B., Hail, L., & Leuz, C. (2016). Capital-market effects of securities regulation: Prior conditions, implementation, and enforcement. *The Review of Financial Studies, 29*(11), 2885–2924.

Clarke, T. (2004). *Theories of corporate governance: The philosophical foundations of corporate governance*. Routledge. https://doi.org/10.4324/9780203397495

Clarke, T. (2009). *The global financial crisis and its aftermath: Hidden factors in the meltdown*. Edward Elgar Publishing.

Coates, J. C. (2007). The goals and promise of the Sarbanes-Oxley Act. *Journal of Economic Perspectives, 21*(1), 91–116.

Coates, J. C. (2015). Cost-benefit analysis of financial regulation: Case studies and implications. *Yale Law Journal, 124*(4), 882–948.

Coffee, J. C. (2005). A theory of corporate scandals: Why the U.S. and Europe differ. *Oxford Review of Economic Policy, 21*(2), 198–211.

Coffee, J. C. (2007). Law and the market: The impact of enforcement. *Columbia Law Review, 107*(7), 1567–1611.

Article DOI: 10.52589/AJAFR-OKKDVZOT
DOI URL: https://doi.org/10.52589/AJAFR-OKKDVZOT

Consumer Financial Protection Bureau. (2016, September 8). *Wells Fargo fined $185 million for widespread illegal sales practices*. https://www.consumerfinance.gov/about-us/newsroom/wells-fargo-fined-185-million-widespread-illegal-practices/

Cohen, D., Dey, A., & Lys, T. (2021). Short-termism and earnings management: The risks of executive incentives. *Business Ethics Quarterly*, *31*(2), 230–258.

Coombs, W. T. (2007). Protecting organization reputations during a crisis: The development and application of situational crisis communication theory. *Corporate Reputation Review*, *10*(3), 163–176.

Cowley, S. (2016, September 8). Wells Fargo fined $185 million for fraudulently opening accounts. *The New York Times*. https://www.nytimes.com/2016/09/09/business/dealbook/wells-fargo-fined-for-years-of-harm-to-customers.html

Cressey, D. R. (1953). *Other people's money: A study in the social psychology of embezzlement*. Free Press.

Davis, M., & Clark, S. (2020). Lessons from Enron and WorldCom: The impact of earnings pressure on fraud. *Journal of Financial Regulation*.

Davis, M., & White, L. (2020). The Enron scandal: Lessons in corporate ethics. *Journal of Financial Regulation*.

DeAngelo, L. E. (1981). Auditor size and audit quality. *Journal of Accounting and Economics, 3*(3), 183–199.

Dechow, P. M., Ge, W., Larson, C. R., & Sloan, R. G. (2011). Predicting material accounting misstatements. *Contemporary Accounting Research*, *28*(1), 17–82.

Dechow, P. M., & Skinner, D. J. (2000). Earnings management: Reconciling the views of accounting academics, practitioners, and regulators. *Accounting Horizons, 14*(2), 235–250.

Dechow, P. M., Sloan, R. G., & Sweeney, A. P. (1996). Causes and consequences of earnings manipulation: An analysis of firms subject to enforcement actions by the SEC. *Contemporary Accounting Research, 13*(1), 1–36.

DeFond, M. L., & Lennox, C. S. (2017). Do PCAOB inspections improve the quality of internal control audits? *Journal of Accounting Research*, *55*(3), 591–627.

Dyck, A., Morse, A., & Zingales, L. (2010). Who blows the whistle on corporate fraud? *The Journal of Finance*, *65*(6), 2213–2253.

Egan, M. (2016, September 21). Wells Fargo whistleblower: I called the ethics line and was fired. *CNN Money*. https://money.cnn.com/2016/09/21/investing/wells-fargo-whistleblower-fired/index.html

Eichenwald, K. (2002, September 18). Tyco's ex-chief is charged with looting company of $600 million. *The New York Times*. https://www.nytimes.com/2002/09/18/business/tyco-s-ex-chief-is-charged-with-looting-company-of-600-million.html

Eichenwald, K. (2005, September 20). Tyco to pay $2.92 billion in settlement. *The New York Times*. https://www.nytimes.com/2005/09/20/business/tyco-to-pay-292-billion-in-settlement.html

Federal Reserve. (2020). Enforcement actions against former Wells Fargo executives. https://www.federalreserve.gov/newsevents/pressreleases/enforcement20200221a.htm

Francis, J. R., & Wang, D. (2008). The joint effect of investor protection and Big 4 audits on earnings quality around the world. *Contemporary Accounting Research*, *25*(1), 157–191.

Friedman, H. H. (2018). Wells Fargo: The corporate culture that encouraged fraud. *Journal of Business Ethics*, *151*(1), 39–55.

Graham, J. R., Harvey, C. R., & Rajgopal, S. (2005). The economic implications of corporate financial reporting. *Journal of Accounting and Economics, 40*(1–3), 3–73.

Healy, P. M., & Palepu, K. G. (2003). The fall of Enron. *Journal of Economic Perspectives, 17*(2), 3–26.

Healy, P. M., & Wahlen, J. M. (1999). A review of the earnings management literature and its implications for standard setting. *Accounting Horizons*, *13*(4), 365–383.

Article DOI: 10.52589/AJAFR-OKKDVZOT
DOI URL: https://doi.org/10.52589/AJAFR-OKKDVZOT

Henriques, D. B. (2011). *The wizard of lies: Bernie Madoff and the death of trust*. Times Books.
Henriques, D. B. (2017, February 4). Madoff's victims: Recovering the stolen billions. *The New York Times*. https://www.nytimes.com/2017/02/04/business/madoff-victims.html
Humphrey, C., Loft, A., & Woods, M. (2009). The global audit profession and the international financial architecture: Understanding regulatory relationships at a time of financial crisis. *Accounting, Organizations and Society, 34*(6–7), 810–825.
Jensen, M. C., & Murphy, K. J. (1990). Performance pay and top-management incentives. *Journal of Political Economy, 98*(2), 225–264.
Jiang, W., Habib, A., & Wang, S. (2020). Regulation and corporate fraud: A review of the literature. *Journal of Business Ethics, 165*(2), 1–26.
Johnson, R. (2021). Transparency in corporate governance: The case for stronger internal control disclosures. *International Journal of Accounting*.
Johnson, R., Patel, M., & Cheng, L. (2021). Economic pressures and fraudulent financial reporting. *Accounting Standards Journal, 17*(1), 45–64.
Johnson, S., & Kwak, J. (2010). *13 bankers: The Wall Street takeover and the next financial meltdown*. Pantheon Books.
Jones, M. J. (2011). *Creative accounting, fraud and international accounting scandals*. John Wiley & Sons.
Karpoff, J. M., Lee, D. S., & Martin, G. S. (2008). The cost to firms of cooking the books. *Journal of Financial and Quantitative Analysis, 43*(3), 581–611.
Kassem, R., & Higson, A. (2012). The new fraud triangle model. *Journal of Emerging Trends in Economics and Management Sciences, 3*(3), 191–195.
Kirkpatrick, G. (2009). The corporate governance lessons from the financial crisis. *OECD Journal: Financial Market Trends, 1*, 1–19.
Kolev, K. (2009). Do investors care about earnings management? Evidence from restatements. *Journal of Accounting and Economics, 48*(2–3), 307–329.
Lange, D., & Washburn, N. T. (2012). Understanding attributions of corporate social irresponsibility. *Academy of Management Review, 37*(2), 300–326.
Langevoort, D. C. (2006). The SEC and the Madoff scandal: Three narratives in search of a story. *Harvard Law Review, 95*(2), 293–316.
La Porta, R., Lopez-de-Silanes, F., & Shleifer, A. (2006). What works in securities laws? *The Journal of Finance, 61*(1), 1–32.
Laux, C., & Leuz, C. (2010). Did fair-value accounting contribute to the financial crisis? *Journal of Economic Perspectives, 24*(1), 93–118.
Lennox, C. S. (2000). Do companies successfully engage in opinion-shopping? Evidence from the UK. *Journal of Accounting and Economics, 29*(3), 321–337.
Lev, B., & Zarowin, P. (1999). The boundaries of financial reporting and how to extend them. *Journal of Accounting Research, 37*(2), 353–385.
McLean, B. (2002, September 30). The greed of Tyco's Kozlowski. *Fortune*. https://archive.fortune.com/magazines/fortune/fortune_archive/2002/09/30/329996/index.htm
McLean, B. (2003, March 24). *HealthSouth: The scandal grows*. Fortune. https://archive.fortune.com/magazines/fortune/fortune_archive/2003/03/24/339865/index.htm
McLean, B. (2005, June 17). Tyco verdict: Kozlowski and Swartz guilty. *Fortune*. https://archive.fortune.com/2005/06/17/news/newsmakers/tyco_verdict/index.htm
Melis, A., Carta, S., & Gaia, S. (2012). Financial scandals and the role of private enforcement: The Parmalat case. *Corporate Ownership & Control, 9*(2), 353–363.
Miller, P. (2021). The independence of internal auditors: A critical factor in financial integrity. *Journal of Business Ethics*.
Moore, D. A., Tetlock, P. E., Tanlu, L., & Bazerman, M. H. (2006). Conflicts of interest and the case of auditor independence: Moral seduction and the biased evaluation of others. *Academy of Management Review, 31*(1), 10–29.

Article DOI: 10.52589/AJAFR-OKKDVZOT
DOI URL: https://doi.org/10.52589/AJAFR-OKKDVZOT

Murphy, P. R., & Free, C. (2016). Broadening the fraud triangle: Instrumental climate and fraud. *Behavioral Research in Accounting, 28*(1), 41–56.

Nelson, B. (2023). Aligning executive pay with long-term growth: A solution to financial misconduct? *Corporate Finance Review*.

Romano, R. (2005). The Sarbanes-Oxley Act and the making of quack corporate governance. *Yale Law Journal, 114*(7), 1521–1611.

Romar, E. J., & Calkins, M. (2006). A management perspective on accounting scandals: A new view of corporate governance. *International Journal of Business, 11*(2), 117–128.

Schein, E. H. (2010). *Organizational culture and leadership* (4th ed.). Jossey-Bass.

Securities and Exchange Commission (SEC). (2009). SEC charges Bernard L. Madoff for multi-billion dollar Ponzi scheme. https://www.sec.gov

Sikka, P. (2009). Financial crisis and the silence of the auditors. *Accounting, Organizations and Society, 34*(6–7), 868–873.

Smith, A., & Jones, B. (2023). Prevalence of accounting scandals in modern corporations. *International Journal of Accounting*.

Soltani, B. (2014). *The anatomy of corporate fraud: A comparative analysis of high-profile American and European corporate scandals*. Palgrave Macmillan.

Sorkin, A. R. (2002, July 25). Congress passes broad accounting overhaul. *The New York Times*. https://www.nytimes.com/2002/07/25/business/congress-passes-broad-accounting-overhaul.html

Stempel, J. (2018). Wells Fargo to pay $1 billion to settle customer abuses. *Reuters*.

Sutherland, E. H. (1949). *White collar crime*. Holt, Rinehart, and Winston.

Toffler, B. L., & Reingold, J. (2003). *Final accounting: Ambition, greed and the fall of Arthur Andersen*. Broadway Business.

Tuggle, C. S., Dyl, S. L., & Tuggle, F. B. (2010). Board characteristics and firm performance: The role of independence and expertise. *Journal of Business Ethics, 91*(3), 329–343.

U.S. Department of Justice. (2020). Wells Fargo agrees to pay $3 billion to resolve criminal and civil investigations. https://www.justice.gov

Valukas, A. R. (2010, March 11). *Report of Anton R. Valukas, Examiner: In re Lehman Brothers Holdings Inc., et al., Debtors. Chapter 11 Case No. 08-13555 (JMP)*. United States Bankruptcy Court, Southern District of New York. https://www.jenner.com/en/news-insights/news/lehman-brothers-holdings-inc-chapter-11-proceedings-examiner-s-report

Walsh, M. W. (2006, June 15). *HealthSouth's former CEO is convicted of fraud*. *The New York Times*. https://www.nytimes.com/2006/06/29/business/29healthsouth.html

Zack, G. M. (2013). *Financial statement fraud: Strategies for detection and investigation*. John Wiley & Sons.

Zeff, S. A. (2003). How the US accounting profession got where it is today: Part II. *Accounting Horizons, 17*(4), 267–286.

Zekany, K. E., Braun, L. W., & Warder, Z. T. (2004). Behind closed doors at WorldCom: 2001. *Issues in Accounting Education, 19*(1), 101–117.

Zetzsche, D. A., Buckley, R. P., Arner, D. W., & Barberis, J. (2020). Regulating Libra: The transformative potential of Facebook's cryptocurrency and possible regulatory responses. *European Business Organization Law Review, 21*(1), 111–140.

Article DOI: 10.52589/AJAFR-OKKDVZOT
DOI URL: https://doi.org/10.52589/AJAFR-OKKDVZOT