AESS

Asian Economic and Financial Review
ISSN(e): 2222-6737/ISSN(p): 2305-2147

journal homepage: http://www.aessweb.com/journals/5002

INVESTIGATING FRAUDS IN GOVERMENT ACCOUNTING

Kayahan Tüm[1]

[1]*Mustafa Kemal University, Hatay, Turkey*

ABSTRACT

The main purpose of creative accounting practices is to show financial indicators and tables of businesses different from and generally better than the originals. Although such deceptive practices are mostly performed by firms, it is observed that fiscal policy executives have turned toward creative accounting practices especially in recent years. Creative accounting practices of governments regarding government accounting practices embody with the stock-flow adjustments. The main stress of this study is that the fiscal policy executives conducts creative accounting practices especially when the fiscal rules are strict and binding, and the main precaution to be taken for the misuse of these practices is transparency of government accounting systems.

Keywords: Creative accounting, Government accounting, Stok-flow adjustment, European union, Public financial management, Transparency

Jel Classifications: H83, M41.

Contribution/ Originality

This study contributes in the existing literature by stressing the reality that governments conduct creative accounting practices as firms during the strict fiscal rules.

1. INTRODUCTION

Creative accounting practices have been accounted as a basic starting point of firm's bankruptcy occurring in the world in recent years. Although the process of making up the main financial statements, financial engineering, creative accounting which is also qualified as cosmetic accounting may have different reasons for each operation in accounting literature, it is a fact that they all turn towards such misleading practices in a common purpose (Amat and Gowthorpe, 2004; Çıtak, 2009). The common purpose can be regarded as to perform operations that affect welfare transfer between business and actors related to business (communities, resource providers, business

DOI: 10.18488/journal.aefr/2015.5.6/102.6.892.907
ISSN(e): 2222-6737/ISSN(p): 2305-2147

executives). Thus, the most significant aim of creative accounting practices is likely to perform the transfer of wealth among the actors thereby showing business performance and financial structure in a different way (Demir and Bahadır, 2007). Having indicated that business-level expansion of creative accounting depends upon the changing economic structure, Stiglitz (2003) also mentioned that accountants apply to traditional methods for the standard recordings; moreover, he emphasized that the diversification of economic instruments, in particular derivative products, and the new economic concept expedite the process. However, the recent global crisis which began in 2008 has acutely revealed that not only the businesses but also public financial managements have widely applied to creative accounting practices in a serious way. In particular, European Union member countries have turned toward different "Creative Accounting" or " Fiscal Gimmicky " practices with the aim of fulfilling quantitative restrictions required by the strict fiscal rules implemented for ensuring fiscal discipline during the global crisis. Various studies carried out in this regard revealed that "Stock Flow Adjustments" is an indication of creative accounting practices in the government accounting system. The common finding put forward by these studies is that businesses perform the current version of creative accounting practices by means of stock-flow adjustments of fiscal management (Koen and Van Den Noord, 2005; Campos *et al.*, 2006; Von Hagen and Wolff, 2006; Weber, 2012).

The present study aims to explain fundamentals and methods of creative accounting practices and examine "Stock Flow Adjustments" which are accepted as a reflection of these practices in government accounting system within a theoretical framework.

For this purpose, in the first part of the study, creative accounting practices have been dealt at a business level; in the second part of the study, how creative accounting practices are performed in government accounting system has been explained.

2. CREATIVE ACCOUNTING PRACTICES: THEORETICAL FRAMEWORK

Creative accounting is used to describe the negative situations in accounting unlike the positive meaning hidden within creativity. Creative accounting practices are considered as the whole methods and approaches that accounting and finance professionals use with a view to hiding or changing undesirable annual financial reports and operating results of businesses (Can,2010a:29-30). In other words, creative accounting practices are defined as a totality of accounting practices used to improve company’s financial status and the image of applications. Within the context of literature, some authors define accounting as" the art of fraud in balance sheet," " art of explaining balance" or " the art of profit calculation " (Balacin *et al.*, 2009).

In creative accounting practices that make use of the flexibility of Generally Accepted Accounting Principles and legal regulations, business accounting methods are selected and implemented in a manner that delivers the goals set in advance (Saltoğlu, 2003). These options are based upon the real options and also the relative independence of the evaluation (Çıtak, 2009). Hence, creative accounting means using these methods, choices and flexibilities in favor of certain people or groups. Here, the main danger is that in the financial statements of the businesses turning towards creative accounting practices, there does not occur any situation against accounting principles and standards. However, although everything is formally done depending on regulations in creative accounting practices, "Social Responsibility" principle, one of the basic concepts of accounting, is ignored.

The bankruptcy of the American General Motors company is regarded as a striking example in this regard. Although General Motors company essentially lost $ 3 billion before announcing the bankruptcy in 2008, it announced $ 1 billion profit for the first quarter of 2006 completely in accordance with the accounting principles and standards by taking advantage of the options and flexibility provided by the valuation rules.

The same creative accounting practices were repeated in the 2007 financial disclosures. In 2008, despite losing 30.6 billion dollars, it announced $ 16.8 billion loss using the same accounting methods and techniques but could not get out of bankruptcy (Aysan, 2009; Can, 2010a).

On the other hand, just as creative accounting practices may arise by making use of the overall flexibility or spaces of regulations and standards, sometimes it may occur through the violation of generally accepted accounting principles, the replacement of information in the financial statement for misleading the readers or the deliberate exclusion of certain information from the financial statements (Saltoğlu, 2003). Creative accounting fundamentally includes several techniques used in fraudulent financial reporting (Çıtak, 2009).

2.1. Objectives of Creative Accounting Practices

Within the scope of literature, when the studies related to creative accounting practices have been examined, it is observed that businesses apply to those applications for various reasons; nevertheless, the common purpose of all is to influence the perceptions of businesses on the financial performance.

In this sense, it can be said that many creative accounting practices aim to create high profit expectations and ensure investors to get more stock or have new investors (Varıcı and Er, 2013). Besides, that large businesses reduce the political cost by avoiding more regulations or higher taxes is one of the objectives of creative accounting practices (Demir and Bahadır, 2007). On the other hand creative accounting practices that could lead to insolvency of businesses in the long run offer significant advantages to business management in the short term.

According to Mulford and Comiskey (2002) some of these advantages offering to business in the short term are summarized as such; to increase the company's stock value, to reduce their borrowing costs, high amounts of snow, to increase the value of business as well as premiums and bonuses facilities. The attractiveness of the benefits and the availability of encouraging conditions lead managers to turn toward creative accounting practices (Çıtak, 2009). The objectives of creative accounting practices and benefits obtained from these practices are presented in Table 1.

Table-1. Objectives of Creative Accounting and Benefits

Objectives of Creative Accounting	Benefits
Fees and Premiums of Managers	Awards and bonuses based on high profit
Borrowing Costs	Improving credibility High borrowing degree Lower debt costs
Stock Price	High Stock Price Low volatility High Business Value Low cost of equity
Political Costs	Reduced costs Avoid high taxes

Source: (Demir and Bahadır, 2007)

Fees and Premiums of Managers: One of the factors pushing corporate managements to the creative accounting practices is regarded as fees given to the senior executives on the basis of stock and premium system. The more business firm grows and its value increases by making profit, the more stock price increases, which provides a special motivation for firm executives. Therefore, both managers and investors will benefit. This situation which is especially observed in Enron has deviated from its main objective and thus causing corruptions. Company executives have tried to maximize short-term profits rather than long-term strategies and profits; furthermore, when they failed, they hid their loss through creative accounting techniques (Özsoylu, 2010).

Borrowing Costs: High profits, major consistent assets or low liabilities create a positive image on the perception of investors or the institutions that provide credit to businesses in terms of the credibility of the company. As the companies with high credit ratings assure funding needs in better conditions, borrowing costs will reduce. Therefore, in order to borrow under better conditions, some businesses try to present assets, profits and equity in the financial statements higher than they are while they show lower liabilities (Demir and Bahadır, 2007).

Stock Price: accounting information is particularly used by investors so as to estimate the future price of stocks. This leads managers to manipulating the profit with the aim of affecting short-term stock price performance. With the increase of the profits, investors would be willing to pay more to stocks since the expectation of profit share distribution emerges. In this way, both the stock price of the company increases and capital cost reduces (Varıcı and Er, 2013).

Political Costs: Watts and Zimmerman (1990) defines creative accounting practices as accounting elections done by entrepreneurs for the political costs they encounter. In this sense, many businesses try to alleviate the negative effects of taxes and regulations in terms of the company by way of using creative accounting practices to defer their revenue or increase expenses (Demir and Bahadır, 2007).

2.2. Creative Accounting Techniques

Even though it is possible to classify creative accounting techniques in a variety of ways, in general, it can be divided into 3 basic groups as follows: (a) Presenting assets and revenue higher, (b) Understating liabilities and expenses and (c) False and insufficient explanations (Rezaee, 2002).

2.2.1. Presentation of Assets and Revenue Higher Than They Are

That assets and revenue are presented higher than they are is one of the creative accounting practices frequently applied by business managements. Creative accounting practices being within this group may appear as the recognition of revenue without accruing, display of high revenue with one-time profits and fictitious revenue (Çıtak, 2009; Dalğar and Pekin, 2011).

The recognition of unrealized revenue refers to the recognition of the real sales in a prior period when generally accepted accounting principles propose. Businesses can change period revenue in line with their needs by recognizing unborn revenue (Demir and Bahadır, 2007). On the other hand businesses which want to show higher revenues by one-time profits use such methods as deliberately evaluating assets less and deducing investment revenue from expenses. If low-valued assets are sold, high amount of revenue will be provided from the sales of these assets (Dalğar and Pekin, 2011).

Another creative accounting practice for displaying assets and revenue higher than they are is fictitious revenue records. With this kind of creative accounting, imaginary customers are mostly created or fictitious invoices are formed for real customers. In addition, another way is to change the amount of invoices or the amount of product sold in sales made to real customers (Price Water Cooper (PWC), 2012).

2.2.2. Understating Liabilities and Expenses

Business management understates liabilities and expense through using expense accounts in order to increase profits. It likely to express that increasing profits by reducing costs is a much more effective way compared to increasing profits by increasing revenues (Aygün, 2013). Some of the creative accounting practices within this group are presented as follows: changing accounting policies, long-term depreciation, using provisions and increasing inventory at the end of period.

The concept of consistency in accounting refers to the need to apply the accounting policies selected for accounting practices in subsequent periods without any change. That economic and financial structure with operating results of businesses and comments related to these are comparable is the objective of this concept (Gürdal, 2006).

As stated above, changing the method is not prohibited; however, it is not a desirable thing since it is essential that it be disclosed to the public in a reasonable and convincing manner with the principle of a full explanation (Kandemir, 2010). However, the fact that business management, such as FIFO-LIFO amortization methods, makes choices in accordance with the objectives among the optional accounting methods and comes up with an explanation regarding the changes made only in footnotes without showing the changes occurring in the same year in income statement is considered as creative accounting practices done by changing accounting policies (Saltoğlu, 2003; Kandemir, 2010). On the other hand, some businesses do not subject the actual service life to amortization with the aim of achieving the goals they want while determining the service life of the fixed asset. In fact, extending the economic life of a fixed asset will reduce amortization expense in the calculation of the asset. To illustrate, an inventory stock with five-year-service life may be shown as 10 years in order to keep it among the assets of business and understate expenses. The real reason why the business manager does, it is the request for increasing profits, which is a kind of creative accounting practices (Çıtak, 2009; Aygün, 2013).

Another example of creative accounting practice to understate liabilities and expenses is the reduction provision of assets. In general, provisioning process against the decrease in value of the assets is a significant process in terms of the display of the real value of assets on the balance sheet and preventing financial information users from thinking over-optimistically about business on the basis of prudence. However, that the process of the determination of the impairment of the assets is under the discretion of the manager's makes these processes used creative accounting purposes (Bayırlı, 2007). The negative effects of such a trick can only become clear when inadequate provision for the liquidation of assets and the need to record additional expense / loss are understood (Kandemir, 2010).

Finally, stocks are one of the major accountings business managements apply in order to reduce the expenses. End of the period stocks have an impact on the income statement as they are not only presented in the balance sheet but they reduce the cost of sales also. Hence, the impact of the creative accounting practices related to the stocks can be reflected in the subsequent period. From this viewpoint, it is stated that as the stocks increase, profit will increase accordingly. What is significant and striking fact about the stocks is that stock sheet is taken once a year regarding stocks and end of the period stocks are determined depending upon count and valuation processes, which paves the way for manipulating assets (Aygün, 2013).

2.2.3. False and Insufficient Explanations

Generally accepted accounting principles require that all information which may cause misleading of a reasonable financial statement user be included in the financial statements and footnotes. The availability of all the significant information in the financial statements is the responsibility of the company management (Kandemir, 2010). Still, the fact that some important events about the company are not disclosed to the financial statement and even being attempted to conceal deliberately is among the creative accounting practices. Even though some liabilities solely require footnotes and have no effect on the reported profits, some unrecorded liabilities may be much more important than those in the balance sheet. One of the significant issues related to liabilities of the business is contingent events. Businesses may not specify the issues concerning important cases and the payments in the postscripts of the balance sheet (Çıtak, 2009). Such events occurring as a result of the balance sheet date have been explained inadequately or incompetently, which is creative accounting practices (Kandemir, 2010).

To sum up, creative accounting practices and techniques explained above in general terms have been the main trigger for the corporate bankruptcies in recent years. The most striking case of bankruptcy is definitely Enron. In the 1990s, being among the fastest growing companies in the US, Enron declared its profit at least 586 million dollars more between the years of 1997-2000, founded several Special Purpose Entities (SPE) without complying with the accounting principles and standards for purposes such as obtaining fictitious profits and capital, showing lower debt burden, benefiting from tax exemptions; moreover, it was understood that all of these were done with the advice of Arthur Andersen auditing firm (Can, 2010b). These special-purpose companies were used for conceal losses and risks off balance sheet and thus the company's stock price was artificially raised. In this manner, despite suspending its debts and liabilities, the business could not get rid of bankruptcy in December 2001. During this period, "WorldCom" operating in the telecommunications sector has resorted to creative accounting practices by transferring expenses to the asset accounts. As a result of the examinations, ACMB (American Capital Markets Board) has determined that the company calculated pre-tax profit approximately $ 8 billion more for 2002. Although it is possible to reproduce the samples relevant to the scandals caused by the creative accounting practices (Xerox, Sunbeam, Parmalat), moving away from the basic concepts and principles of accounting, including in particular the concept of social responsibility, is considered as the common feature all (Can, 2010a; Can, 2010b). Furthermore, the recent global crisis shows that many European Union member countries, especially Greece, hide their spending, draw revenues forth and defer expenses through using creative accounting techniques (similar to Enron and other corporate scandals). Many member countries of European Union have shown an adaptation to "Maastricht Criteria" by hiding the budget deficit; in other words, by showing their fiscal data better. This situation caused by methodological weaknesses in government accounting department reveals the significance of statistical data system and standards which are explanatory, quality and transparent in public finance. In this regard, to ensure data management, Public financial managements sought to regulate the data relating to the state accounting by complying with the classifications such as ESA 95, SNA 2008 and “Government Finance Statistics” of IMF. In parallel to 5018 Act, in Turkey, Analytical Budget Classification transition is a step taken for this purpose.

3. CREATIVE ACCOUNTING PRACTICES IN THE GOVERNMENT ACCOUNTING

The main point of the literature beyond creative accounting practices in government accounting is that stock-flow adjustments turned to a policy instrument to comply with constraints put forward by strict fiscal rules. Stock-flow adjustments whose main function is ensure compatibility between the variables in the state accounting and which are calculated as a residual value have been separated from its main function especially in recent years; moreover, they have become a policy tool and has been extensively used particularly by member states of the European

Union in order to show the budget deficit lower. This function of the stock flow adjustments can be understood from the basic debt dynamics equation (Von Hagen and Wolff, 2006)

$$\boldsymbol{B_t - B_{t-1} - D_t = SFA_t}$$

The basic debt dynamics equation presented above suggests that change in the public debt (B) is not always equal to budget deficit (D). The increase in public debt stock consists of the total of budget deficit and stock-flow adjustments (SFA). Another result of the basic debt dynamics equivalence revealed in our study is an inverse relationship between budget deficit and stock -flow adjustments. In fact, as it is apparent from equation, high stock-flow adjustments can mean to report low budget deficit.

This relationship highlighted by the basic debt dynamics forms the basis of literature related to stock-flow adjustment a reflection of creative accounting practices in public financial management. Being among the pioneering studies in the literature, Milesi-Ferretti (2003) asserted that in the event of the implementation of the fiscal rules which aim at restricting active fiscal policy and preventing fiscal discipline, fiscal rules would be in part neutralized with creative accounting practices in public financial management. The study has linked the level of creative accounting practices to the cost emerging as a result of discredit of government because of these applications and the cost of violating fiscal rule.

Stating that budget deficits have a relatively small share in the growth of debt stock, Campos *et al.* (2006) aimed to explain the factors affecting the capacity of stock-flow adjustments along with revealing stock flow adjustments which are actually calculated as a residual value are an important factor in terms of debt dynamics. The findings of the applied research emphasized the strong relationship between balance-sheet effects resulting from contingent liabilities rising during the period when banking crisis raised and real value losses and stock flow adjustments.

Von Hagen and Wolff (2006) put forward that Stability and Growth Pact, as a form of creative accounting, prompts the use of stock-flow adjustments with the aim of hiding budget deficit. The authors have accepted stock-flow adjustments as a measure of creative accounting. The findings of panel data analysis used in the study suggest that there is an inverse relationship between the budget deficit and stock flow adjustments. This result suggests that 15 European Union member countries turned towards numerical fiscal rules required by the Stabilization and Growth Pact and stock-flow adjustments which are normally used as statistical harmonization account to abide budget deficit rule with the aim of hide budget deficit.

Bernoth and Wolff (2008) have used two different creative accounting indicators for the countries which are the members of the European Union. The first of these is the stock-flow adjustments while the other is the value which Koen and Van Den Noord (2005) defined and calculated as fiscal fraud. Analysis results indicated a positive relationship between fiscal fraud and stock-flow adjustments.

Weber (2012) examined the relationship between public debt stock and the procedures applied in order to finance budget deficit. Depending on the findings of the study, public debt stock exchange grows faster and stock flow adjustments are therefore becoming an important variable to be considered only as far as residual value or not to be considered as statistical adjustment account.

Alt *et al.* (2012) examine the impact of transparency of the budget process on fiscal rules and fiscal tricks/ creative accounting motives considering stock flow adjustments of European Union member states between the years of 1990-2007. Analysis results reveal that the presence of a strict budget deficit rule as in Stability and Growth Pact propels public financial management to the creative accounting practices. Another major emphasis of the study is that creative accounting motives will be blocked and will significantly reduce in case corporate transparency is high; besides, fiscal rules will lose their function in the event of low corporate transparency.

Özkaya (2014) evaluates creative accounting practices and measurement methods in terms of Turkish Public Financial Management. The author favors that lack of transparency in budget makes creative accounting more attractive; moreover, he also stated that these practices are used to hide budget deficit and debt stock in the public sector. In the analysis including creative accounting practices for the purpose of hiding the stock of public debt with Turkish Public Financial Management covering the years of 1989 -2010, the author emphasized that IMF has not been informed regarding the size of the public debt stock at the end of the 1990s, thus affecting IMF's planned fiscal consolidation in a negative way in 2000-2001 crisis.

3.1. Stock-Flow Adjustments

Public debt stock consists of the total cumulative previous budget deficits. However, these provisions do not often occur on the theoretical level. The stock-flow adjustments calculated as the residual value serves as reconciling budget deficit which is measured as stock variable and public debt as stock variable (IADB, 2006). The basic function of stock-flow adjustments is to reduce the total of past cumulative budget deficit from public debt stock along with ensuring the compatibility between budget deficit measured as a flow variable and public debt stock measured as stock variable. Positive stock-flow adjustments indicate that the increase in public borrowing between t and t-1 periods is higher than the one in t period. Negative stock-flow adjustments show that the increase in the public debt is lower than the budget deficit. Authors, who indicate that stock-flow adjustments are a policy tool rather than being a residual value and they show financial indicators in a more favorable way, have described stock-flow adjustments with different names. Milesi-Ferretti and Moriyama (2006) called it as "non-structural adjustments", Easterly (1999) used the concept of "financial adjustments errors” and Koen and Van Den Noord (2005) named it as “financial cheating". The components of stock-flow adjustments are classified into four main groups by Eurostat (2009);

a. Net acquisition of financial assets

b. Financial derivatives, other net financial liabilities,

c. Other adaptations (valuation in public borrowing and other effects) and

d. Statistical discrepancies (cited by Ünlükaplan and Arısoy (2010))

Apart from Eurostat classification, the components of stock-flow adjustments in public finance and non-structural components with the definition of Milesi-Ferretti and Moriyama (2006) can be listed as follows (Seiferling, 2013):

a. the privatization of assets that are not financial
b. tax rebates for one-time
c. liabilities related to retirement
d. reclassification of institutional units
e. securitization of special-purpose financial instruments
f. private dividends
g. Delaying payments to the next fiscal year
h. Delaying return of tax or accelerating overall tax
i. leasing of assets that are not financial through sale

In terms of accounting technique, though international statistical standards such as SNA 2008, ESA 95 and GFSM 2001 consider these operations mentioned above as improvement in financial performance for one-time, in most cases, these adjustments will be offset by the losses that will occur in the future and will lose its advantage.

3.2. Creative Accounting and Stock Flow Adjustments: Statistical Data

Statistical data related to stock flow adjustments are obtained from EUROSTAT's public finance data the (European Statistical Office) is and AMECO's cyclical fiscal policy variables database. Table 2 examines the ratio of stock-flow adjustments to GDP between 2002 and 2013 in terms of member states of the European Union. During the years of 2002-2004, high positive stock-flow adjustments were observed in Estonia, Cyprus, Finland and Sweden while the Czech Republic and Slovakia were found to have high negative stock-flow adjustments. In addition, positive and negative stock-flow adjustments which are changing from year to year were observed in Belgium, Denmark, Italy, Luxembourg, Malta, Poland and Portugal. Another striking detail during this period is that fifteen European Union countries relatively apply to stock-flow adjustments more than other countries. Between the years of 2005-2008, while high positive stock-flow adjustments were realized in the Netherlands, Denmark, Greece, Ireland Finland, Luxembourg and Sweden, high negative stock-flow adjustments were observed in Bulgaria, Romania, Slovakia and Malta. On the other hand, the years of 2005-2008 has been a period when stock-flow adjustments were used much more intensive compared to the 2002-2004 period. Especially in 2008, the share of stock-flow adjustments in GDP is 3.4 on average for the twenty-seven members of the European Union, whereas the average was 5.13 for the fifteen members of the European Union. These extremely high values reflect member states' deterioration in public finance and their tendency to hide budget deficits due to global crisis (Ünlükaplan and Arısoy, 2010). Significant decreases in the stock flow adjustments have been observed since 2009. This fall is not only statistical harmonization variables of the stock-flow adjustments the main emphasis of our study but it also confirms the fact that it is a significant policy tool for the failure of overcoming the numeric value on solid fiscal rules; in other words, hiding budget deficit especially during crisis.

Table-2. The Ratio of Stock-Flow Adjustments to GDP in the EU States between the years of 2002-2013

Contries	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Belgium	0,4	-2,0	0,7	-1,0	0,7	0,2	6,8	-0,5	0,2	2,1	-0,3	-0,8
Bulgaria	-	-	-	-3,3	0,4	-1,5	0,2	-3,6	-1,0	-0,9	1,9	-1,1
Czech Repub.	-2,3	-3,8	0,0	-2,5	-0,7	1,4	0,8	-1,0	-0,8	0,2	0,5	-1,1
Denmark	1,9	-0,2	2,7	0,1	1,3	1,2	10,9	2,9	1,8	2,5	-3,9	-0,9
Germany	-1,3	0,0	-0,6	-0,2	0,5	0,2	2,5	1,8	7,4	0,3	3,2	-0,5
Estonia	1,7	2,6	2,4	1,6	3,3	2,5	-1,5	-0,2	0,0	1,4	4,0	0,5
Ireland	-0.1	1,3	1,8	1,9	2,8	2,0	10,5	1,6	-5,5	2,4	6,6	-0,8
Greece	-0,3	-0,5	1,1	1,1	1,4	1,6	3,5	0,1	2,8	2,8	-36,4	-4,6
Spain	0,5	-0,2	0,6	1,2	1,9	1,4	0,9	1,0	-2,1	-0,8	3,4	0,3
France	0,7	1,6	0,8	1,0	-2,0	0,4	2,7	1,7	-1,8	0,8	0,9	-0,2
Italy	-2,1	-1,6	0,2	0,5	1,3	-0,4	1,4	1,0	0,8	-0,2	2,1	2,1
Cyprus	1,5	2,3	2,1	0,7	-1,0	3,0	-4,6	2,6	-0,6	5,4	8,1	13,3
Lithuanian	-1,5	1,1	1,2	-0,3	0,1	0,6	7,3	2,8	-1,4	-1,5	1,0	-1,6
Latvia	-0,6	-0,4	-1,3	1,1	1,6	0,8	-2,6	1,0	2,4	-1,0	1,2	-1,3
Luxembourg	2,5	0,5	-0,5	0,3	2,7	4,3	10,4	-0,4	4,5	0,1	2,4	2,7
Hungary	0,8	0,4	0,0	-2,0	-0,8	-0,4	6,4	-0,4	0,7	7,6	-3,0	0,1
Malta	-3,9	1,0	-0,2	-0,7	-4,5	0,1	-0,3	1,8	1,1	2,5	0,6	2,4
Netherlands	-0,3	-0,4	0,2	1,4	-1,3	0,9	15,7	-5,5	-1,1	-0,8	1,5	0,1
Austria	0,8	-1,2	0,7	0,5	-0,2	0,0	5,1	-0,3	0,8	1,5	0,6	0,0
Polond	2,0	1,0	-2,1	-0,2	0,1	0,0	1,7	-1,2	-1,3	0,4	-2,2	-1,5
Portugal	2,2	-0,6	0,6	1,1	-0,2	-0,6	1,4	0,4	2,6	8,9	5,2	0,4
Romania	-	-	-	-1,4	-3,1	-0,2	-2,2	0,9	1,0	0,5	2,1	0,7
Slovenia	1,8	-1,1	0,1	-0,1	0,4	-0,2	0,1	5,8	-2,3	2,5	2,3	2,6
Slovakia	-9,2	-0,7	0,4	-6,6	-3,6	0,2	-1,4	-2,1	-0,6	-0,8	5,9	0,7
Finland	4,3	6,1	4,0	1,4	4,3	3,8	3,7	4,5	4,2	2,3	3,4	1,5
Sweden	-0,2	1,7	2,8	4,1	0,3	0,9	1,2	1,8	0,1	1,0	-0,2	2,0
England	-0,3	0,1	0,5	-0,1	0,6	0,5	3,7	2,2	4,4	0,8	-0,4	-1,3
EU – 27	-0,3	0,1	0,4	0,5	0,3	0,5	3,4	1,0	1,8	0,7	1,0	-0,1

Figure 1 examines the ratio of of stock-flow adjustments for twenty-seven European Union member countries as a ratio of GDP including the years of 2002-2013. That stock-flow adjustments regarded as variables in creative accounting of public finances affect debt stock but do not affect budget deficit makes these variables originally calculated as residual value a policy tool used by member countries in order not to exceed Stability and Growth Pact's budget deficit threshold value. That the stock-flow adjustments are referenced in particular during the global crisis is understood from a serious splash observed in Figure 1.

4. A FISCAL TRANSPARENCY IN GOVERNMENT ACCOUNTING AS A MEASURE AGAINST CREATIVE ACCOUNTING PRACTICES IN PUBLIC FINANCIAL MANAGEMENT

Fiscal transparency is a part of the concepts which are broadly defined as "transparency" and "access to information in the public sector". Transparency contains two different sizes. The first is an access to information concerning the processes and procedures within the scope of decisions made and implemented by the public sector while the latter is an access to information created and used by the public sector. Based upon the World Bank's definition which is generally accepted, fiscal transparency is identified and considered in relation to the accessibility and quality of information on institutional arrangements for public financial management and planned financial activities of the public sector (World Bank, 2011). Including public expense and revenues as well as observable government financial management, fiscal transparency is a significant element of public financial management system which is effective, efficient and accountable. Even if fiscal transparency aims the evaluation, openness, accessibility of all data and processes for government accounting, is there a consensus about the fact that it blocks governments to resort to creative accounting practices in the event of strict fiscal rules aforementioned. In a situation in which there is no transparency, some views are available in the literature regarding "creative accounting practices" of the governments, in that they turned towards the accounting practices concealing the actual amount of public spending (Demirbaş, 2010; Balaban, 2012) As mentioned earlier, public financial managements are faced with various sanctions in the event of failure in attaching numerical targets required by the strict fiscal rules. So as not to be exposed to these sanctions, Fiscal Transparency Standards are among the leading factors which will prevent financial managements tending to accounting tricks within the scope of government accounting systems from these tricks. In this regard, one of the IMF's fiscal transparency standards referenced is "the IMF Code of Good Practices on Fiscal Transparency".

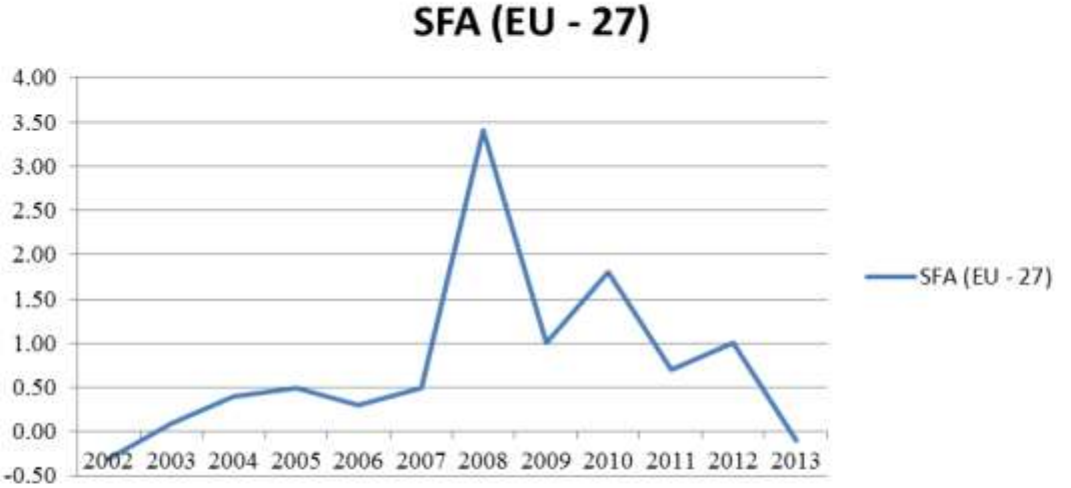

Figure-1. Stock-Flow Adjustments in European Union Member States (% GSYİH (2002-2013)

Source: AMECO Database (2014)

The overall principles developed following the Asian crisis in 1998 and updated in 2007 are based upon four factors:

a. openness of roles and responsibilities

b. budget deficit processes

c. The public availability of information

d. The guarantee of completeness

As a part of the broader economic surveillance, IMF periodically publishes a set of reports which is called as Fiscal Transparency ROSCs (Review of the Observance of Standards and Codes) with the demands of national financial management. The assessment reports describe the transparency regimes and provide recommendations; moreover, they do not rank countries in a numerical score in terms of transparency. Another standard reference was published by OECD as "Best Practices in Fiscal Transparency" in 2001. Within the scope of the standards, such practices are highlighted related to basic budget reports which governments are supposed to form and ensuring the quality and completeness of these reports with their contents. OECD does not have an evaluation mechanism for assessing compliance with transparency standards but it is just a reference tool; moreover, "Best Practices" standards of OECD and "Fiscal Transparency" standards of IMF are comparable.

5. CONCLUSION

Good governance principles have become to find application opportunity in all areas of public administration since 1980s. All principles of good governance such as accountability, openness, efficiency, transparency and participation continue to be at the heart of public administration with important reforms. Considering public financial management, of all these principles, "transparency" has a different significance. Expansion of government accounting standards, calculation methods of financial statistics and standardization of presentation procedures are considered as important steps in this context. In this regard, the significance of fiscal transparency is observed in government accounting procedures. Providing unity in all recording procedures related to operations of government accounting and that related operations and statements are to be transparent will prevent public financial management s from using "creative accounting" practices. Acceptance of 5018 act in Turkey Public Financial Management and the adoption of Analytical Budget Classification are important steps whose aim is to prevent creative accounting practices at the level of government accounting.

There are two main emphasizes of our study. The first one is that creative accounting practices mainly being used at the firm level are also found in public financial management. Fiscal policy executives tend to show their financial situation better than it is with such operations called as stock-flow adjustments within the context of government accounting. When solid numerical fiscal rules especially Maastricht Criteria / Stability and Growth Pact are on topic, policy executives used such operations as net acquisition of financial assets, financial derivatives, other net financial liabilities, valuation and statistical discrepancies in public debt and other effects within the scope of government accounting practices so that they can show fiscal data such as budget deficits or public borrowing stock lower that they are. These operations have become more and more significant in particular during the recent global crisis. Many countries show certain financial transactions better than they are and they include them within the context of stock-flow adjustments mentioned above, thus hiding their true financial situation. The second one is the necessity to disseminate fiscal transparency standards with a view to prevent creative accounting practices in public financial management. Fiscal Transparency developed by IMF and OECD aims to include transparency being among the basic principles of government accounting and hinders creative accounting from being used by policy executives.

REFERENCES

Alt, J., D.D. Lassen and W. Ve Joachim, 2012. Moral hazard in an economic union: Politics, economics, and fiscal gimmickry in Europe. Annual Meeting of the American Political Science Association, 30 August - 2 September 2012, New Orleans, LA.

Amat, O. and C. Gowthorpe, 2004. Creative accounting: Nature, incidence and ethical ıssues. Available from http://papers.ssrn.com/sol3/papers.cfm?abstract_id=563364 [Accessed 17.02.2015].

Aygün, D., 2013. Yaratıcı muhasebe stratejileri. Eskişehir Osmangazi Üniversitesi İİBF Dergisi, Ekim Turkish, 8(2): 49-69.

Aysan, M., 2009. Küresel ekonomik krizler ve muhasebe standartları. TMUD Turkish. Available from http://www.tmud.org.tr/UserFiles/File/AYSANSUNUM.ppt [Accessed 15.03.2015].

Balaban, K.G., 2012. Kurallı maliye politikası ve Türkiye'de kurallı maliye politikası uygulamasına ilişkin model önerisi. Uzmanlık Yeterlilik Tezi Türkiye Cumhuriyet Merkez Bankası İletişim ve Dış İlişkiler Genel Müdürlüğü Ankara, Mayıs 2012 Turkish.

Balacin, D., V. Bogdan and A.B. Vladu, 2009. A brief review of creative accounting literature and its consequences in practice. Available from http://www.oeconomica.uab.ro/upload/lucrari/1120091/16.pdf [Accessed 20.10.2014].

Bayırlı, R., 2007. Yaratıcı muhasebe, etik, firma değeri ve örnek bir uygulama. Ankara: Gazi Kitapevi.

Bernoth, K. and G. Wolff, 2008. Fool the markets? Creative accounting, fiscal transparency and sovereign risk premia. Scottish Journal of Political Economy, 55(4): 465-487.

Campos, C.F.S., D. Jaimovich and U. Panizza, 2006. The unexplained part of public debt. Inter-American development bank Working Paper No. 554 Washington: Inter-American Development Bank.

Can, V.A., 2010a. Krizin muhasebesi ve muhasebenin krizi. Mali Çözüm Dergisi, Sayı Turkish, 97(2010): 21-47.

Can, V.A., 2010b. Muhasebe ekonomik terörün bir aracı olabilir mi. Available from http://akademikbakis.org/eskisite/19/14.pdf [Accessed 06.07.2015].

Çıtak, N., 2009. Yaratıcı muhasebe hileli finansal raporlama mıdır. Available from http://archive.ismmmo.org.tr/docs/malicozum/91malicozum/5%20nermin%20citak.pdf [Accessed 06.07.2015].

Dalğar, H. and S. Pekin, 2011. Kurumsal yönetim ile finansal tablo manipülasyonu arasındaki ilişki: Imkb kurumsal yönetim endeksi'nde yer alan şirketlerde bir araştırma. Mali Çözüm Dergisi, Eylül-Ekim 2011 Turkish.

Demir, V. and O. Bahadır, 2007. Muhasebe manipülasyonu yöntemler ve teknikler. Available from http://archive.ismmmo.org.tr/docs/malicozum/84malicozum/04%20volkandemir.pdf [Accessed 06.07.2015].

Demirbaş, T., 2010. Kamu bütçeleme sürecinde yazılı olmayan kuralların önemi ve bütçe reformlarına etkisi. Bütçe Dünyası Dergisi. Turkish, 33(2010/1): 3-23.

Easterly, W., 1999. When is fiscal adjustment an illusion. Economic Policy, 14(28): 55-86.

Eurostat, 2009. Stock-flow adjustment (SFA) for the member states, the Euro area and the EU27 for the period 2005-2008. Available from http://epp.eurostat.ec.europa.eu/cache/ITY_PUBLIC/STOCK_FLOW_2009_1/EN/STOCK_FLOW_2009_1-EN.PDF [Accessed April 2009 EDP Notification].

Gürdal, K., 2006. Muhasebe Politikaları, Muhasebe Tahminlerindeki Değişiklikler ve Hatalar Muhasebe ve Finans Dergisi, Sayı: Turkish, 32(3): 1-12.

IADB, 2006. Living with debt: How to limit the risks of sovereign finance. Washington: Inter-American Development Bank.

Kandemir, C., 2010. Muhasebe hilelerinin ortaya çıkarılmasında ortaya çıkarılmasında ve önlenmesinde bağımsız denetimin rolü ve bağımsız denetçinin sorumluluğu. Doktora Tezi, Çukurova Üniversitesi, SBE. Turkish.

Koen, V. and P. Van Den Noord, 2005. Fiscal gimmickry in Europe: One-off measures and creative accounting. OECD Economics Department Working Paper No. 417. OECD Publishing.

Milesi-Ferretti, G.M., 2003. Good, bad or ugly? On the ffects of fiscal rules with creative accounting. Journal of Public Economics, 88(1-2): 377–394.

Milesi-Ferretti, G.M. and K. Moriyama, 2006. Fiscal adjustments in eu countries: A balance sheet approach. Journal of Banking and Finance, 30(12): 3281-3298.

Mulford, W.C. and E.E. Comiskey, 2002. The financial numbers game: Detecting creative accounting practices. New York: Wiley.

Özkaya, A., 2014. Creative accounting practices and measurement methods: Evidence from Turkey. Economics Discussion Papers, No 2014-10, Kiel Institute for the World Economy. Available from http://www.economics-ejournal.org/economics/discussionpapers/2014-10.

Özsoylu, A., 2010. Küresel Krizin Nedenleri, Oluşumu ve İlk Önlemleri. Kitap Bölümü, Küresel Kriz ve Türkiye, Karahan Kitapevi, Birinci Baskı, Adana Turksih.

Price Water Cooper (PWC), 2012. 5 dakika'da finansal tablo hileleri. Available from http://www.pwc.com.tr/tr/publications/5dakika/pages/5-dakika-finansal-tablo-hileleri.jhtml [Accessed 17.09.2014].

Rezaee, Z., 2002. Financial statement fraud prevention and detection. New York: John Wiley&Sons Inc.

Saltoğlu, M., 2003. Yaratıcı muhasebede özel amaçlı şirketlerin rolü ve enron örneği. Muhasebe ve Denetim Dergisi, Eylül, 10(3): 107-116.

Seiferling, M., 2013. Stock-flow adjustments, government's ıntegrated balance sheet and fiscal transparency. Available from https://www.imf.org/external/pubs/ft/wp/2013/wp1363.pdf [Accessed 06.07.2015].

Stiglitz, E.J., 2003. The roaring nineties. New York: W.W. Norton Company.

Ünlükaplan, İ. and İ. Arısoy, 2010. Stok-akım uyarlaması, bütçe açığı ve kamu borç stoku arasındaki ilişkiler: Küresel kriz bağlamında avrupa birliği üyesi ülkeler üzerine bir analiz. Available from http://dergiler.sgb.gov.tr/calismalar/maliye_dergisi/yayinlar/md/159/%C4%B0lter%C3%9CNL%C3%9CKAPLAN.pdf [Accessed 06.07.2015].

Varıcı, İ. and B. Er, 2013. Muhasebe manipülasyonu ve firma performansı ilişkisi: Imkb uygulaması. Ege Akademik Bakış, Cilt: Sayı:1 Turkish, 13(1): 43-52.

Von Hagen, J. and G.B. Wolff, 2006. hat do deficits tell us about debt? Empirical evidence on creative accounting with fiscal rules in the EU. Journal of Banking and Finance, Elsevier, W, 30(12): 3259–3279.

Watts, L.R. and J.L. Zimmerman, 1990. Positive accounting theory: A ten year perspective. Available from http://www.uam.es/personal_pdi/economicas/lcanibano/2007/Tema%208%20T%20Positiva/Watts_Zimmerman_1990.pdf [Accessed 06.07.2015].

Weber, A., 2012. Stock-flow adjustments and fiscal transparency: A cross-country comparison. International Monetary Fund Working Paper No. WP/12/39.

World Bank, 2011. Module 7: Fiscal transperancy. Available from http://siteresources.worldbank.org/PUBLICSECTORANDGOVERNANCE/Resources/285741-1326399585993/ModuleFiscalTransparency.pdf [Accessed 17.03.2015].