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CASE STUDIES & TEACHING CASES

Accounting failures and earnings management: the case of CVC S.A.

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INTRODUCTION

CVC Brasil Operadora e Agência de Viagens S.A., is the leading tourism company in Brazil and a pioneer in chartering aircraft. By 2020, it had accumulated 48 years of experience in the market and had grown to become the largest tourism company in Latin America. The company boasted a network of 1,250 franchised stores and over 12,000 independent branches engaged in various Business to Business (B2B) operations, earning international recognition in its sector. Furthermore, it received accolades for its substantial contributions to the global tourism industry.

Notwithstanding its remarkable size and prominence in its sector, the financial director of CVC S.A. at the time detected signs of accounting irregularities in the company's financial statements early in 2020. This discovery led to the establishment of an independent audit committee charged with investigating these issues.

The committee unearthed compelling evidence of accounting manipulation, primarily aimed at concealing costs and suppressing deficiencies. This manipulation extended from 2015 to 2019 and resulted in estimated losses exceeding BRL 362 million. Furthermore, it precipitated the resignation of four board members and the removal of certain statutory board members.

In light of financial scandals akin to that of CVC S.A., the Association of Certified Fraud Examiners (2020) conducted an inquiry into the repercussions of 2,504 corporate fraud cases spanning 125 countries. Their findings indicated that such malfeasance could inflict damages amounting to 5% of a company's total revenue. Notably, fraudulent activities within financial statements accounted for 14% of these cases, exacting considerable financial tolls on organizations.

Considering the significance of CVC S.A. within the Latin American tourism sector, the accounting irregularities identified in 2020 were scrutinized using information procured from online sources, reference documents, explanatory notes, and audited financial statements. This case study serves as a catalyst for classroom discussions on accounting errors, with the primary objective being the manipulation of CVC S.A.'s performance results to facilitate the disbursement of variable compensation to former executives. Within this discourse, we aim to address the following pivotal questions: What circumstances facilitated the manipulation of information? And what measures can be implemented to mitigate such issues?

Hence, this pedagogical case study has the potential to enrich the education of undergraduate and graduate students pursuing degrees in Administration and Accounting. Its applicability extends to courses delving into topics such as "conflict of interests" and "earnings management," including corporate governance, corporate finance, auditing, corporate fraud, and financial statement analysis.

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CASE STRUCTURE

Background

Founded in 1972 through the partnership of Guilherme Paulus and Carlos Vicente Cerchiari to establish a tourism agency, CVC Brasil Operadora e Agência de Viagens SA emerged as the inaugural tourism enterprise in Brazil. It pioneered chartering aircraft, introduced the concept of customer service within malls and hypermarkets, and offered ticket purchase options with installment plans of up to ten payments (CVC Brasil Operadora e Agência de Viagens, 2023). Figure 1 shows the facade of the inaugural CVC branch located in Santo André, SP, within the Greater Paulista ABC region.

Figure 1
Facade of the first CVC store in the city of Santo André, SP, Brazil



Source: Folha de São Paulo (2011).

In 1978, the company commenced its management of group trips, with a particular focus on employees from industries based in the Paulista ABC region. Initially, these trips were limited to single-day excursions but eventually expanded to include weekend getaways and extended vacations. Figure 2 shows passengers boarding a CVC bus during the 1970s, organized by the company's founder, Guilherme Paulus (center).

Figure 2
Guilherme Paulus (center) boarding passengers



Source: Folha de São Paulo (2011).

Figures 1 and 2 underscore the humble beginnings of this venture. The service infrastructure was modest, as depicted in Figure 1. CVC shared a bus with another company named Garcia Turismo, using the phrase "Conheça o Brasil" ("Get to know Brazil") as an advertising slogan, as shown in Figure 2. Over time, CVC expanded its operations to cover all regions of Brazil, promoting domestic tourism and eventually emerging as the foremost tourism company in Latin America. Box 1 provides a timeline highlighting the key milestones in its history.

Box 1
Timeline of CVC S.A.

Year	Fact
1981	Emergence of the first travel packages with air transport.
1983	Inauguration of the first stores outside the ABC region of São Paulo.
1989	The company purchases 100,000 VASP airline tickets.
1992	Commencement of chartering planes exclusively for its passengers.
1998	Opening of the first store in a mall.
2000	Inauguration of the first virtual tourism store in Brazil.
2002	Marking its 30th anniversary, with a record of five million passengers embarked throughout its history.
2003	Announcement of the charter of the ship R5 Blue Dream. In the same year, TAM provided CVC with a customized plane featuring the tour operator's brand.
2007	Celebration of 35 years of operations in the tourism industry.
2009	Receipt of an award during the World Travel Market (WTM) in London.
2010	Carlyle, one of the world's largest private equity funds, announces the acquisition of 63.6% of CVC's company control.
2011	Introduction of new itineraries within Brazil and internationally.

Source: CVC Brasil Operadora and Agência de Viagens (2023).

Based on Box 1, it becomes evident that 1981 marked the initiation of popularizing air travel for leisure purposes. Two years later, CVC opened its first stores outside the ABC region of São Paulo, specifically in the cities of Santos (SP) and São José dos Campos (SP). In 1989, the company purchased a staggering 100,000 airline tickets, accounting for 50% of VASP's monthly earnings. In 1992, CVC commenced chartering planes to destinations such as Maceió (AL), Natal (RN), Porto Seguro (BA), and the Serra Gaúcha.

After six years, CVC launched its first mall-based store in São Paulo's Shopping Plaza Sul, as part of its strategy to enhance Brazilians' access to tourism and promote retail travel. In 2000, CVC inaugurated the first virtual tourism store in Brazil.

Throughout 2002, a remarkable 545,000 Brazilians embarked on journeys with CVC. Over the years, CVC experienced nearly a seven-fold expansion in size, considering the number of passengers taking trips within Brazil and abroad. In 2003, the company chartered a modern transatlantic vessel from Europe, named R5 Blue Dream, to cater to the Brazilian market throughout the summer season.

In 2007, CVC commemorated 35 years of active involvement in the tourism industry, during which it fulfilled the travel dreams of over ten million Brazilians. In that same year, CVC initiated a new project for its website, transforming it into a comprehensive service portal replete with abundant tourist destination content and interactive tools for its customers.

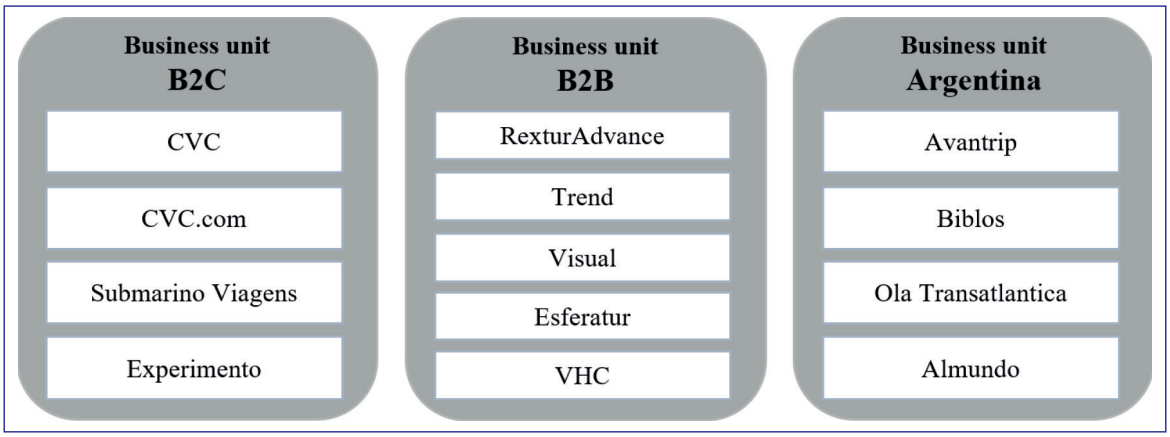
Two years later, CVC garnered recognition and accolades for its substantial contributions to the global tourism sector. Notably, it was the sole Brazilian operator to receive such an honor, competing with ten global counterparts. The awards ceremony was hosted by Fiona Jeffery, the president of World Travel Market (WTM), and Boris Johnson, who was then the mayor of London.

In 2010, CVC made history within the Brazilian tourism landscape by formalizing the largest transaction ever recorded in the segment's history: the sale of 63.6% of the company's controlling stake to the Carlyle fund, renowned as one of the world's premier private equity funds. This transaction paved the way for the company's subsequent initial public offering (IPO) on the São Paulo Stock Exchange (now known as B3) in 2012.

CVC continued to expand its portfolio of destinations annually, solidifying its status as the foremost economic tourism conglomerate in Latin America. The company currently encompasses 1,250 franchised stores and over 12,000 independent agencies engaged in B2B operations. Additionally, it maintains a substantial presence in Argentina through CVC Corp.

The CVC brand enjoys national recognition and is entrenched as a top-of-mind brand among individuals of all ages and socioeconomic backgrounds. In Brazil, the company operates in the B2C segment (Business to Consumer) through CVC.com, Submarino Viagens, and Experimento. In the B2B segment, its operations include Trend, VHC, Visual, Esferatur, and RexturAdvance. These brands are organized into three distinct business units, as shown in Figure 3.

Figure 3
Business units of CVC



Source: CVC Brasil Operadora and Agência de Viagens (2021).

Among these brands, CVC Brasil stands out as the brand with the most extensive distribution network for retail travel products, encompassing both physical stores and the CVC.com e-commerce platform. The B2C business unit also encompasses the online platform Submarino Viagens, specializing in booking leisure or business trips and targeting independent travelers by facilitating trip planning. The Experimento brand pioneers the cultural exchange segment, establishing partnerships with esteemed educational institutions worldwide. Collectively, these B2C brands contributed to 55% of the company's net revenue in 2021.

The primary focus of the group's brands is traveling agents, including RexturAdvance, Grupo Trend, Visual Turismo, Esferatur, and VHC, as shown in Figure 3. The B2B business units generated a net revenue of BRL 255.3 million in 2021, equivalent to 31% of CVC S.A.'s net revenue. Particularly noteworthy is the brand Grupo Trend, boasting a comprehensive portfolio featuring over 500,000 hotels across Brazil and abroad, and Visual Turismo, which encompasses a network of more than 13,000 accredited travel agencies spanning the entirety of Brazil.

Additionally, CVC's Argentine business units comprise four brands that operate successfully in the region. Among them, Avantrip is an online tourism agency dedicated to leisure travel, while Biblos specializes in luxury travel packages, both domestically and internationally. Almundo holds the distinction of being Latin America's fastest-growing omnichannel brand, boasting digital platforms and over one hundred physical stores. Ola Transatlántica, on the other hand, ranks among Argentina's largest travel groups, functioning through multi-brand agencies. These brands collectively accounted for 14% of CVC S.A.'s net revenue in 2021.

CASE REPORT

In February 2020, the then Chief Financial Officer (CFO) detected indications of accounting irregularities within the company's financial statements. Consequently, it became imperative to establish an independent audit committee to scrutinize these indicators (Andrade, 2020). Throughout the audit process, compelling evidence of manipulative practices within the reports emerged, primarily aimed at concealing expenses. Furthermore, manual alterations were made to accounting records without appropriate documentary substantiation, coupled with the omission of identified deficiencies and the deliberate concealment of commercial information, including information from external auditors. These malpractices resulted in cumulative losses surpassing BRL 362 million spanning from 2015 to 2019 (Juliboni, 2020).

This critical situation culminated in the resignation of four members of the board of directors and the removal of certain statutory directors. Despite the company's current president asserting that the departure of these four CVC board members was unrelated to the accounting discrepancies (Lazarini, 2021), CVC's shareholders opted to initiate an arbitration proceeding within the Market Arbitration Chamber (CAM) of B3. The aim of this action is to seek compensation for the harm inflicted upon the company by former board members and statutory directors. The case carries a minimum valuation of BRL 67 million, a figure that may escalate depending on any additional bonuses and dividends disbursed to former executives (Guimarães, 2021).

Upon learning of the commencement of the arbitration process, the former company executives issued the following statement: "[...] holding them accountable would imply punishing individuals who identified potential issues, initiated investigations to address suspicions, and promptly communicated their findings to the market" (Guimarães, 2021).

In an interview with the newspaper Estadão, the former executives expressed their outrage at what they deemed an unfounded accusation by CVC's new board of directors. They further emphasized that "[...] the identified accounting error traversed the entirety of the company's governance and control system, including oversight by the board and external auditing." The former executives also disclosed that a preliminary investigation had failed to uncover any evidence of data manipulation in the accounting records (Guimarães, 2021).

When queried by B3 regarding the indicators of an accounting issue, the company provided an explanation, stating that the financial statements had been reconciled incorrectly, with unresolved matters being allocated to transitional balance sheet accounts earmarked for future review. They also noted that there was a lack of synchronization between the operational systems and accounting, and that the monthly adjustments had not undergone review at the conclusion of each quarter (Isto É Dinheiro, 2020).

In addition to their response, the company outlined a series of corrective measures to rectify the identified issues. These measures include maintaining rigorous controls, enhancing the quality of reconciliation and accounting analysis for the 2019 financial statements in subsequent periods, developing solutions and automation to bolster control effectiveness, defining roles and responsibilities for periodic assessments of these processes, and fortifying corporate governance structures (Isto É Dinheiro, 2020).

In this study, we investigate the correlation between news related to accounting irregularities and executive compensation. We analyze the compensation policy for the board of directors and associated entities as implemented by the company from 2012 to 2020. Our methodology relies on reference documents for data collection.

In general, the company's approach to fixed remuneration was aligned with prevailing market practices. In terms of variable compensation, the company based its policies on market studies, meritocracy, and the attainment of predetermined objectives. Notably, during the 2017 cycle, the Profit-Sharing Program (PPR) required a minimum condition of achieving 90% of the projected Earnings Before Interests, Taxes, Depreciation, and Amortization (EBITDA) for the company. Furthermore, the calculation of variable compensation considered factors such as target salary by hierarchical level and the achievement of both individual and corporate objectives. The final assessment factored in goal weightings, with payments contingent on the successful realization of objectives during the evaluated period.

Considering our understanding of the company's compensation policy, we proceed to analyze the remuneration received by individuals, with particular focus on fixed and variable compensation components, as these components relate to performance-related goals. Tables 1 and Table 2 show the corresponding figures.

Table 1
Board of Directors' Remuneration from 2012 to 2020

Fiscal year	Fixed remuneration		Variable remuneration		Evolution of remuneration	
	Amount (BRL)	%	Amount (BRL)	%	Fixed	Variable
2012	511,955	83.0%	105,085	17.0%	-	-
2013	684,720	76.8%	207,167	23.2%	34%	97%
2014	906,620	84.6%	164,689	15.4%	32%	-21%
2015	977,336	92.6%	78,588	7.4%	8%	-52%
2016	900,677	95.0%	47,150	5.0%	-8%	-40%
2017	2,382,000	99.6%	9,375	0.4%	164%	-80%
2018	3,024,000	100.0%	-	0.0%	27%	-100%
2019	2,952,000	100.0%	-	0.0%	-2%	-
2020	2,746,654	100.0%	-	0.0%	-7%	-

Source: CVC Brasil Operadora and Agência de Viagens (2021).

Table 1 shows the fixed and variable remuneration received by the board of directors. The majority of administrative members' remuneration was fixed. Earnings from variable remuneration ranged between 15.4% and 23.2% from 2012 to 2014, showing a decline starting in 2015 and eventually reaching zero in 2018. Therefore, based on the data presented in Table 1; it is not possible to conclusively infer that the members of the board of directors acted solely for their own benefit.

Table 2 shows the remuneration received by the statutory board. Most of the remuneration of statutory directors is variable, ranging from 74.3% to 84.6% from 2013 to 2018, with particular emphasis on 2017 when it reached 82.5%, marking an 85% increase compared to 2016. In 2018, variable remuneration stood at 84.6%, indicating a 22% increase compared to the previous year.

Table 2
Compensation received by the statutory board from 2012 to 2020

Fiscal year	Fixed remuneration		Variable remuneration		Evolution of remuneration	
	Amount (BRL)	%	Amount (BRL)	%	Fixed	Variable
2012	4,712,786	19.4%	19,526,863	80.6%	-	-
2013	7,162,191	25.3%	21,100,348	74.7%	52%	8%
2014	7,127,007	23.6%	23,095,441	76.4%	0%	9%
2015	7,916,164	25.7%	22,861,471	74.3%	11%	-1%
2016	9,175,575	25.5%	26,808,134	74.5%	16%	17%
2017	10,518,305	17.5%	49,717,284	82.5%	15%	85%
2018	11,049,990	15.4%	60,498,109	84.6%	5%	22%
2019	7,865,018	45.2%	9,536,554	54.8%	-29%	-84%
2020	7,340,486	26.8%	20,001,393	73.2%	-7%	110%

Source: CVC Brasil Operadora and Agência de Viagens (2021).

However, Table 2 also reveals a significant decline of approximately 84% in variable remuneration in 2019, coinciding with the first year when an audit was conducted to identify errors in accounting procedures. This figure then returned to 73% in 2020. Considering the numbers shown in Table 2, there was a considerable increase in the variable remuneration of the statutory board in 2017 and 2018, which were the years when accounting errors were detected.

In addition to the analysis of the remuneration of the board of directors and the statutory board presented in Tables 1 and 2, the report of the Special Commission for Independent Assurance (2020), responsible for quantifying the accounting discrepancies, was examined. This committee was divided into two fronts: an accounting front, which aimed to independently assess the occurrence of distortions and adjustments promoted by CVC; and an investigative front, with the objective of identifying possible causes for these distortions. Consequently, the following evidence was identified on the investigative front:

i. Deficiencies in systems, processes, and controls related to the company's bookkeeping, which contributed to the occurrence of accounting distortions.

ii. These deficiencies were deliberately concealed by CVC employees, including external auditors

iii. Indications, though inconclusive, suggesting that CVC's results may have been intentionally manipulated.

Continuing the analysis based on the unaudited financial statements for 2019, published on August 3, 2020, the Special Independent Assurance Commission (2020) identified the following discrepancies in the financial statements:

i. **In the amount of BRL 93,829 thousand for 2019:** this led to a reduction in net revenue of BRL 74,253 thousand in the parent company and BRL 88,566 thousand in the consolidated balance, accompanied by an increase in the expense of exchange variation totaling BRL 5,263 thousand in the parent company and the consolidated balance. This reduction was primarily attributed to adjustments in the accounts for Advances to Suppliers and Contracts to Embark in Advance of tourist packages. These adjustments have been incorporated into the financial statements dated December 31, 2019, without necessitating any restatement (though restatements of the 2019 Quarterly Information [QI] will be conducted when the 2020 QIs are disclosed);

ii. **An amount of BRL 135,109 thousand was allocated to the fiscal year of 2018:** this resulted in a reduction in net revenue of BRL 120,900 thousand in the parent company and BRL 127,248 thousand in the consolidated balance, along with an increase in the exchange variation expense totaling BRL 7,861 thousand in the parent company and the consolidated balance. These reductions in revenue were primarily attributed to adjustments in the accounts for Advances to Suppliers, Contracts to Embark in Advance for Tourist Packages, and Suppliers; and

iii. **A sum of BRL 133,446 thousand pertaining to years prior to 2018:** this caused a reduction in shareholders' equity as of January 1, 2018, corresponding to this amount. These reductions were predominantly due to adjustments in the accounts for Advances to Suppliers and Contracts to Embark in Advance.

Given that the figures disclosed for the 2019 fiscal year included the adjustments identified by the commission for that fiscal year, and given that one of the company's objectives was linked to achieving 90% of the EBITDA, the impact of these adjustments on EBITDA for 2017 and 2018 was analyzed, as presented in Table 3.

Table 3
Comparison of 2017 and 2018 EBITDA Required Adjustments Identified by the Committee

Amounts in BRL (thousand)	2017	2018
EBITDA (goal)	623,532	732,292
EBITDA generated	561,179	659,063
Adjustments to Net Revenue	0	-127,428
Adjustments to Shareholders' Equity	-133,446	0
Reduction of IR and social contribution on net income (34%)	0	43,326
EBITDA after adjustments	427,733	574,961
Percentage in relation to the goal	68.6%	78.5%

Note: The EBITDA (target) was computed by multiplying the generated EBITDA by 1.11 considering that the company achieved a minimum EBITDA of 90%.

Source: Unaudited financial statements for the Year 2019.

As previously mentioned in the case description, the company asserted that the resignation of the executives was unrelated to accounting errors. However, the initiation of an arbitration process against the former executives, with the aim of seeking compensation for the harm inflicted upon the company, the escalation of variable compensation for the statutory board during the years when the accounting errors occurred, and the indications that the company's results "may have been intentionally manipulated," as reported by the Special Commission for Independent Assurance (2020), serve as indicators that cast doubt on the decisions made by former executives. These factors likely contributed to the resignations within the board of directors and the termination of the mandates of certain statutory board members.

Considering this situation, it is anticipated that a classroom debate will revolve around this ethical dilemma. It will delve into the potential accounting irregularities undertaken to enhance CVC S.A.'s financial performance and the subsequent payment of variable remuneration to former executives. The purpose of this debate is to address the following critical questions: What circumstances facilitated the manipulation of information? What measures can be implemented to mitigate such issues?

TEACHING NOTES

Accounting failures and earnings management: the case of CVC S.A.

Abstract

This teaching case reports the real situation of CVC S.A., a company operating in the tourism industry. The company was founded in 1972, with its first agency located in the Brazilian city of Santo André (SP). The dilemma of the case refers to accounting failures that boosted the company's results. and led to payment of bonuses to former executives. This teaching case aims to contribute to the discussion about possible incentives that generate conflicts of interest and the identification of internal control tools that minimize exposure to accounting fraud. The construction of the case involved data collection from the Internet through newspaper reports, analysis of explanatory notes, reference forms, report of audited financial statements, and unverified independent audit reports, available on the company's and B3's websites. This teaching case is recommended for undergraduate or graduate programs in Administration and Accounting, in courses addressing conflict of interest and earnings management, such as Corporate Governance, Corporate Finance, Auditing, Corporate Fraud, or Analysis of Financial Statements.

Keywords: Accounting fraud. Conflict of interest. Earnings management. Variable remuneration.

Falhas contábeis e manipulação de resultados: o caso da CVC S.A.

Resumo

O caso de ensino relata a situação real de uma companhia com atuação no ramo de turismo, que foi fundada em 1972 e teve sua primeira agência localizada no município de Santo André, SP. O dilema dá-se em torno de uma situação causada por possíveis falhas contábeis que elevaram os resultados da companhia CVC S.A. e geraram o pagamento de remuneração variável aos ex-executivos. Espera-se que o caso contribua para a discussão sobre possíveis estímulos que geram conflito de interesses, bem como para a identificação de ferramentas de controle interno que minimizem a exposição a fraudes contábeis. A construção do caso envolveu a coleta de dados na *internet* por meio de reportagens de jornais, análise das notas explicativas, dos formulários de referência, do relatório das demonstrações financeiras auditadas e do relatório de auditoria independente não auditado, disponíveis nos *sites* da companhia e da B3. Recomenda-se a sua aplicação em cursos de graduação ou pós-graduação em Administração e Contabilidade, assim como sua utilização em disciplinas que abordem os tópicos "conflito de interesses" e "gerenciamento de resultados", tais como Governança Corporativa, Finanças Corporativas, Auditoria, Fraude Corporativa ou Análise das Demonstrações Financeiras.

Palavras-chave: Falha contábil. Conflito de interesse. Gerenciamento de resultados. Remuneração variável.

Errores contables y manipulación de resultados: el caso de CVC S.A.

Resumen

El caso didáctico relata la situación real de la empresa CVC S.A., del ramo de turismo, que fue fundada en 1972 y cuya primera agencia estaba ubicada en el municipio de Santo André, SP. El dilema gira en torno a una situación provocada por posibles errores contables que incrementaron los resultados de dicha empresa y generaron el pago de compensación variable a los exejecutivos. Se espera que el caso contribuya a la discusión sobre posibles estímulos que generan conflictos de interés y la identificación de herramientas de control interno que minimicen la exposición al fraude contable. La construcción del caso implicó la recolección de datos, a través de internet, de reportajes periodísticos, análisis de notas explicativas, formularios de referencia, informe de los estados financieros auditados e informe de auditoría independiente no auditado, disponibles en los sitios web de la empresa y de la Bolsa de Valores B3. Se recomienda que se utilice en cursos de grado o posgrado en Administración y Contabilidad, así como en disciplinas que aborden los temas de conflicto de intereses y gestión de resultados, como Gobernanza Corporativa, Finanzas Corporativas, Auditoría, Fraude Corporativo o Análisis de Estados Financieros.

Palabras clave: Error contable. Conflicto de intereses. Gestión de resultados. Remuneración variable.

Educational objectives

Upon completing the reading and discussion of this teaching case, it is anticipated that students will enhance the following skills: a) Engage in discussions regarding incentives that can lead to conflicts of interest, drawing on the principles of Agency Theory; b) Develop proficiency in financial statement analysis, enabling them to identify potential instances of result manipulation.

Data source

This teaching case is based on a real situation involving CVC S.A., and it draws on information sourced from the internet. This information includes newspaper reports, data obtained from explanatory notes, reference forms, demonstration reports of audited financial statements, and an unaudited independent audit report available on the company's and B3's websites. In the case report section, the names of former executives who were part of the board of directors, the statutory board, and the current company president have been anonymized to safeguard their identities in the market.

Classroom organization and case application strategy

Firstly, it is advisable for the teacher or instructor to conduct an introductory class regarding the case, elucidating the proposed objectives and the class dynamics. Prior to initiating class debates, the professor or instructor should recommend that students acquaint themselves with the teaching case to gain a comprehensive understanding of the topics at hand. The preparatory reading serves the purpose of equipping students and instigating their participation in classroom discussions.

As an integral component of the teaching methodology, it is recommended that the teacher or instructor divide the class into groups for deliberating the issues. Consequently, two distinct groups are formed, each tasked with addressing one of the questions presented. The debates commence following the presentations by the groups assigned to each respective question. In addition to these initial two groups, further groups are to be formed to contribute novel insights and discussions concerning the subject under examination. This format is maintained throughout the exploration and discussion of all prescribed questions. The allocation of a specific question to each group, resulting in a total of two groups, is designed to foster discordant viewpoints among students, based on the central problem: "If you were one of the board members, what would your stance be?"

The role of the professor or instructor is that of a mediator, who will substantiate their position through relevant literature. For each debate, it is suggested that a maximum time of forty minutes be allotted for the presentations by each group, with an additional thirty minutes designated for the participation of students from other groups following the presentations by the groups responsible for each question.

Upon the culmination of all debates, it is anticipated that students will have attained a proficient comprehension of the dilemmas and potential accounting irregularities that might manipulate CVC S.A.'s outcomes, leading to an increased payout of variable compensation to former executives. With this objective achieved, it is expected that students will be adequately equipped to address the following probing questions: What conditions facilitated the manipulation of information? What measures can be implemented to mitigate such issues?

Recommended application

The teaching case finds its utility in undergraduate and graduate courses within the fields of Administration and Accounting. Furthermore, it is aptly employed in a multidisciplinary context within the realm of Applied Social Sciences, particularly focused on the domain of business management. Additionally, it lends itself to courses delving into the subjects of "conflict of interests" and "earnings management," such as corporate governance, corporate finance, auditing, corporate fraud, or the analysis of financial statements.

Questions for discussion and theoretical exposition

Below are a set of questions designed to facilitate the analysis of the teaching case through group presentations and classroom discussions, fostering collective debate:

1. Did former members of the statutory board reap benefits from the company's financial performance?
2. Did the managers make discretionary decisions with the aim of enhancing the company's results for their personal gain?

3. Is there a connection between the resignation of board members and the removal of certain members of the statutory board and the accounting errors?
4. If the accounting irregularities had not occurred, would the managers have achieved the established objectives?

In addition to the questions developed and discussed during theoretical lectures, the teacher or instructor should remain attentive to the possibility of other inquiries arising, particularly pertaining to the themes of "independent auditing" and "corporate governance."

Case analysis supported by the literature

To aid in providing possible answers to the questions, we can reference several studies addressing these issues.

Question 1: Did former members of the statutory board reap benefits from the company's financial performance?

Jensen and Meckling (1976) contend that agency conflicts arise due to misalignment between the actions of managers (agents) and shareholders (principals), as managers seek to maximize the company's results to achieve their individual objectives. Pertaining to the relationship between variable compensation and performance, the study by Fernandes and Mazzioni (2015) merits attention. It demonstrates a positive correlation between variable compensation for members of the board of directors and the statutory board and the financial performance of Brazilian companies within the financial sector.

Pereira, Freitas, and Imoniana (2014) conducted an analysis of the efficacy of the internal control system (ICS) in combating corporate fraud in Brazilian companies. The primary findings indicate a connection between fraud related to financial statements and the top corporate echelon of the company.

Instances of accounting failures, such as that of CVC S.A., are recurrent and have a global reach. Moreover, they inflict significant financial and non-financial harm on employees, companies, investors, and society (Schneider & Brühl, 2023), thereby engendering substantial economic, financial, and social repercussions for any economy (Kim, Baik & Cho, 2016).

Accounting fraud is typically motivated by personal motives, encompassing the compensation of company managers (Ali & Zhang, 2015). The pressure (or incentives) represents a perceived motivation compelling individuals to engage in fraudulent behavior. Consequently, the pressure (or incentive) perceived by the Chief Executive Officer (CEO) or the Chief Financial Officer (CFO) may emanate from various sources, including career concerns linked to optimizing their prospects, prestige, or managerial autonomy (Ali & Zhang, 2015).

Regarding the augmentation of a company's performance and profits, the CEO wields the most influence, given their decisive role in pivotal corporate matters, such as financial transparency, board structure, and the overall performance of the company, all of which impact the quality of financial reports (Yahaya, 2022).

Through an exploration of the key factors influencing the adoption of stock-based compensation and the variables affecting the amount disbursed, Ermel and Medeiros (2020) unveil a potential trade-off between cash and stock-based compensation. Their research indicates that in the Brazilian market, when confronted with the prospect of reduced liquidity, companies opt to remunerate managers with shares in a bid to mitigate their exposure to systemic risks.

In a similar vein, Beuren, Pamplona, and Leite (2020) discern that short-term variable compensation can enhance the performance of companies, implying a positive correlation between executive compensation, performance, and the investment policies of Brazilian firms.

Alkebsee, Alhebry, and Tian (2022) demonstrate a significant association between the cash compensation of CEOs and CFOs and real earnings management. They propose that CFOs wield more substantial influence over actual earnings management than CEOs, signifying that the financial and accounting acumen of CFOs bolsters their control over the quality of financial reports.

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Question 2: Did the managers make discretionary decisions with the aim of enhancing the company's results for their personal gain?

Manipulation encompasses a series of practices executed by administrators to influence accounting choices or alter the daily operational activities of a company, thereby effecting intentional interventions in accounting information (Martins & Ventura, 2020). In this context, bonus plans may stimulate managers to select accounting standards and make discretionary decisions with the intent of augmenting their remuneration (Watts & Zimmerman, 1978). Consequently, empirical evidence suggests a positive correlation between the use of discretionary accruals and favorable variations in executive compensation (Shuto, 2007; Sun & Hovey, 2017).

Within this framework, the literature suggests that earnings management and fraud are linked to executive variable compensation schemes, implying a heightened likelihood of fraud when executive compensation is tethered to operational performance metrics (Perols & Loungee, 2011).

According to Amiram et al. (2018), managerial financial misconduct leading to accounting fraud is associated with breaches of regulations and accounting standards. Diverging from accounting fraud, earnings management aligns with legal norms and regulations. Nevertheless, the opportunistic perspective of real earnings management suggests that managers deviate from ordinary business activities with the intention of misinforming users of financial statements. Specifically, managers deliberately depart from standard activities aimed at achieving performance targets to secure personal gains (Habib, Ranasinghe, Wu, Biswas, & Ahmad, 2022).

Given managers' incentives to manipulate results (Assenso-Okofo, Jahangir-Ali, & Ahmed, 2021; Dechow, Ge, & Schrand, 2010; Kin, Ramos, & Rogo, 2017; Rosa & Tiras 2013), students should be tasked with calculating the total accruals of CVC S.A. from 2015 to 2018 through the difference between net income and net operating cash flow. This calculation can contribute to a potential response to this question.

It should be noted that metrics for analyzing earnings management are computed using non-discretionary accruals, representing the distinction between total accruals and discretionary accruals (Dechow et al., 2010; Kin et al., 2017). However, for a more comprehensive understanding of earnings management, it is recommended to consider only total accruals.

Question 3: Is there a connection between the resignation of board members and the removal of certain members of the statutory board and the accounting errors?

Question 4: If the accounting irregularities had not occurred, would the managers have achieved the established objectives?

Corporate fraud has prominently featured in financial news over recent years. Notable scandal cases, such as those involving Enron Corporation, Tyco International, and WorldCom, underscore the capacity of managers to manipulate financial reports. These scandals, alongside instances of less severe misconduct, cast doubt on the reliability of reported earnings by companies (Dechow et al., 2010).

Corporate financial scandals engender a loss of trust in corporations and their stakeholders, potentially leading to a surge in executive turnover, particularly if such scandals become public, as companies may face bankruptcy or severe financial crises (Brody, Melendy, & Perri, 2012; Habib, Bhuiyan, & Wu, 2021).

In the realm of accounting literature, fraud predominantly manifests itself within financial statements. Various terms, including incorrect financial reporting, financial misconduct, financial misstatement, accounting fraud, accounting irregularities, corporate fraud, and financial fraud, are used to describe this type of fraud to varying degrees. Most studies define financial statement fraud as a deliberate misrepresentation carried out by managers, auditors, and other individuals at the expense of shareholders, while other forms of fraud pertain to insider information and asset misappropriation (Yu & Rha, 2021).

According to Agency Theory, corporate governance should mitigate the opportunities for financial misconduct by executives by implementing robust monitoring mechanisms through the board of directors and shareholders. These mechanisms exert pressure on top management to issue higher-quality financial reports, thereby preventing or at least reducing instances of accounting fraud (Velte, 2023).

Lynch and Williams (2012) posit that remunerating the board of directors based on incentives is a classic strategy for resolving conflicts of interest between management and shareholders. However, an "excessive" level of remuneration and the absence of performance-based remuneration contracts heighten shareholder concerns, as they create incentives for managers to engage in earnings manipulation.

In this context, the establishment of short-term financial objectives in variable remuneration contracts and the provision of excessive compensation may incentivize managers to engage in financial misconduct. This behavior enables them to exacerbate information asymmetry by concealing unsuccessful strategies through accounting adjustments in a company's financial performance (Velte, 2023).

In support of the responses to Questions 3 and 4, it is recommended to examine the report of the Special Commission for Independent Assurance (2020) formed to investigate the accounting irregularities at CVC S.A. This report was disclosed in the financial statement report for December 31, 2019, and is available on the company's official website. Additionally, refer to Table 3, which is included in the case report.

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