

# The Role of the Auditor in Verified of the Unethical Practices in Accounting

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**Abstract-** The concept of creative accounting became focus and attention by accountants and auditors so dramatically in recent years, especially when the company (Enron) and other leading companies were collapsed and the company of (Arthur Andersen) was responsible to audit the accounts of (Enron) company that is a part of the for the collapse of the company, that accused of manipulating data accounting for the company taking advantage of some treatments and accounting policies that appear accounting data without true and correct form. we through this research, we highlighted the concept of creative accounting of several aspects with a focus on the role of the auditor in the verification of practices and the results of creative accounting. This research has included seven chapters, the following is a summary of each chapter.

## I. INTRODUCTION

The responsibility of the auditor is still for the detection of accounting practices creative of fraud and misrepresentation that are considered the most controversial issues that faced the auditing profession, but we can say that it is one of the main reasons that contribute to the occurrence of what is known as (the expectations gap) is that the gap between what to expect from the community and the general public of auditors and the reviewers, and what the auditors and reviewers have already done in accordance with the generally accepted auditing standards. If the sects of community are interested in the report of the Audit, they expect to discover auditors accounting practices of creative manipulation and deceit, but the standards of the profession have confirmed that the Auditors' responsibility in this regard, they are going to be the determination of the audit process in regular place at the first place to detect fraud and errors only, it was controversial at the beginning of the era of audit and auditor's job was especially focused on external discovery of errors and fraud, and then they evolved into a neutral opinion about justice and sincerity of the financial lists

However, that concern the responsibility of auditors have detected fraud and misrepresentation that were an active and began again occupy the forefront in the early eighties as a result of the failure of many projects and companies go unexpected bankrupt and collapses for many of the capital markets, as well as people have increased awareness and political interest in the public the gravity of the size of manipulations and fraud and misrepresentation in a lot of data structures, particularly that is done by the members of the Board of administration and managers.

The concept of creative accounting has become focus and attention by accountants and auditors so dramatically in recent years, especially when the company (Enron) and other leading companies were collapsed and the company of (Arthur Andersen) was responsible to audit the accounts of (Enron) company that accusing it of manipulating the company's accounting data were taking advantage of some treatments and accounting policies that appear accounting data without the correct shape.

The researcher will discuss the main problem for the search, which is that there are some people willing to achieve specific goals, both members of the board of directors or own businesses or stakeholders, which pushes them sometimes to address the accounting data of the company or manipulated by inventing ways and methods of accurate accounting by taking advantage of some of the accounting policies or legal loopholes which are so-called (creative accounting) in order to achieve the goals of their aspirations.

In view of the nature of the above-mentioned problem, researcher poses the following two basic assumptions of the research.

### First hypothesis:

There is a significant relationship between the awareness of users of financial reports and the discovery of creative accounting practices and thus reduce them.

### The second hypothesis:

There is an active role for both auditors and audit personnel who are working in institutions or sectors which monitors the work of companies in the collections of accounting or internal auditors who are working in companies to detect the creative accounting practices and reduce them.

The researchers also will achieve the following objectives through this research to:

1. Shed light on previous studies that addressed the issue of creative accounting and reached up to be the starting point for this search.
2. Review of the most important methods that used in creative accounting.
3. Identify trends and means to detect creative accounting practices, and their contribution to restrict manipulation in the financial statements and the role of international organizations in the accounting.
4. Identify the ethical perspective of creative accounting.
5. The role of the auditor in the verification of practices and the results of creative accounting.

In conclusion, we hope the Almighty Allah that we have been successful in providing this research appropriately in a scientific and accurate manner.

## II. RESEARCH AND COLLECTION IDEA

### The Concept of Creative Accounting and its Definitions

The creative accounting or fraud accounting, as some calls it an event that was born in the eighties, it is likely to have begun when the companies faced difficulties in the recession that occurred in the early eighties, where there was pressure to produce profits better in time when it was difficult to find those profits and any other kind, and when the company discovered that the laws only tell you what cannot be done, not what you can do! Therefore companies have felt as if they cannot earn profits, they can at least to innovate them.

Many researchers, writers and specialists have tried to define the concept of creative accounting, and because of the different orientations and points of view of these researchers and writers have appeared in many definitions of this concept, those definitions have built, each according to the viewpoint of the set, the following researcher will view of the many definitions of creative accounting, then the researcher will conclude a comprehensive and concise definition of creative accounting from his the point of view.

(1) (Nasser) defined creative accounting from the academic viewpoint as "a conversion numbers of financial accounting than it is actually to what the authors want it by exploiting or taking advantage of the existing laws and / or ignore each other and / or all".

(2) (Amat) defined creative accounting as "the process which uses by accountants knowledge of accounting rules to address the recorded figures in the accounts of businesses."

(3) (Phillips) his concept of creative accounting was being as "comprehensive description in the process of manipulating that is amounts or financial offer for internal motives."

(4) (Mulford,) defined the creative accounting that it is the actions or steps that are used to manipulate the financial terms, by using options and practices of accounting principles, or any action or step in the direction of profits management or pave income.

(1) (Ani) uses the term of accounting creative rather than the term of creative accounting, as he describes as the "process of manipulation of figures accounting through to seize the opportunity to get rid of compliance with the rules of accounting and alternatives measurement applications and disclosure for the transfer of the financial statements, which must be like to preferably prepared this statements to reach him, which is also a process by which you are structuring transactions in order to produce the results that are required accounting instead of reporting these transactions in a coordinated and impartial manner.

(2) (Bambooweb Dictionary) describes creative accounting that refers to the use or the use of practices about deviant practices of accounting standard, normative or familiar, which are characterized by the use of methods and practices that are modern, complex and innovative to get the privilege of income, properties, assets or liabilities.

(Bambooweb Dictionary) also adds that the results of such practices are complex, tiring and exciting in the financial reports and this has called creativity, it sometimes calls terms: inventing, innovating or adventurer (Aggressive), it adds that this creative accounting used more seriously in order to distort the real income and properties of businesses companies.

(3) In (Accounting Dictionary), it has been defined as a general concept for the organization of accounts that give the illegal or dubious entity benefits to maintain accounts.

In view of reading what came earlier by researchers, writers, and others, it is clear to the researcher that creative accounting is the process or practice can accountants use their knowledge of the rules and laws of accounting to address the recorded figures in the accounts of companies or manipulated in order to achieve specific goals, but this can be summarized as the concept of creative accounting of our point of view as a "modern processes or practices, complex and innovative through which accountants use their knowledge of accounting rules and laws to deal with the recorded or manipulated figures in the accounts of companies or manipulated in order to achieve specific goals."

Before I conclude this section I will refer to some of what was said by specialists for creative accounting through their experience and observations about the practices of creative accounting,<sup>1</sup> (Yan Griffith Griffiths) wrote from the viewpoint of a journalist in the field of business and accounting "Every company in the country to deal with profits in its own way, but each set of published accounts based on the basis of the books, which is prepared in minutes or fully readied, and that the figures obtained by the public investor twice a year, they are changed completely in order to protect and hide the crime, it is the biggest trick since the Trojan horse, and he adds... In fact, this deception be prepared very attractive, which is wholly legitimate ... It's creative accounting."

It was reviewed by (Jameson)<sup>2</sup> from the viewpoint of the accountant says, "it includes the process of accounting for addressing many issues of governance and conflict resolution between the curriculum or competitive entrances in order to display the results of financial events and business processes, this flexibility provides opportunities for manipulation, fraud, deception, distortion and /or poor presentation. These activities have become fruitful elements of the accounting profession that was known by creative accounting".

As (Smith)<sup>3</sup> says, according to his experience as an investment analyst "We felt that a lot of apparent growth in profits were occurred in the eighties, there were the result of sleight of hand dexterity accounting or creative accounting, it was not as a result of economic real growth, he adds .. We started in the detection methods main involved in this and provide vivid examples of companies that use those creative methods."

The researcher adds to creative accounting "the concept of creative accounting lies in the term of practices that carried out by accountants to mislead the reader of the financial statements

<sup>1</sup> Amat, O. and Blake, J., "The Ethics of Creative Accounting" p 8

<sup>2</sup> The previous source p 9

<sup>3</sup> The previous source p 10

for any goals to strengthen market shares, maximize the rewards of board of executive administration or others. "

### The Methods that are Used in Creative Accounting

As I noted previously, the accounting creative has several definitions , one of these definitions is the definition of creative accounting as a "methods or means that are used to transform numbers of financial statements than it is actually to what authors want by taking advantage of the current rules and / or neglecting some or all of them. "4

In this part of the research we will review the most important of these methods that are used in creative accounting, here it must be noted that there are many means and methods that used in creative accounting, but we chose to review the most important of these methods , they are as following:

1) Accounting rules sometimes allow for the company to choose between a number of different methods of accounting, for example, they allow to the company in many countries to choose between a policy to delete the expense of development, they also depend on consumption at the expense of project life the related to them, so the company can choose accounting policy that give its favorite image.

2) Using some input in the accounts that are related to the assessment or prediction.

In some cases, when you assist the age of one asset for the calculation of depreciation, it is usually performed these assessments within the work , it made available opportunity to the creative accountant to make mistakes in terms of caution or optimism in this evaluation. In some other cases it can usually hire an external expert to work evaluations, For example an expert statistical can be evaluated the financial commitment for future pensions, in this case the accountant can be creative to manipulate the value either by the means, by putting the overall evaluation , by choosing valuer or a known resident to adopt a trend optimistically or pessimistically as desired by the accountant.

3) It can enter either synthetic trades to manipulate the amount of the budget or to move profits between accounting periods.

This is achieved by entering into two transactions or more connected with a third party inclined to help, for example, to assume that someone was making arrangements for the sale of one asset to a bank instead of leasing this asset for the rest-of-life so that they can put the sale price of the asset under (sales and recessive leasing ) is higher or lower than the current value of the asset because it can compensate for the price difference by low or high lease.

4) Manipulating the timing of transactions in order to identify a certain age to upload gains or losses for any accountant's purpose aimed to achieve , especially if there are clear differences between the carrying amount , the market value or real value.

The researcher concludes the accounting methods that are used in its multiple innovative forms and fairly complex, and they can't only be discovered by specialists, and later they will be shown how to detect and address them .

### Creative Accounting and Management Accounting Profits and Beautifying Images of Income

Authors exploits the financial data ,who engage in creative accounting of some accounting policies and legal loopholes, in order to provide the impression "misleading" for profit that serves different purposes and objectives, there are many methods and practices that are used in the management of profits and beautifying images of income. As following ,we will review the most important of these practices and the target to do them :

(1) Generally, companies prefer to submit a report about the direction of the steady growth in profit instead of Showing unstable series of dramatic highs and lows of profits, they are achieved by the management of a large reserve that is necessary in order to financial commitments and against the values of the assets in good years, which can even reduce this reserve and thereby improve profits that are prescribed in the bad years. Thus oscillations disappear or dips that may affect income , in this regard shareholders or investors may pay to ask questions to the board of directors.

Here are highlighted the seriousness of creative accounting in the lack of transparency and the absence of the role of investors in terms of that in the case. If the trading conditions worked unstable and volatile, the investors would find out, actually they've right to know that.

(2) One of the different forms to manage earnings and beautify images of income is manipulated earnings in order to link predictions,<sup>5</sup> (Fox1997) indicates how to design accounting policies in some economic units through the accounting rules regular to match the reported profits with the predictions of profits. For example, when that unit sells its products , the recognition of a large part of the detective profit is postponed including for future years under the pretext of meet potential expenditures to quality improvement and customer support.

The importance of such practices are sometimes evaluated in the performance of board members on the basis of expectations and forecasts that are placed when they receive their functions, so it whenever forecasts achieved, it means that the framers of forecasts have a high level of skill , competence and intuition. thus they have raised the economic status of the company ,thus they get high ratings and so they will a big bonus rewards .

(3) The members of the board of directors change in accounting policies for the purpose beautify of income in some cases, they have so desirous to distract investors or observers for the bad news.

<sup>6</sup> (Collingwood 1991) indicates to a famous incident happened in the United States , when K-Mart company changed

<sup>4</sup> Amat, O. and Blake , J. , " The Ethics of Creative Accounting P 11

<sup>5</sup> Healy, P. M. and Wahlen , J. M. , " A Review of the Creative Accounting Literature and its Implications for Standard Setting "p12-13

<sup>6</sup> Healy, P. M. and Wahlen , J. M. , " A Review of the Creative Accounting Literature and its Implications for Standard Setting ". p 15-16

in some their accounting policies in order to show profits quarter, including more than 30% of its value in view of the former accounting policies so as to coincide with the bad news, there is the largest retail company in the United States that declines from the first position to the second, so the purpose of that to distract investors and observers for this news.

(4) The creative accounting can help either to keep the price per share or promote it, either by reducing the obvious levels of lending that make the company to appear to be subject to less risk or by creating an appearance on good profit direction which helps the company in the collection of capital through the issuance of new shares and to show its private shares in the company's own offerings.

In general,<sup>7</sup> (Dharan and Lev) noted in a prepared study in 1993 that analysts in markets have high efficiency and attentive, they won't deceive in beautifying accounting practices, that changes the accounting for the settlement of income is considered as an indication of weakness. the study also pointed out that any beautifying procedure to the image of income undertaken by the company certainly, it will be followed by a poor performance in the stock price in years that followed those accounting changes to increase income.

### **Recent Trends and Methods to Detect Creative Accounting Practices and Reduce them.**

There is no doubt that the fight against practices of creative accounting is one of the difficult and complex things, so people who interested in this area constantly seeking to know the developments in creative accounting and to detect such practices and then try to reduce them. In this chapter, the researcher will present the most important trends and the modern means and methods that are used to detect creative accounting practices and reduce them, they are as following :-

(1) The idea of audit committees appeared in the United States after the violent financial shocks as resulting from the manipulation of financial reports, which are resulted in the establishment of both the New York Stock Exchange (NYSE) and the Capital Market Authority of United States \*(SEC)\* that recommended to establish a committee of registered companies that composed of a number of Members of non-executive, their tasks were to assign the external auditor, and they determine his fees as an attempt to increase his independence when he decided an opinion about financial lists issued by companies, the American Institute of Certified Public Accountants (AICPA) has recommended in 1967, all companies, whether listed or public need for the establishment of the Commission for review, In 1972, the Commission issued Capital Market Authority of United States \*(SEC)\* recommended to compel companies to establish a committee for review. In 1978 the New York Stock Exchange committed all registered companies with the need to the compose the review committees.

2) Many of the economies of East Asia, Latin America and Russia suffered After the economic collapse of and financial crises in the late twentieth century, there were financial collapses in many markets of the world, as well as under the openness of the global capital markets, the globalization of markets, the private sector relied on to increase economic

growth rates for many countries of the world, these companies have become the huge expansion in the size, there is an urgent need to lay the foundations for a new professional ethical standards, they were called the concept what is now by corporate governance so as to reduce the phenomena of creative accounting and its damages that as result of a lack of the necessary transparency, which would raise the level of global and local economies.

(3) The field of selection the alternatives and accounting treatments will be minimized by reducing the number of alternatives and available accounting treatments or identifying conditions that can be used where each treatment, but this is for the International Accounting Standards Committee (IASC) its amendments, recently they had abolished in the alternative treatment standards, and they developed a standard treatment in their criteria.

The reduction of the alternatives will lead the company, which will choose a particular accounting treatment, which produces desired image in later so it would force to use the same treatment in similar circumstances in the future in which the result is less satisfaction.

(4) reduce the misuse of certain accounting policies, and this is done as following:

A - Act of making rules that reduce the use of certain accounting policies or even they are canceled, and in this respect when some accountants is heading in British companies partially "item of emergency" for the accounts of loss and profit of the items that they wish to avoid included operating profit, and that the British accounting standards has considered to cancel " item of emergency " finally so as they don't exploit wrongly.

B - There is other way through the activation hypothesis "stability", this means here consistency in the use of the accounting policies adopted by the preparers of financial statements, this means when any company chose accounting policy that is relevant to one of the years, it must continue to be applied in subsequent years, which may not fits those policies as they were, here that does not mean it is not allowed to change accounting policies, but the intention will not change these policies only if they are absolutely necessary and they provided as the disclosure of financial impacts caused by changing these policies.

(5) The most important and powerful way, which attentive and efficient auditors, observers and audit committees discover practices of creative accounting that are followed by the other. This is done by choosing the audit offices with high efficiency and reliability, as skilled and efficient references based on the design of audit procedures to obtain reasonable assurance about the distortions arising from the creative accounting that are discovered, which are considered material to the financial lists.

(6) There will be development of accounting culture among investors, interested parties and users of financial information on the various spectrum, This is done through self-education, that aimed to improve their levels of accounting, or by the authorities concerned the safety and financial lists transparency that is given by the information from government or the private sector, and the process of education is offering by accounting programs of education and it is sending illustrative educational messages or holding seminars for users of financial information that explain the innovative practices by some

<sup>7</sup> the ecruos suoiverp p 21 – 20

companies and the most important developments in the field of auditing and accounting.

(7) Activating the professional organization for the accounting and auditing profession, the development of the Charter of professional behavior and the formation of a professional committee of ethics of the most important functions of rules of conduct that must be adhered by the accountant and certified references.

In general, researcher concludes that efficient auditor seeks usually for evidence to prove sufficient and appropriate to prove that it didn't occur distortions or errors, and here it must be noted to the important point that is as a result of inherent limitations in the audit process, it no risks cannot be avoided in non-discovery of misrepresentations core in the financial lists as a result of creative accounting practices, it is possible to be the discovery of distortions and excesses of the financial lists for the period covered by the auditor's report, but that this does not mean the failure of references to adhere to the fundamental principles and necessary procedures for review. Sometimes despite adhering to these principles and procedures, it is possible to discover some of the excesses and distortions in the financial lists.

#### **The role of the International Council of the Accounting Standards to issue emanating from the International Federation of Accountants to reduce the creative accounting practices.**

When the Council decided to issue international accounting standards emanating from the International Federation of Accountants to make modifications to international accounting standards that are issued by the international standards accounting that changed to International Financial Reporting Standards, this change aimed to several points including:

1-Convergence with U.S. accounting standards<sup>8</sup>.

(2) Economic Unity Council of the European Union fulfill the desire to issue new accounting standards that help to standardize the application of accounting between the countries of the European Union similar to unify the currency in European union.

(3) The major developments and changes are considered when they have occurred, especially many countries have issued in the world by local accounting standards that are based mainly on international accounting standards.

(4) Some abuses and bad exploitation occurred by some accountants to these standards through the exploitation of some weaknesses in standards and there was one of the results of the emergence of creative accounting.

In this sense, the Council issuing international accounting standards considered to include some adjustments and changes so as to avoid a bad exploitation of the old standards, as well as to eliminate any practices of creative accounting practices which

appeared under the old international accounting standards. the most important of these adjustments are as following :

1) Working to eliminate the majority of alternatives (standard treatment) and (alternative treatment) in the new accounting standards, and sustainment process accounting that aimed to unifying treatments and not giving way to choose among several alternatives so take advantage of these alternatives in the beautifying the image of income, inflate profits or coverage of up some notes on the company's activity.

2) Adding attachments for each standard accounting that shows how practical application is considered the most important changes from the researchers' point view or adjustments that made to the new International Accounting Standards, it is clear that there are difficulties in multiple practical application of many paragraphs of accounting standards, where many specialists have difficulty to explain how the proper application that has ambiguity in some paragraphs within the standard which may be exploited by some weak people to do the process of manipulation or distortions in some items of financial reports under the lack of clarity in pretext or understanding the proper standard.

3) Canceling the contradictions and conflicts between some, as well as to remove any ambiguity surrounding these standards which closes the door to those who want to take advantage of these contradictions or the vagueness in some of these standards.

4) Providing explanations that attached to the standards within the same standards rather than to be separated in a special supplement for each criterion..

**An Ethical Perspective of Creative Accounting**  
sa to the moral perspective of creative accounting, many ethical considerations have originated as following:

First: Accounting system shared with the systems of law in many ways, where we can look to the values and ideas that are emanating from the law and justice systems because such systems are social installations we can look behind to find basic ethical values as honesty, (Lyons 1984) has discussed values as examples in legal processes, where respect for the law is known as an important moral, "For example, it can operate well-the procedures established to encourage respect the law and then obedience to the law, which many people consider them as good thing"<sup>9</sup>. Perhaps some debate arises about systems that because either they were drafted badly or the mechanisms are not applied very suitable and respectful. In addition, Lyons discusses rule of law but this point shows more strongly on the non-legislative system such as accounting system, where if they fail to gain respect by those who are called upon to apply it is likely that the consequent failure of metysys. In the context of large and small manipulation in financial lists, which we knew it raises the problems in system of accounting, so the system lacks authority if it exposed to manipulation by the economic or political forces to any objective.

<sup>8</sup> Yahya Mohammed Abu Taleb, "International Accounting, According To The Latest Versions of the Egyptian Accounting Standards that Prepared in Accordance with International Standards of Financial Reporting in the Context of Accounting Theory", p 205-215

<sup>9</sup> Lyons, D.: 1984, Ethics and the rule of law (Cambridge University Press, Cambridge), P196

Many philosophers has pursued similar ethicists ideas with regard to justice in accordance with the rights for every person or every group throughout history. According to this conception, perceptions of justice and recent others, such as the famous theory of Raul for Justice , it was developed in 1972, there is no doubt that the writers of the financial lists who abuse the authority in office by committing some sort of oppression and injustice .

(Fischer and Rosenzweig 1995)<sup>10</sup> (3) was found that the accounting and MBA students criticize trades that exposed to manipulation and misuse of accounting principles.

Naser and Pendlebury 1992<sup>11</sup> (4) also discovered that auditors and accountants have lack of desirability for such situations in Britain .

The transition from the general concept of injustice and dishonesty , we can address to more personal level where individuals make decisions about work to be able defend it one way or another, however, the business decisions are not exempt from ethical considerations, as Solomon 1993 "<sup>12</sup> explained where we cannot accept again the moral notion that "the work is work " .

It helps to understand that to keep in mind the idea of individual responsibility for wrongful acts and the idea of good character when studying the unethical discussions to some extent, which employs to be an excuse for the behavior of manipulating accounting, where there could be a defense for the behavior of creative accounting that based on agency theory and accounting theories, Revsine 1991<sup>13</sup> has discussed "assumptions ,financial representation theories or wrong selective," It was considered that the problem is related and suggests that each of them can take advantage of non- tightly formulated accounting standards which allow discretion in determining the time of income and profits,

In the fact , holders of shares could have benefit that managers are able to manipulate profits to " settle" income, including that it may reduce the instability of earnings clearly suffered by the company which leads to an increase in the value of their shares. in the fact , this is included a deliberate manipulation and deception are ignored, during that point of view so that shares holders are just absolutely unfamiliar with manipulation but theoretical assumptions of the agency provide this behavior that is inevitable because there is the inherent conflict in agency relations.

An ethical perspective can be considered that manipulations hated and forbidden morally, it is not fair to users, where includes practice is unfair to power and is working to weaken the authority of the organizers, when they are violated laws and regulations without penalty which the consequent lack of respect for them and procedures, basically it is prudent to ask the

question about the validity of the logic that involved in activities to hide proper financial data to provide an image of economic activity that cannot implicit fully justified.

Therefore, the researcher believes that creative accounting can be considered morally and hated what accountants see ethical violations that pursued by them in their careers, and that needs to address these behaviors can even get adequate transparency and credibility.

### **The Role of the Auditor in the Verification of Practices and the Results of Creative Accounting**

First: The pivotal role of the auditor and the framework of reh/sih responsibilities:

Generally , that organizational process defined as that lead through the qualified and neutral auditor (Competent and Independent) to validate the verifiable information and allegations that related to the activities and financial events and matching the results of economic relations with the accounting standards prescribed as (Established Accounting Standards) by collecting and evaluating evidence to prove audit (declarations, approvals , observations , inquiries and examination) with a report on the results of those parties process that used information to use in making their decisions.

Accounting and auditing profession have arisen in an environment . they are characterized high degree of complexity economic , they also provide which management facility information on resources , the burden of obligations to help investors , suppliers , lenders and other interested parties in making their decisions through the preparation of financial statements that include economic allegations and clarifications and that's where the administration which represents the authors of the financial lists. (Preparers or Providers) have their operational goals and their own interests, which may differ from the interests of information users, and they must be checked as to that information via professional accountant and impartial to express an opinion about the credibility and reliability.

Hence, we can say that the audit profession that has arisen in response to the need neutral audit to information, and until the provision of such service seeks references in an objective and impartial investigation to gather evidence relating to allegations subject of examination, where I have been to that evidence in the accounting data in books and diaries, accounts and supporting documents and approvals, etc.,

The auditor compares these allegations and information with the prescribed standards (including accounting standards or any other basis of agreed accounting ) on the allegations and the information that contained in the financial lists may be presented honestly and fairly, they do not include any primary responsibility of the auditor to make it clear in her/his opinion of the parties , they would provide the coupling auditor's report to the users of such information for the benefit of the possibility of credibility and reliability

Figure (1)explains objective neutrality audit, which is done by qualified auditor who express her/ his opinion that the financial information provided by company management to the Users concerned .Basically, the primary responsibility of the auditor is to make clear opinion about the parties that used for accounting information as to whether the financial statements

<sup>10</sup> Fischer, M. and K. Rosenzweig: 1995, 'Attitudes of Students and Accounting Practitioners Concerning the Ethical Acceptability of Earnings Management', Journal of Business Ethics 14, P444

<sup>11</sup> Naser, K. and M. Pendlebury: 1992, 'A Note on the use of Creative Accounting', British Accounting Review 24,P 111.

<sup>12</sup> Solomon, R. C.: 1993, 'Corporate Roles, Personal Virtues: An Aristotelian

<sup>13</sup> Revsine, L.: 1991, 'The Selective Financial Misrepresentation Hypothesis', Accounting Horizons, December,P 16-27.

that include allegations administration could have offered a sincere and fair, as well as without any excesses or distortions , and they do not include any exercise of the creative accounting practices.<sup>14</sup>

However, it must be noted to important and vital matter that the audit does not provide a guarantee of full discovery all practices of creative accounting, because it is not simply perfect operation, where it is no possibility of non-discovery of some of the practices of creative accounting, and this is even under the best possible performance that required checker`s procedures by (Professional Auditing Standards), where if any Checker tries to discover all practices of creative accounting, the cost of the audit will be significant and unacceptable, so it should focus efforts in areas where there is a significant risk of distortions or manipulation, and during the actual audit process implementation has had a great deal of (Assurance) to discover, although it is not a confirmation at all but it is a high level positive, and therefore the accuracy of the financial lists for all companies would rise, which capital markets would enable to work as efficient markets , hence we can say that the audit provides economic benefits to many of society. In the United States, there are (15000) public companies offer their shares for public subscription that must be reviewed annually, these companies cannot be get capital by offering shares in the capital markets without auditing the financial lists. Many private companies need an annual review of their financial lists to obtain and maintain financing in banks and other financial institutions. In most cases, the company can get low rates financing if it has financial lists that are audited annually, and here we can say that the audit of financial lists reduces the cost of capital.

The auditors usually helps both workers in the audit institutions or sectors which monitors the companies works of in the audit bureaus or internal auditors of companies to improve their performance and internal control methods. Where they brought to management proposal results of implementation to reduce costs by improving operating efficiency and reducing any distortion or manipulation or fraud. As results of the audit procedures implementation that all members and staff work facility better to reduce the chances of committing fraud and erroneous practices.

As a result of an increased information risk, there are many causes ,which are the complexity in the business community , increasing the size of establishments companies , the multiplicity of its financial operations carried out and characterized by difficult and expansion exchanges as well as decision maker has a difficulty in reaching to information directly, the possible existence of distortions , bias , an intentional impact of producers or on one of its aspects that appeared inevitable auditing and the pivotal role of impartial role in reducing the risk information, which reflect these risks the possible inaccuracy of on the work dangers on the facility -specific work hazards or company (inaccuracy of the financial lists).

Some departments of companies sometimes has agreement with the auditor to provide suitable confirmation for users about

the possibility of relying on these lists, as if they were the adoption of these lists are incorrect, and they include some creative accounting practices, the auditor will face possible prosecution by both the user and some members of the directors board or what is known as legal liability for the auditor toward customers or any third party, Where users evah prosecuted the auditor on the basis of professional responsibility to confirm the reliability of the financial lists, and the user can also prosecute the department, thus the auditor has a great responsibility legally

Second: Enhance the auditor`s work performance to reduce the innovative practices

According to the standards , audit process aims to provide reasonable assurance that the financial lists as a single unit is generally free of any material misstatement or fraud or manipulation or any practices of creative accounting practices. To reach these reasonable assertions must be available at the level of audit firms or audit bureaus , there are several accounting mechanisms and conditions that help to enhance the work performance of the auditor to reduce creative practices. the most important mechanisms conditions are the following:

(1) The availability of qualified human resources and trained them , where the availability of such competencies warranty to the best work completion that assigned to the audit office or the audit bureau. In this regard , it must be considered the proportionality between business and human resources numerically and qualitatively, and it must be considered the attention to training aspects , continuing education , the expertise transfer and experiences within the system of checking whether in the audit office or accounting bureau.

The investment must occupy in human resources that ranked first in the priorities of audit firms and accounting bureaus. In contrast , it must be to have the ability to keep these resources to the appropriate extent .

(2) The audit profession needs people who have special specifications, so they have awareness of professional culture and sufficient cognition in various economic activities and developments in the business environment .The factors may affect the financial positions of customers , the elements , resources of their business or in their ability to continue. In addition to, they should have independent feeling , the ability to do in the right direction and a sense of the importance of what they are doing work.

(3) The audit firms or accounting bureaus must assess the possibility of relying on what they offer company management that is checking the data and information. all transactions and events of the company have increased by 100%, because the audit function has natural limits and the impossibility to surround all auditor`s transactions that assesses the possibility of withdrawing from the task or apologize them if grown into a knowledge of what makes the secretariat of the company's management with advanced data or information that are in doubt. In this regard , it may be to be reconsidered in the drafting of model audit report financial lists in order to reflect in more detail of the task nature of the auditor , the natural border for this task to mention the items or subjects that have the available evidence of the validity, which is statements of the Company's management.

<sup>14</sup> A neemAdeasl. Ahmad Lutfi, "The Responsibilities and Procedures of the References in the Report about Fraud and False Accounting Practices," p 20

(4) The task of the auditor is not easy, especially there are complexity of corporate activities, the continuing evolution in the methods of production, marketing and finance, where they are no longer limited traditional methods of checking the documentary and look at the books and accounting restrictions, but they became subjects such as imaging techniques of financial lists and disclosures required different accounting standards and obligations, they have not restricted books in the first interest for auditor.

In conclusion, we can say that often doing manipulation or accounting practices of creative accountants, which are on the high level of craftsmanship and innovation, so it is necessary to offset the other end of the auditors both in audit firms or auditors in accounting bureaus to be on the same level, if it is not higher, in order to detect such practices and reduce them so that it can be up to provide reasonable assurances gap in the financial reports of any deviations, manipulation or fraud.

### III. RESULTS

#### First: Results:

(1) There are several definitions of the concept of creative accounting but they all agree they are modern, complex and innovative processes or practices through which accountants use their knowledge of the rules and laws of accounting to deal with the figures recorded in the accounts of companies or manipulated in order to achieve specific goals.

(2) There are many means and methods that are used in creative accounting, and they are the most important:

\* Choose accounting policies that are appropriate to achieve goals that based on the company, its owners or exploit legal gaps.

\* Manipulation of the data, information, or use some of the entries in the accounts that are related to the assessment or prediction

\* Fabricate synthetic trades either to manipulate the amount of the budget, to move profits between accounting periods or specify a particular time of the actual deals to give the impression of unwanted accounts.

(3) The most important goals are to provide an impression of "misleading" in creative accounting for profits and puff income in order to serve different purposes and goals, and there are many methods and practices that are used in the profits management and beautify images of income.

(4) There are many trends and modern methods for the detection and reduction of creative accounting practices. Notably, governance companies and audit committees, and accounting policies and many other methods have not changed.

(5) The process of anti-accounting practices of creative things are difficult and complex, so people who interested in this area constantly seeking to uncover these practices and then attempt to reduce them. Attentive and efficient auditors and observers in the discovery of accounting practices creative, that is the most important means and the strongest anti-practices of creative accounting.

(6) The emergence of creative accounting practices is one of the reasons that forced the Council of the International Accounting Standards issued to change into the International Financial Reporting Standards

(7) The Auditor has important and pivotal role in the verification and disclosure practices and the results of creative accounting

(8) The research shows that the ethical perspective of creative accounting is the foundation that cannot be ignored, as it is clear that there are controls of the profession ethics, that will lead to prosperity accounting profession, which will contribute to the reduction of creative accounting practices.

(9) The task of the auditor is not easy especially in field of the large size businesses and the complexity of their activities and interests, and they continued development of methods of production, marketing and finance so it must audit firms or accounting bureaus to assess the possibility of relying on what they offer company management that is checking the data and information to prevent any manipulation, misrepresentation or fraud.

### IV. CONCLUSION

#### A -general recommendations:

(1) Raising sufficient awareness to see the creative accounting and clarify damages and thus to reduce and fight against them through the proper means.

(2) Activating the professional organization of accounting and auditing profession, developing the Professional Conduct Charter and formation a committee of professional ethics to the most important rules functions of conduct that must be adhered by the accountant and certified auditor..

(3) Activating the audit committees because they have role in reducing manipulations and creative accounting practices.

(4) Focusing and working to develop and train the auditors on continuously, especially if we know that the exercise of the audit profession that needs people with special specifications, so they should have awareness of professional culture, sufficient cognition in various economic activities, developments in the business environment and the factors. They may affect by the financial positions of customers, in their elements resources or in their ability to continue.

(5) Developing the culture accounting among investors, whether beginners or who have experience and interested parties and users of financial data and information on various spectrum, The educational process has had by offering accounting education programs and educational illustrative or sending messages or holding seminars for users of financial information to explain the creative practices that practiced by some companies and the most important developments in the field of auditing and accounting.

(6) Where the economy of any country has privacy and nature that differ from other the rest of the economies, so it must be issued accounting standards especially in the State of Kuwait to be applied to companies and economic units that operate in the State of Kuwait, so that the basis of those criteria are the new standards issued by the Council version international Accounting Standards.

(7) Emphasis censorship by regulators and competent State authorities (Ministry of Commerce - Kuwaiti Securities Market - the Chamber of Commerce and Industry, etc.) the companies

that get involved in doing some creative accounting practices of manipulation or distortion of data and information in their own.

(8) Activating the role of (corporate governance), companies and financial institutions urged to apply their role in increasing transparency and disclosure, which helps minimize creative accounting practices.

(9) Promptness of the issuance necessary laws and regulations that reveal the creative accounting practices and help to reduce them.

#### **B- The Recommendations that are Related to Audit Bureau**

(1) Distribute the concept of creative accounting among auditors at the Audit Bureau and rehabilitation through the following:

♣ The auditors who are working at the Audit Bureau have definition of accounting concept of creative accounting.

♣ The most important practices , methods and means that are used in creative accounting.

♣ Education and the definition of accounting auditors who are working at the Audit Bureau of the latest developments and means that help to detect creative accounting practices and reduce them.

♣ The concept of creative accounting be published by establishing training courses or publication and distribution of educational publications that are related to creative accounting, especially the auditors who are working in private sector and investment companies.

1) The Audit Bureau has published the concept of creative accounting among the parties to control the companies and financial institutions, especially these contribute to the state by moving from the capital that urged them to develop the capacity and efficiency of their staff to cope with any practices or manipulation data or financial information because they have a positive effect in achieving the ultimate goal of the Audit Bureau to preserve the public money.

2) The reports include recommendations in the audit bureau of companies and financial institutions under the supervision , that need to adopt the concept of creative accounting and detection methods for creative accounting practices and reduction.

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