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Fraud in Rights and Contracts: A Review of Bankruptcy Case of Livent Inc. Based on Governance, Risk, and Compliance (GRC) Framework

Samuel Anindyo Widhoyoko

Accounting Department, Faculty of Social Science, Podomoro University
Jln. Letjen. S. Parman No.28, Jakarta Barat 11470, Indonesia
samuel.anindyo@podomorouniversity.ac.id

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ABSTRACT

This research discussed the accounting scandal in the perspective of governance, risk, and compliance using Governance, Risk, and Compliance (GRC) framework. The purpose of the research was to highlight early business fraud that usually initiated by the company in boosting up the revenue during the Initial public offering (IPO) processes. This research focused on a case showing how a business could make the wrong statement to the investors through real and lawful future contracts with unqualified audit opinion. Structurally, this research was done through the action research method in pointing out all the directors' failures in their function to hold the fiduciary duty to exercise their responsibility. Based on the analysis, it is highlighted that directors in the aspect of (1) governance decisive, they fail to set proportional target, provide ethical value, and react positively to maintain the company sustainability; (2) compliance submissive, they do not submit the accounting standards through undisclosed third-party agreement, misrepresentation of revenue recognition, and mistreatment of expense omission; (3) risk preventive, they fail to assess the risk occurs from legal aspect of conflict of interest, long-term contractual and engagement risks, and insufficient future cash flow.

Keywords: fraud, rights, contracts, bankruptcy, GRC, earnings management, corporate governance, accounting standard

INTRODUCTION

Earning management is managers' judgment in financial reporting and structuring transactions to alter financial reports to mislead some stakeholders about the underlying economic performance of a company or influence the contractual outcomes that heavily depend on reported accounting number (Nurlis, 2016). Good governance practices have always been sounded like a slogan to maintain the corporate sustainability. However, directors' ethical value in facing the facts that there are always conflicts between the stakeholders' interest would affect the accountability of reporting. In this element, good directors are expected to show the proper tone of the top as well as to exercise their duties in good faith including applying the value of transparency and accountability (Tsay, 2010).

Based on the bankruptcy case of Livent Inc., Drabinsky and Gottlieb intentionally manipulated the company financial statement in three periods which were 1991-1992 in the first fiscal year of company operation. In 1994-1996, they became the public company and attempted to meet the Wallstreet projection. Then, in 1996-1997, they improperly capitalized arm-length. The worst part was when the external auditor who was obliged to be independent, did not act professionally and lawfully in the audit opinion due to the conflict of interests between parties. The external auditor was charged by the court $85 million dollars for this negligence.

Good governance concept is a mechanism to enhance the efficiency without setting the ethical value aside. A framework named Governance, Risk, and Compliance (GRC) is applicable in this situation (Papazafeiropoulou & Spanaki, 2015). Corporate sustainability is reflected from its transparency that affects the society through good governance, compliance system, and adequate risk assessment program (Popoola, Ahmad, & Samsudin, 2014). Based on these arguments, it can be said that corporate stability and transparency depend on how success it is in the aspect of governance, risk, and compliance.

GRC is an adaptable model in analyzing the implementation of compliance processes for an employee to the company policies and in the wider range topic such as a company to corporation acts (Papazafeiropoulou & Spanaki, 2015). The expansion of GRC model also comprises the scope of reorganizing risk management practices in the energy industry. In this context, GRC model is used to view the performance of economic main key players in an environment like directors, auditors, or politicians (Bedard & Johnstone, 2004). Hence, GRC model is capable of measur ing the performance of risk assessment as well as the compliance process both the management personnel. Figure 1 shows the components of GRC.

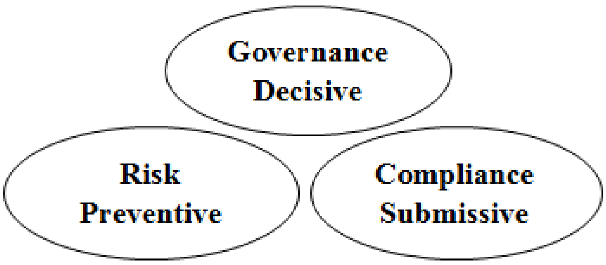

Figure 1 The Components of GRC Framework
(Source: Bedard & Johnstone, 2004)

Fraud Triangle by Kassem and Higson (2012) and Fraud Diamond by Wolfe and Hermanson (2003) play an important role in prevention and detection that focus on the human ethical behavior, decisions of top management level, and the ability to override the system. Both frameworks focus on the psychological factors affecting someone to perpetrate the policies like financial and personal pressure, exposed opportunity, and rationalization ability. Then, the fraud diamond develops the element of capability which designates board of directors, managers, internal auditors, industry specialists and expertise who can infiltrate the internal control without being compromised (Wolfe & Hermanson, 2003).

In analyzing information system, the elements in integrated Committee of Sponsoring Organizations of the Treadway Commission (COSO) framework are always used to assess the sustainability of corporate operations including the risk of fraud and misstatement. There are numerous developments of COSO framework such as Occupational Framework of Detection using Social Network Analysis (OFD-SNA); Confidentiality-Integrity-Availability (CIA) which contains three-layer of controls, namely administrative, operational, and technical; and Diagnose-Detect-Respond framework of information system audit. These frameworks have detection and nature in risk examination. Another governance framework is Money-Ideology-Coercion-Ego (MICE). It is one of the fraud motivation frameworks. This framework contains a political and ideology nature which contradicts the content of the case. Finally, international accounting standards and accounting standards codification are the criterion in reporting fairness in the company.

Compared to the frameworks mentioned, GRC framework encompasses broader view to the company operations. First, governance decisive focuses on the analysis of executed corporate plans and policies by the board of directors influenced by psychological triggers and ethical values. Second, compliance submissive exposes and assesses the fairness of business activities, practices, and reporting. Third, risk preventive analyzes the effects and outcomes that may occur company transactional activities including joint venture, merger and acquisition, project cooperation, and third-party contracts and agreements. Based on the general scope by applying this framework to bankruptcy analysis of Livent Inc., it is clearly possible in pointing out the manipulation scheme of the company in the early IPO stage using the mistreatment of financial figures and interpretations.

The question of this research is regarding the fraud occurred from future contracts and rights situation faced by the Livent Inc., which function that does not run proportionally between all factors of good governance such as governance decisive, compliance submissive, and risk compliance. Hence, the findings are expected to assist the potential and actual stock investors in understanding one of the schemes of a company in the field of earnings manipulation. This is because when the company has no sufficient income from operational activities, the future contracts, agreement, and project are vulnerable to be used as earning manipulation schemes.

METHODS

The method used in this research is a literature review. It is based on the journal article related to occupation, business, and good corporate governance framework and international accounting standards. This research is also structured in accordance with the case proceeding held in the district court.

RESULTS AND DISCUSSIONS

The result of this research is divided into three parts. The first part is governance decisive. The main subject in the corporate performance examination is the decisions initiated by the board of directors in the company as environmental controllers. Committee of Sponsoring Organization of the Treadway Commission (COSO) explains that control environment is as important as a foundation of a building. It creates the proper tone of the top in which all subordinates must follow. Proper tone comprises all aspects including integrity, responsibility and, accountability (Hayne & Free, 2014). Beyond these values, decisions and target settings also affect the management stability due to the pressure of unrealistic targets. This part emphasizes in how directors of Livent Inc. assign the earning target resulting in fraudulent financial reporting.

In Initial Public Offering (IPO), the potential earnings that exist in the market from potential stock investors have tempted the board of directors to create a financial look disregarding the fairness and accountability of the financial reporting. This is supported by the directors' rationalization and over-confidence in the company ability to pay-off all hidden losses as time goes by through cash from investors' stock investment and long-term bank loans (Brennan & Solomon, 2008). A fraud that is likely to happen in IPO stages in the company is assets and income overstatement. Moreover, if it is possible, it can be compounded by the intentional fraudulent deletion, displacement of expense, and related party transaction (Ariff & Hashim, 2014).

One of the main reasons of managers to violate the policies made by the board of di rectors is the unsuccessful target set by directors (Hematfar & Tajgardan, 2013) which can be categorized as both pressure and rationalization in fraud triangle (Kassem & Higson, 2012). The other reason behind this fraudulent behavior is the chief executive compensation for the target achieved by the directors (Butala & Khan, 2010; Hansen & Trego, 2015). Based on these reasons, the transparency between investors, auditors, and directors are highly demanded to enhance macroeconomic stability. Research shows that occupational fraud and abuse in the context of stock market trading are done through the violation of accounting standards, failure o f assurance service providers, and the lack control of governance system. The research finds that 75% of the methods used is revenue overstatement (Asgari, Salehi, & Mohammadi, 2014).

According to Ardakani (2013), most of the fraudulent reporting has been exercised even before the companies apply IPO in order to attract new investors. False misrepresentation of sales recognition that ends with earning overstatement is the common type used in fraudulent reporting (Liapis & Galanos, 2010). Meanwhile, undisclosed related party transactions are always used together with the revenue overstatement due to the falsehood accounts to the investor to show that the companies have potential earnings from long-term project contracts with other businesses (Burton, 2013).

Furthermore, consistent with the notion that the mere presence of related party transactions does not necessarily elevate the risk of fraud, it indicates that external auditors do not view the presence of related party transactions as the most significant indicators of potential fraud as described by Fafatas (2010). Applying these theoretical explanations to Livent Inc. bankruptcy case, there are three points regarding the governance failure. First, as a decision maker, the directors fail to set proportional earnings target by the company. Second, as a proper tone at the top, the directors show improper values as they manage and direct employees in conducting a creative accounting. Third, as a caretaker of fiduciary duty, the directors cannot prevent the effects of income smoothing practices harming the viability of the investors and company.

The second part is about compliance submissive. Companies indulge in income smoothing practices because investors are willing to pay for stocks with steady and predictable earnings streams, compared with stocks whose earnings are subject to wild fluctuations (Elouafa, 2012). There are three main General Accepted Accounting Principles (GAAP) which are allegedly violated by Livent Inc. chief officers. Those are (1) undisclosed side agreements of the related-party transaction; (2) misrepresentation of revenue recognition; and (3) misplacement of expense recognition. Table 1 shows the conflict of interest between the director of Livent Inc. with other third-party enterprises.

Table 1 Gottlieb Undisclosed Relationships with The Third Parties

Company	Gottlieb Undisclosed Relationships
CIBC Wood Gundy Capital	Gottlieb asked the managing director of Wood Gundy who negotiated the transaction by not disclosing the side agreements.
Dundee Realty Corporation	Gottlieb was a director and shareholder of Dundee parent corporation, Dundee Bancorp Inc.
Dewlim Investments Ltd.	Gottlieb promised the personal share options of Livent Inc. to Dewlim as security for the $4,5 million loan.

(Source: U.S. District Court for the Southern District of New York, 1998)

According to International Accounting Standard (IAS) 24, the related party transaction is defined as "a transfer of resources, services, or obligations between related parties regardless of whether a price is charged" (International Accounting Standard Boards, 2009). Regarding this accounting standard, Corlaciu and Tudor (2011) interpreted that the standard required disclosure of related party transactions and balances in the individual financial statements of parent companies and subsidiaries. This means that intra-group transactions between such entities are disclosed, although such disclosures are likely to be aggregated by type because of their large volume.

In the second fraud scheme, Livent Inc. has violated the revenue recognition procedure according to Accounting Standard Codification (ASC) 605. It states that the least requirement fulfilled by an entity to recognize revenue from a contract is the fulfillment of performance obligation (Financial Accounting Standard Boards, 2014). The main requirements for obligation fulfillment are when the assets receiver possesses the assets (rights) from the seller including the legal title and the right to use the rights given by the company, and there is a promissory note regarding the procurement of the items or services ordered (Burton, 2013).

Feroz, Park, and Pastena (1991) found that the value of a company stock price did not depend solely on the company operational due to its dependency of future agreements. It depended on projection regarding the income and proposed long-term investors. These results triggered FASB's current deliberations on revenue recognition. Furthermore, most companies in America stood firmly at recession through the earnings management. One of them is by shifting previous revenue and contract to the current period (Magdalena & Dananjaya, 2015). However, these acts forsake operating cash flow. This causes the inability of dividend distribution and the freefall of share price (Asgari *et al*., 2014).

Moreover, there are two improper revenue recognition methods done by the company. The first scheme used is by recognizing revenue from future contracts without considering the refund clauses the side agreements requires Livent Inc. to return all funds plus interests which look favorable to third parties but is vulnerable to the first party. These agreements are created by directors of Livent Inc. to gain $13,6 million revenue (Ontario Superior Court of Justice, 2013) by giving up the cash.

Figure 2 depicts the schemes between Livent Inc. and other parties. The black line is the type of contracts stated on the company annual reporting as future revenue as a factor that boosts the share price in the market. However, the red line shows the real forms of the contractual rights. It states that Livent Inc. should pay back all the costs with additional clauses when Livent Inc. fails to provide any output (shows). In

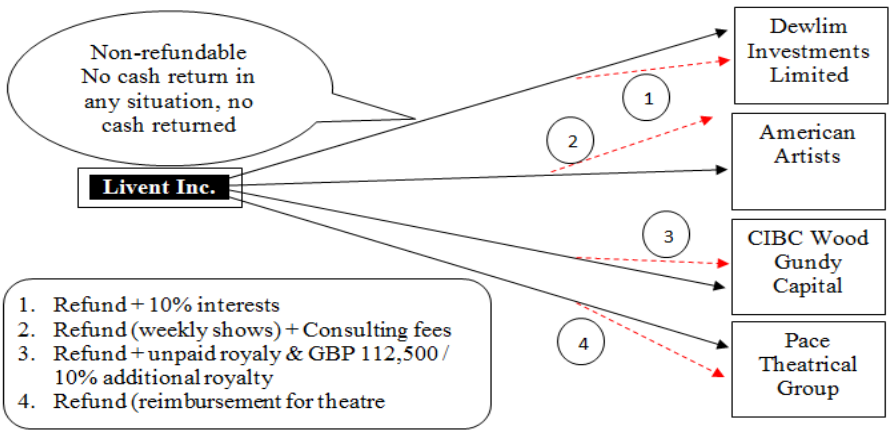

Figure 2 First Revenue Recognition Scheme of Livent Inc.
(Source: U.S. District Court for the Southern District of New York, 2016)

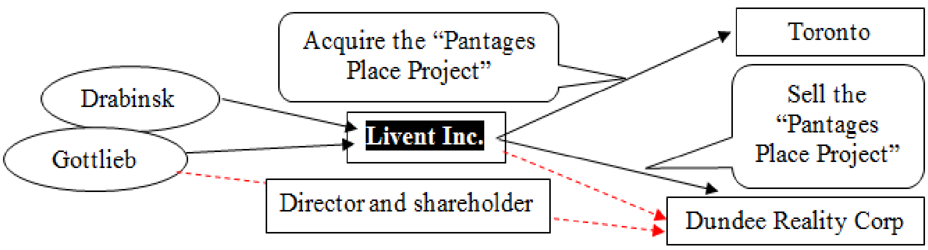

Figure 3 Revenue Recognition Scheme of Livent Inc.
(Source: U.S. District Court for the Southern District of New York, 2016)

fact, there are many shows that are not provided by the company. It prohibits Livent Inc. to record a revenue due to the unfulfillment of performance obligation (U.S. District Court for the Southern District of New York, 1998).

Based on Figure 3, the scheme of Livent Inc. is acquiring the project from Toronto and intentionally selling the rest project to Dundee solely by converting a project to the saleable right when the formal agreement states non-refundable. In this case, since the decision maker of third parties is Gottlieb. “Put agreement” is easily agreed by both companies as the effect of conflict of interest. This agreement allows Dundee to secede from the project and cause the joint venture. Therefore, Livent Inc. is obliged to repay Dundee investment and indirectly provides the reason for Livent Inc. to get $7,4 million revenue from the project sold when they have to forsake cash (U.S. District Court for the Southern District of New York, 2016).

Then, The third creative accounting done by Livent Inc. is misplacements of expense recognition and expense deletion. The earnings manipulation is to increase both the earnings margin and company net worth (Mostafa & Dixon, 2013). The first violation is the matter of the pre-production cost. ASC 340 regulates that the determination of costs that should be expensed or capitalized is a separate analysis from those activities by transferr ing a good or service to the customer (Financial Accounting Standard Boards, 2012). For example, when an entity acquires a future project, it requires some costs to start, then it must be capitalized as assets (deferred cost) and amortized based on the policies (timeline limit). According to the legal proceeding conducted in Ontario as described by Singleton-Green (2016), a statement spoken of the witnesses who have worked in the finance department of Livent Inc. stating that the accounting policies for the preproduction cost account have been structured in accordance with GAAP to ensure that all preproduction costs are amortized for 5 years.

Next, value degradation of fixed assets must be recognized as depreciation or amortization expenses. In this matter, Livent Inc. violates the standards by improperly capitalizing amortization and depreciation expense. The purpose of this act is to: (1) improperly show the investors regarding the favorable availability of fixed assets; (2) postpone the expense recording; and (3) distribute the amount of assets impairment in a smaller amount (Fafatas, 2010). Biondi and Lapsley (2014) discussed that in the amortization treatment, many companies extended the amortization period or classified some of the assets to fixed assets and long-term investments which had longer useful life. This results to an appealing financial reporting with convincing liquidity and persuasive EPS (Biondi & Lapsley, 2014; Gupta & Gupta, 2015). Based on this fact, the directors of Livent Inc. have at least one rationalization to lengthen the amortization period falsely through expenses capitalization. Figure 4 illustrates the liabilities and expense omissions scheme of Livent Inc.

Then, Livent Inc. seldom erases expenses roughly during the period through the ignorance of matching principle. According to Crosby, Devaney, and Law (2011) amongst 100 companies, the advertising expense had a positive effect on the growth of stock price. This research also identified that 2,76% of the increase in advertising expense would affect 5 to 8,7% of sales growth. Hence, the adverse comparison between the revenue growth and expense proportion is one of the red flags for financial crime caused by company mischaracterization of transaction identification and rough data concealment (Baz, Samsudin, Che-ahmad, & Johnson, 2016; Magdalena & Dananjaya, 2015).

In addition, the current ratio (0,45:1) can mean that Livent Inc. has a lack of cash (only $10 million) due to revenues admission from future contracts. This scheme is easy to be predic ted based on the fact that Livent Inc., in its cash crisis would attempt to ensure the investors regarding the viability of a company by relying on long-term assets and contracts revenues. This type of scheme utilizes the figure provided in cash flow from investing activities rather than cash flow from operating activities (Mostafa & Dixon, 2013) due to the lack of real cash from the real sales transactions to ensure the investors about the company long-term assets (Muse *et al*., 2016).

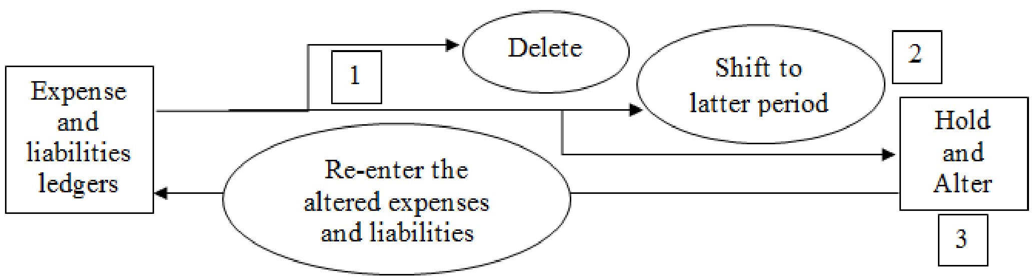

Figure 4 Liabilities and Expense Omissions Scheme of Livent Inc.
(Source: U.S. District Court for the Southern District of New York, 2016)

The other problem occurred in this scheme is a peculiar documentation such as time difference between the date written on the invoice and the date posted, the difference in some dollars between the invoice and the journal entries, and many invoices appeared to be unrecorded (Repousis, 2013). The most confusing issue of the scheme is when the company has no cash to report due to the inability to pay general expenses. When expenses have been piled up without the availability of cash, the company will shift the expense to liability (Muse *et al.*, 2016). Accordingly, it is perceptible that Livent Inc. has a mounting liabilities and increasing payable interest over the accounting period. Furthermore, the concealment of each booming liabilities is concealed in other liabilities section on the balance sheet to prevent Earnings Per Share (EPS) reduction.

Last, the third part of the result is risk preventive. As a caretaker of fiduciary duty, the directors fail to prevent the harmful effects of income smoothing practice. Livent Inc. directors are the parties who have this responsibility to assess the risk regarding the company acts. There are two directors' failures in risk prevention. They fail to assess the risk occurs from: (1) the legal aspect of conflict of interest; (2) the long-term contract and engagement risks; and (3) the insufficient future cash flow. A slight risk occurred from the transactions especially third party transactions must be clearly measured. Failing to exercise this fiduciary duty means a civil contravention for the directors (Black, 2001). However, if the acts are intended to defraud any parties, the directors are sentenced by criminal sanctions (Burton, 2013).

Furthermore, earning management practices have been the solution for company operational growth. Such practices include all techniques related to revenue-boosting and expense downgradings like income smoothing and tax avoidance (Perols & Lougee, 2011). There is a slight distinction between earning management and manipulation which is a legal aspect. Earnings manipulation cases are usually begun with the conflict of interest scheme between (1) the board of directors and the third-party company; and (2) the board of directors with the external auditor. The conflict of interest between companies brings out a risk in which one of the companies may face an unfavorable agreement which endangers the other stakeholders (investors and employees) as the first risk preventive failure. Meanwhile, more severe risk may occur when the company engages unlawfully with external auditors like bankruptcy.

Sonnier, Lassar, and Greene (2016) explained that there were two methods for measuring whether the perpetrator had an intention to defraud the company reporting or not. First, through information obtained from a whistleblower who report ed the company corporate governance such as the board of directors, or the internal auditor who was under-pressured by the boards. On the other hand, an intention could also be easily derived from the understanding of board of directors regarding defrauding transactions with the assistance by the internal auditors' illegal assistance. The other method is through the investigation related to internal auditors and chief financial officers involvement (U.S. District Court for the Southern District of New York, 1998).

In this case, directors of Livent Inc. have engaged in both schemes causing the overstated assets and income with an unqualified audit opinion from Deloitte and Touche. The scheme is blown up when the company could not present sufficient proof regarding all capitalization activities (assets) and operational output (revenues). According to fraud diamond theory, a perpetrator would rationalize the fraudulent behavior by assuming that the presentation of the report adequately complies with the standards with no regards to the long-term effect caused by the absence of additional information (Wolfe & Hermanson, 2003). These long-term effects are not legally sufficient and are not calculated carefully by both directors.

Moreover, the second risk preventive failure is the risk emerged from the third-party contracts and agreement with third parties. Dechow, Ge, Larson, and Sloan (2011) explained how irregularities such as off-balance sheet items were vulnerable to be untaken as one of the risks consideration. It is based on the facts showing that companies which defrauded investors through promising contracts although the auditors have no track to the documents. To defraud investors, there are three ways: (1) engaging with double-signed contracts; (2) engaging with unfavorable contracts to attract third parties; and (3) engaging undisclosed sell-back contracts. The purpose of these schemes is to deceive the investors with potential long-term projects while piling up the invested cash in other instruments.

Economically, future contracts can be assumed as both company earnings from the project and potential risks for fraudulent representations of revenue recognition (Burton, 2013). It is prohibited to assume revenue based on the project transfer without an agreement that certain completions are done unless it is an unemployed project (Brennan & Solomon, 2008). The revenue recognition deals with the earnings from operational. An idle project can be recognized as Bogus revenue (Liapis & Galanos, 2010).

It is found in the Livent Inc. cases that there are two types of deceitful confidential agreement used. Firstly, an agreement made to ensure the benefits for the third parties such as interest, gain, cash-back, and other additional services. Secondly, an agreement is made to permit the third parties to terminate the pr oject at any time provided that they must record it as assets. Both agreements infringe the accounting principles due to the uncertainty of cash possession, and the unreal depiction of financial position for investors (Dechow, Ge, Larson, & Sloan, 2011). Table 2 is the formal and side agreements of Livent Inc. with third parties.

Based on Table 2, it shows that the directors wishes to create a promising image for the company superficially at the expense of operational. On the other hand, investors are also required to be aware of such schemes. Most investors have been suffering during the Wall Street crash due to temptation in the promising stock price of the company which places unearned revenue and deferred cost as the financial components (Hansen & Trego, 2015).

Table 2 The Formal and Side Agreements of Livent Inc. with Related Third-Parties

Company	Formal Agreement	Side Agreement
Pace Theatrical Group	The fee was made nonrefundable, regardless of whether Livent made shows available to Pace or not. •15 of June 1996 •8 of August 1997	Pace had the right to recoup its fees, plus earned additional profit, as the shows were performed through reimbursement for each show and entitled to the limited percentage of adjusted gross ticket sales as profit sharing. •17 of June 1996 •20 of August 1997
American Artists	The fee was made nonrefundable, regardless of whether Livent made "Ragtime" available to American artists or not. •9 of September 1997	American Artists might recoup its fees in two ways: -Through fixed weekly amounts when the shows were performed. -Through consulting fees for the services of American artists' president, Jon Platt. •29 of September 1997 •15 of November 1997
CIBC Wood Gundy Capital	The fee from Wood Gundy was nonrefundable, and Livent Inc. had no obligation to stage the plays or to exercise its repurchase option. •23 of December 1997	Wood Gundy might recoup its fees in two ways: -If Livent Inc. had conducted the repurchase option, Livent Inc. would have repaid all fees, plus 112,500 British pounds, plus royalties. -If Livent Inc. had not done the repurchase option, Livent Inc. would have paid Wood Gundy an additional royalty 10% of the adjusted gross weekly ticket sales of the Broadway production of "Ragtime," which was expected to run for years and generate a weekly royalty of approximately U.S. $90,000. •23 of December 1997
Dundee Realty Corporation	Livent Inc. and Dundee created a joint venture company, and Livent Inc. sold to Dundee the excess density rights over the land for $7.4 million. •30 of June 1997	Dundee withdrew from the project and caused the joint venture. Therefore, Livent Inc repaid Dundee investment. •15 of August 1997
Dewlim Investments Limited	As with the other sales rights, the sale agreement made the fee non-refundable. •21 October 1996	Livent Inc. might terminate the project and joint venture. It would also repay the Dewlim advanced fee for the production rights, plus 10% interest. •3 November 1997

(Source: U.S. District Court for the Southern District of New York, 2016)

This situation is occurred due to the market demand of the inflating share prices of the company. Livent Inc. investors are only shown the formal agreement without any consideration from the document of side agreements. The risks that are not prevented are: (1) many investors invest cash heavily to the business; (2) the company which fails to run the projects based on contracts, uses the cash invested to pay the penalty (look at the clauses of side agreement); (3) the company is neither successfully run the operational nor heavily lack of cash; and (4) finally, based on the altered financial reporting (unqualified audit opinion), the investors demand dividends and repayment of the debts which is not fulfilled sufficiently by the company.

Finally, all types of financial statement frauds including revenue and asset overstatements, and expense and debt omissions are to be proven sooner or later through the availability of cash. As it has been explained in the second risk preventive failure, both realization and cancellation of the project require costs based on each contract. This situation is compounded by hampered projects. It means for the entire period, Livent Inc. must pay both the operational expenses and the penalty for the undone projects, and report the operational income. Hence, the only scheme that could cover the loss occurred is only by overstating income and assets amount on the income statement through: (1) Bogus sales (from the sale of project, not the ticket) and (2) Bogus assets capitalization (illegally forcing amortization and depreciation to deferred cost – expense roll).

Based on these scenarios, it is concluded that all schemes are done preferably for income manipulation rather than income smoothing. Shareholders and creditors have always been the triggers for financial statement manipulations. Due to the heavy cash invested, fears emerged to the directors from losses or earnings declines, which would affect the companies credit ratings and their cost of capital simply due to an unfavorable signal from the operation (Rusmin, Scully, & Tower, 2013). Both directors of Livent Inc. and other companies directors always have a strong incentive to avoid losses during the period and have a stronger incentive to increase earnings gradually (Yang & Tan, 2012). Therefore, the risk of future cash flow insufficiency should have been managed carefully by directors through the manageable volume of cash investment by investors.

CONCLUSIONS

To conclude, all corporate governance based on GRC framework functions in Livent Inc. during its bankruptcy period are not running proportionally. In terms of governance decisive, the directors do not exercise their duties in good faith by placing the company in unfavorable agreement, and setting up an unrealistic target to secure short-term income. It is also compounded by the low ethical value of directors. Meanwhile, in the aspect of compliance with standards, it is shown that all financial reportings are clearly misrepresented. However, agreements are not disclosed clearly in the notes to financial statement. Finally, the breakdown of risk prevention function is not able to prevent the bankruptcy due to the legal risk of conflict of interest and financial risk of the unfavorable and undisclosed agreements. As it has happened to other bankruptcy cases, the company has a problem with future cash flow from operating activities.

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