

The Impact of Creative Accounting Through Elective Entitlements on The Drafting of The Auditor's Report

Thaer Saeed Fakhri Al-Hassani

thaar2005@gmail.com

University of Karbala, College of Education for Pure Sciences

Sadiq Jafar Kathim

dw.sad23@atu.edu.iq

AL -Furat AL -Awsat Technical University, Technical Institute of Dewaniya, Iraq

Corresponding Author: Sadiq Jafar Kathim

Abstract : Study aims to contribute to the development of the external auditor's capabilities in the method of presenting the effects of creative accounting on his report, as well as demonstrating the impact of using creative accounting practices through optional entitlements have on the formulation of the external auditor's report.

The problem of study lies in the question of "How much impact of creative accounting through optional entitlements on the drafting of the auditor's report?" The study was based on the hypothesis that "there is a statistically significant impact of creative accounting through optional entitlements on the formulation of the external auditor's report", and to prove the hypothesis of study, simple linear regression analysis was used to show the impact of the creative accounting variable on the formulation of the external auditor's report through the questionnaire method, where (150) questionnaires were distributed to study community, represented by a sample of external auditors working in audit offices from the private sector and the Federal Financial Supervision Office. (138) questionnaires were recovered and (6) questionnaires were neglected, so that total questionnaires adopted in this study and subject to analysis were (132) questionnaires.

Study reached several conclusions, the most important of which are: the existence of a statistically significant effect of the creative accounting variable on the formulation of the external auditor's report, and this was evident through the value of (F) of (232.450) in terms of (0.000), which is less than the level of significance (0.01), and the value of the coefficient of determination (2R) showed that the variable (creative accounting) explains (64.1%) of the variation in the impact on the formulation of the auditor's report.

Study recommends the need to spread awareness among external auditors regarding the risks of practicing creative accounting on the validity of financial statements, through the establishment of scientific and educational courses and conferences by professional organizations and syndicates, as well as the need to take creative accounting into account when planning and implementing the audit process for accounting units, and also recommends the need to train and qualify external auditors to use modern means when auditing such as forecasting models and regression equations that help them study and analyze the external environment of the accounting unit. Thus identifying the risks that beset them and disclosing them in the report.

Keywords: Creative Accounting, Elective Accruals, External Audit.

INTRODUCTION:

Accounting aims to provide appropriate and reliable financial information and statements that help users of financial statements to make rational decisions, and the financial statements are the final product of accounting, which reflects the reality of the financial situation and the result of the activity of the economic unit, since accounting includes all generally accepted accounting principles and accounting standards and policies that help accounting units in the conduct of their business, flexibility in the use of those standards, principles and accounting policies may affect the quality of information that should be provided by accounting.

This study came to determine the ability and efficiency of external auditors in detecting creative accounting practices and the extent to which this affects the drafting of external auditors' reports.

STUDY METHODOLOGY

First: The problem of study

The problem of study stems from the weakness of the external auditor's capabilities to indicate the impact of the practice of creative accounting through optional entitlements in his report, which requires strengthening the external auditor's ability to demonstrate the impact of creative accounting practice through optional entitlements in his report, and here lies the problem of study that can be formulated in the following main question:

"How much impact does creative accounting through elective entitlements have on the drafting of an auditor's report?"

From this question, several sub-questions branch, namely:

- 1- To what extent are external auditors able to discover the practice of creative accounting in economic units?
- 2- Does creative accounting and financial distress affect the drafting of the external auditor's report?

Second: The importance of study

The importance of study comes from the importance of the effects caused by creative accounting on economic units in the exercise of their activity, which exposes them to the risks of manipulation in the financial statements resulting from the use of these practices, it studies the ability of the external auditor to discover the practice of creative accounting through optional entitlements and its impact on the drafting of his report on the other hand.

Third: Objectives of study

Study aims to achieve the following:

- 1- Shedding light on the concept of creative accounting and identifying its motives, aspects of its practices and benefits, and what are the effects of its practices.
- 2- Contribute to the development of the capabilities of the external auditor in the method of presenting the creative effects of accounting on his report.
3. Demonstrate the impact of the use of creative accounting practices through elective accruals on their formulation in the external auditor's report.

Fourth: the hypothesis of study

This study was based on the following hypothesis:

"There is a statistically significant impact of creative accounting through elective entitlements on the drafting of the external auditor's report".

Fifth: Study Methodology

The research will adopt the deductive approach in collecting and presenting some of what was mentioned in official documents, university theses and books related to this topic by reviewing previous studies of the subject aspects related to creative accounting, optional practices and the external auditor's report for the purpose of preparing The theoretical aspect The inductive approach will be followed in the practical side for the purpose of testing the hypothesis of study by following the descriptive analysis of the questionnaire form that was organized for this purpose.

Sixth: Study population and sample

Study sample includes auditors working in the external audit offices and the Financial Supervision Bureau in Najaf Governorate, who have information that serves this study, and the questionnaire lists will be distributed that include a set of refereed questions related to the subject of study, as they are qualified to answer those questions posed in the questionnaire.

THEORETICAL FRAMEWORK OF STUDY

Firstly: Creative Accounting and Measures to Reduce It

(1) the Concept of Creative Accounting

Creative accounting is defined as "employing the deliberate scope of all legitimate and illegitimate accounting methods in order to correct the results of the financial position and financial operations and work to create deliberate shading by concealing important information and facts in order to present an untrue picture of the economic performance of the company to those who use financial reports" (Abdel Halim, 2014: 27).

Idris et. al also looks at creative accounting as an exploitation of accounting knowledge and skills with the aim of influencing the financial position and the result of the activity of the accounting unit by shading the accounting figures contained in its financial statements, taking into account compliance with accounting rules and standards, in other words, the management shows the data in a summary and stylized manner and hides the facts from investors and users of those financial statements, and this practice has been considered inconsistent with the behavior and ethics of the profession Accounting (Idris et. al, 2012:26-31) .

Laaroussi and Al Qasimi defined it as "transforming real accounting values into undesirable values to achieve the interests of the company by exploiting the gaps and alternatives available in the applicable accounting standards without compromising any of the accounting rules and principles" (Laaroussi and Al Qasimi, 2016: 12).

Jaara describes them as "all kinds of hidden behavior and procedures aimed at showing the financial statements of its users in a shady and illegal manner" (Jaara, 2015: 18). From the above, the researcher sees that there are many common points between the definitions mentioned above, as shown below:

- 1- Creative accounting can be considered a form of fraud, fraud and deception when practicing the accounting profession.
- 2- Creative accounting is based on making distortions in the figures shown in the financial statements to make them far from the actual reality and the reality of the financial situation of economic units.
3. The practice of accounting under accounting standards and accepted principles is generally accepted.

4- Accounting can only be practiced by people who have professional experience and skills in the field of accounting sciences.

(2) Reasons for Creative Accounting:

Companies are working hard to improve their financial position as it reflects the extent of their economic stability, which helps to increase investment in them and thus achieve an increase in the prices of their shares in the financial markets as well as increase the reassurance of lenders and users of financial statements, so companies rely on the choice of accounting methods and policies that suit their interests in the process of measurement and disclosure due to the multiplicity of alternatives to accounting measurement, which produces distorted financial statements that affect the process of making sound decisions for users (Momani, 2011: 19-20), and there are many motives for creative accounting practices, the most important of which are:

1- Improving the company's reputation in the business environment:

Corporate management often practices creative accounting in order to increase the value of the company by improving its poor performance, by making distortions that affect its appearance positively and thus improve its image in front of competing companies.

2- Improving the company's share prices:

The decline in the company's performance in the business environment causes a decrease in stock prices in the stock market, and many companies may resort to the practice of creative accounting to maximize their share prices and thus increase their investors.

3- Increasing the opportunity for external borrowing:

Many lenders, whether individuals or banks, resort to studying the financial situation of borrowing companies as a preventive measure to ensure the repayment of loans and their interest without delay, which pushes borrowing companies to practice accounting with the aim of influencing lending decisions from external parties (Al-Awadli, 2014: 20).

4- Increasing the chance of tax evasion:

Some companies reduce their profits by practicing creative accounting and work to increase their expenses and reduce their revenues, thus reducing the taxes imposed on them by the tax departments.

5- Improving the financial performance of the establishment:

Many departments of economic units are working to improve the image of their financial performance in front of the boards of directors through the use of creative accounting.

6- Obtaining advanced professional classifications:

Some specialized international organizations conduct an evaluation of companies with similar specializations according to financial indicators and standards extracted from the financial statements in these companies, some companies may resort to the use of creative accounting in order to obtain an advanced professional classification (Malford & Comikey, 2002: 2-8).).

(3) Factors that helped the emergence of creative accounting:

There are a set of factors that led to the emergence of creative accounting, namely:

1. Freedom to choose generally accepted accounting policies and principles:

Designing accounting principles and policies in a way that allows economic units the freedom to choose between accounting methods and policies when carrying out the process of accounting measurement and disclosure, which leads accounting units to exploit this aspect in the process of choosing accounting methods and policies in line with their objectives and achieving their desires, which were often aimed at showing the performance of economic units in their best form, such as the freedom to choose methods of extinction to calculate the extinction of fixed assets (Taleb, 2013, 21-22).

2- Freedom of accounting estimates:

The accounting estimate is the estimated value of the element in the absence of specific accounting measurement, or is to determine an approximate amount for a specific item when measuring some financial transactions subject to a large degree of personal estimation and future expectations based on estimates, which gives the administration a great opportunity to manipulate those estimates in order to reach its goals, and an example of this is the estimation of the useful life of fixed assets that are carried out by the management of the economic unit and thus the impact on calculating the extinction, so the chances of Manipulation by the accountant that is difficult to detect (Abdulrahman et al., 2016: 26).

3- Timing in the installation of real accounting operations:

Management may sometimes control the timing of stabilizing financial operations to achieve predetermined objectives to serve their personal interests, such as postponing the process of recognizing gains and revenues or delaying or postponing the recognition of losses that cause the value of profits to be inflated or reduced (Agha, 2011: 27).

(4) Types of Creative Accounting

Creative accounting takes multiple types and forms, as researchers differed in dividing creative accounting, some of them divided it into two directions: creative accounting with interest and opportunistic creative accounting (Abdel Halim, 2014: 22).

1- Creative Accounting with Interest:

This type of accounting is characterized by adding important value to information, as it communicates all important and useful information about the current and expected performance of the accounting unit to potential users, and also contributes to enhancing the media aspect of gains and profits in the unit, and supporters of this view have justified that the practice of useful creative accounting works to enhance the confidence of shareholders in the economic unit and encourage them to acquire the largest share in the unit, which contributes to the stability of stock prices in the financial market and reduce interventions. Foreign as well, help facilitate the borrowing process.

The researcher believes that useful creative accounting, although it has positive aspects for shareholders, but it is considered undesirable practices, because it will contribute to misleading many other external parties from users of financial statements such as tax departments, investors and lenders.

2- Opportunistic creative accounting:

It is the abuse of flexibility in accounting standards, policies and generally accepted principles by choosing measurement alternatives and accounting disclosure that may affect the number of dividends to be announced, and thus influence the decisions of shareholders and lenders.

Creative accounting can also take two other directions (Al-Nimrin 2019: 19):

A- Legal form:

It is the process of exploiting the gaps and weaknesses in the accounting principles and standards, laws and policies that govern the work of the economic unit, through the use of alternatives to the options available in them and thus affect the extent of honesty and fairness of the financial statements.

B- Illegal form:

It means that creative accounting is practiced by accounting units to manipulate and define the items appearing in the financial statements to improve their image and not show them what they should be.

(5) The Concept of Optional Benefits

Financial accounting is based on accruals by considering each accounting period as independent with its financial transactions represented by revenues and expenses from one period to another, so the accrual basis is the essential pillar in the procedures of accounting operations due to its direct attachment to many accounting principles and concepts associated with measuring assets and estimating provisions.

Accruals were defined as "the process of recognizing transactions and activities that result in realized revenues or consuming resources regardless of the timing of the collection or repayment of associated cash" (Al-Rashidi, 2013: 11), and defined by Al-Hassan as "the settlement of cash flows to more accurately reflect the causal relationship between achievements and efforts to achieve those achievements" (Al-Hassan, 2012: 151).

It should be noted that accounting accruals are based on the form and content of the financial statements and statements that will be disclosed as follows: (Khalil, 2001: 16).

1- Its impact on the statement of financial position of the unit:

For example, the age of the fixed asset is estimated and the value of the asset is distributed over its age, and then the extinction is downloaded in the form of payments for each accounting period to disclose the net value of the asset for each accounting period separately, assuming that the economic unit continues to perform its activity and the use of accounting policy is stable.

2- Its impact on the unit's income statement:

After dividing the life of the accounting unit into periodic periods, the principle of interview is adopted through the distribution of revenues and expenses for each period by loading what must be charged to the accounting period and excluding activities related to the previous and subsequent periods.

As for the optional entitlements, they were defined by many research writers as "the management's reliance on personal judgment in preparing accounting estimates such as the useful life of fixed assets or choosing the timing of recognizing revenues and expenses" (Al-Shaarawy, 2010: 17), or it is "the difference between total benefits and non-optional entitlements with linking total benefits to total assets at the end of the previous financial period as a control variable to measure profit management (Al-Jabri, 2013: 1317) .

Second: The Theoretical Framework for External Audit

(1) The Concept of External Audit

External audit is defined as "a structured process involving the objective compilation and evaluation of evidence relating to information provided on economic events and actions, in order to verify the degree of conformity between this information and the established standards and communicate the results to interested users" (Al-Sahn, 2000: 7).

Jarbou also defined an external audit as "the one carried out by an entity independent of the project that is not subject to the supervision of management, but rather carries out its work, especially in joint stock companies, as an agent for shareholders, and the company's management takes into account the application of the company's articles of association, as well as the applicable companies law" (Jarbou, 2000: 18).

It is also defined as "the impartial critical examination of the books, records and documents of the enterprise by an external person under a contract for which he is charged fees according to the type of examination required of him, with the aim of expressing an impartial technical opinion on the truthfulness and fairness of the entity's financial reports during a certain period" (Juma'a, 2000: 16).

It is also defined as "that which is carried out by a person from outside the establishment or company where he is independent of the management of the enterprise" (Al-Sabban, 2001: 6).

It is also "a systematic and objective process for obtaining and evaluating evidence in relation to economic facts and events in order to verify the degree of conformity between those facts and the criteria established and to communicate the results to the interested users of information" (AAA, 1973: 2).

The concept of an external audit can be summarized as follows:

- 1- It is a structured process and means that the examinations carried out by external auditors depend on a prior plan, which is represented in audit programs.
- 2- The evidence that leads to the proof is considered authentic and can indicate the events and evaluate them in the form of an objective picture.
3. External auditors shall compare the use of judgment and personal report in applicable standards.
- 4- One of the most important results of the audit process is the preparation of reports of the results, because it is a means of communication between the auditor and the user of accounting data, and the auditor's report includes giving his technical opinion that is impartial.

Through the foregoing, the researcher defines external audit as "the process in which a number of data are examined, recorded and classified in accounting books and records, where this work is carried out by an independent personality who is not associated with any institution and for the purpose of expressing his opinion that is neutral about the financial statements and providing them to the concerned party."

(2) Types of External Audit

External audit is divided into three sections and is represented as follows:

- 1- "Legal audit": which is required by law and is represented by the compulsory work of the annual control where its work is carried out by the auditor.
- 2- Optional audit (contractual): It is the audit that is carried out by the professional in the application of an individual from the groups (at home and abroad) that deal with the company (institution) where they can renew it every year.
- 3- Judicial experience: It is accomplished by the external professional through his request from the court, and these types can be distinguished through the following table:

Difference between external audit

Judicial experience	Optional Audit	Legal Audit	Features	t
It is more accurately determined by the task	contractual	Institutional of a public nature	Mission-related nature	1
One of the court bodies	From the bodies of the general directorates or boards of directors	One of the shareholders	Appointment	2
Spreading justice and guiding it on financial and accounting conditions	Approval of the truthfulness and legitimacy of financial accounts	Certify the truthfulness and legitimacy of accounts and the review of financial information	Goal	3
It is one of the circumstantial tasks determined by the judge	These tasks have been determined according to the agreement	It is a permanent task that deals with the period of legitimate appointment	interference	4
Complete towards the edges	Complete through its principle	Be complete towards the boards of directors	Independence	5
Requires respect	He respects it but gives guidance on the subject of work	It must be respected	The principle of non-interference in business	6
For the judge who has been assigned	Directorates General and Boards of Directors	Boards of Directors and General Assemblies	To send the report to	7

To be registered in the group of experts in accounting at the judiciary	Primary registration in National Societies	Submission and registration to National Societies		8
-	No	Yes	Business Agent News	9
Depends on the result starting	Depending on the means, according to the task and the results	Depending on the means	Commitment	10
Civil, Criminal, Disciplinary	Civil, Criminal, Disciplinary	Civil, Criminal, Disciplinary	Responsibility	11
By the judge who supervises the expertise	Contract-specific	According to the founding tasks of the judiciary at the request of the company (institution)	Demobilization	12
Proposal from experts to be determined by the judge	Determined by contract	By law officially	Fees	13-

Source: (Zainab and Hayat, 2016: 11)

(3) External audit characteristics

The characteristics of external audit are as follows (Abdel Fattah Al-Sahn et al., 2000: 8):

1- **It is an honest process:** it aims to express his opinion on the financial statements, which included the income statement, the statement of financial position and the statement of changes in equity ... etc., which is one of the responsibilities of the administration so that it is created by the accountants of the economic units and under the supervision of the administration, when the external auditor expresses his opinion on the sincerity of the financial statements and depends on achieving compliance in the departments in general and on the extent of their commitment to reports in particular.

2- **It is an organized process:** when external auditors begin the process of examining and collecting the required lists of origin to explore the environments in which the audit process is conducted, where the audit is carried out on the basis of an integrated and organized framework and then they evaluate the internal control system in order to identify its weaknesses and strengths.

3- **Carried out by the independent auditor:** It is necessary for the external auditors to have a requirement for professional scientific qualifications, because when he performs the tasks related to examination and expressing an opinion independently and the independence of the auditor is considered his responsibility towards the users of the financial statements that are provided to customers, the users of the financial statements do not have sufficient knowledge and know-how that enables them to ensure the validity and truthfulness of these statements.

4- **It is a process of communication:** the communication operations are limited to two parties, where one represents the sender and the second is the receiving party, so that it is determined on the message and on the communication, the reference that is external represents the sender and represents a report on the communication, while the message is represented by the opinion that is professional that the auditors express in their reports.

(4) Objectives of External Audit

External auditors work to achieve several objectives, which are divided into main sections, which are summarized as follows:

1. **Verification and existence:** Where the objective of the external audit is to verify the existence or occurrence, that is, to verify the origin, commitment and ownership right that is visible in the general balance sheet and that all revenues, expenses, gains and losses apparent in the income statement have been achieved during the fiscal year.

2. **Completeness or comprehensiveness:** The objective of the external audit is to achieve completeness so that all sales and expenses achieved are visible in the financial statements.

3. **Valuation or Examination :** It is a process through which we can verify the assets, liabilities, equity, revenues and expenses that have appeared in the financial statements in their appropriate values and that the provisions for the extinction of machinery and buildings were made appropriately and at the correct periods.

4. **Ownership:** It is a process through which we can verify the ownership of assets visible in its general balance sheet that is owned by the institution.

5. **Disclosure and Presentation:** The objectives of the external audit are to examine the financial statements, i.e. to verify that the figures shown in the financial statements have been properly classified and compiled.

Razouki has another vision in the objectives of external audit, which is summarized as follows (Razouki, 2020:15):

1. Assists the administrations to ensure that their practices that have been implemented have been carried out in accordance with the powers and laws authorized by the departments so that the owners of capital are assured and that the departments have preserved their funds.
2. Approval by the external auditors of the final accounts and general budgets in order to assure creditors and participants that the results of the work and the profits achieved enable it to fulfill its obligations towards them.
3. You can confirm the validity of the financial statements that were recorded in the accounting records so that it gives its technical opinion that is neutral and unbiased, which was based on a set of strong evidence and evidence and the extent to which those data match what is proven in the books and accounting records.
4. Helps those who worked in the units to reach maximum productivity by taking advantage of the auditor's criticism, which is impartial about the soundness of money management.

(5) External Auditor's Report

The auditor's work ends with the delivery of the audit results of the financial reports to its users by expressing a technical opinion in a written report attached to the financial statements, and the auditor's report is a final product of an audit process that includes financial information aimed at informing users of the financial statements of the extent of their fairness, because the majority of users are not authorized to view the All records and priorities used in the preparation of financial reports are the only way to see their content (Sakka and Abu al-Khair, 2002: 48).

(a) Definition of the auditor's report

The auditor's report is the only way through which the auditor can express a technical opinion on the fairness of the financial statements, and it serves as a main reference on which to determine the auditor's liability, whether civil or criminal (Al-Sabban and Suleiman, 2005: 75), so the auditor's report is defined as "crystallizing the results of the examination and investigation and proving them in a report submitted to To whom it may concern inside and outside the project, which is the conclusion of the audit process, in which the auditor expresses his neutral technical opinion on the financial statements as a whole, in terms of their portrayal of the project's financial position and statement of its operations in a sound and fair manner" (Abdullah, 2001: 22).

The Arab Society of Certified Public Accountants (ASCA) also defined the external auditor's report as: "A written document issued by a professional person who is qualified to express an impartial technical opinion with the aim of informing users of the information about the degree of conformity between economic information in its recognized professional sense – systematic critical examination of internal control systems and accounting statements and information shown in books, records and financial statements by the external auditor. In line with legal requirements and professional rules – with the aim of expressing an impartial technical opinion on the accuracy or correctness of the data and information to rely on, and whether the financial statements prepared by the entity give an honest and fair picture of the entity's financial position and the results of its work in the audited financial year" (Arab Society of Certified Accountants, 2001: 336)..

Porter defined it as "a summary of the auditor's work, and aims to communicate clear information to users of financial statements based on the audit process, and to express an impartial technical opinion on whether the financial statements reflect truthfully and fairly the financial position of the entity." and its financial performance over a specified period of time" (Porter et al, 2003: 87)..

The researcher believes that the above definitions have focused on the important role played by the external auditor's report in translating the results of the audit work on the soundness of the financial statements and communicating them to users.

(b) Relevance of the auditor's report:

The auditor's report is an important means for all parties interested in identifying the financial performance of the economic unit, as it is a document characterized by high reliability and effectiveness to provide useful information on the actual and potential impact of all transactions that occurred within the unit, with the aim of satisfying the needs of users for the information proven in the auditor's report as much as possible. The auditor's report includes several important aspects (Juma, 2009: 29):

- 1- Approving, amending or canceling the financial statements of the economic unit.
- 2- Disclaimer or non-disclaimer of the liability of the members of the Board of Directors.
- 3- Determine how to deal with distributable profits .
- 4- Drawing up the policy and strategy of the economic unit .

(c) Main characteristics of the quality of the auditor's report:

In 1972, the American Accounting Association (AAA) Committee declared that the basic characteristics that an external auditor must follow when preparing his report in order to achieve the desired goal are: As follows (Terzi, 2013: 19) :

1- Avoid bias when preparing the report.

2- Avoid using unclear terms.

3- Taking into account the level of awareness and awareness of users of the report when drafting the report.

4- A statement of the procedures and tests used in the process of auditing the items of the relatively important financial statements, as well as all the audit results reached by the auditor, and the presentation of all international auditing standards used to reach the neutral technical opinion for the purpose of increasing the credibility and reliability of the report.

5- Taking into account the appropriate timing when issuing the report.

A good audited report must have specifications that should be met to meet the requirements of users of the report, which are "objectivity, clarity, relevance, accuracy, comprehensiveness, persuasiveness, focus, disclosure".

(d) Elements of the auditor's report:

International Standard on Auditing No. (700) has adopted to provide auditors with guidance regarding the external auditor's report prepared by him as a result of the audit of the financial statements of economic units, which were prepared in accordance with the financial reporting standards to achieve the presentation .It also aims to provide guidance on the aspects that the auditor should take into account when expressing a technical opinion on those financial statements (Juma, 2011: 26).

The amended International Standard on Auditing No. (700) stipulates that the external auditor's report should be included.

On the following main axes (Arab Society of Certified Public Accountants, : 2008:56):

1- Title of report:

The report should include a title that clearly indicates that it is an independent auditor's report, to confirm that the auditor has achieved all appropriate ethical aspects regarding independence, and this is what distinguishes the report prepared by the auditor from other reports prepared by others.

2. Addressee:

The auditor's report should be addressed to the entities for whom the report was prepared, often either the rights holders or the users of the financial statements.

3. Introductory paragraph

The introductory paragraph shall indicate that the financial statements have been audited, identify the economic unit subject to audit, specify the title of each item of the financial statements, including the full set of financial statements, indicate the accounting policy of significance and that has been used as well as the required explanatory explanations, and shall specify the dates and periods covered by the financial statements in this paragraph.

4. Management's responsibility for the financial statements

The responsibility of management to prepare the financial statements and present them fairly in accordance with the financial reporting standards must be proven within the opinion of the external auditor, and this responsibility includes the following::

- Management is responsible for preparing and presenting the financial statements in a fair and error-free manner, whether due to fraud or material error.
- Management is responsible for adopting and implementing appropriate accounting policies.
- Management is responsible for the accounting estimates determined by it.
- The auditor also has the right to add what he deems appropriate about the responsibilities of management.

5- Auditor's Responsibility

This paragraph of the report includes the following (Tarazi, 2013: 31-34):

- The audit procedures were carried out in accordance with the International Standards on Auditing, and these standards oblige the external auditor to the ethical requirements.
- The auditor shall plan an audit to obtain reasonable assurance as to whether the financial statements presented are free of material misstatement.
- The performance of the audit shall include procedures to obtain audit evidence regarding the amounts shown in the financial statements and their disclosure.
- The audit process includes evaluation of the appropriateness of the accounting policies used, and the reasonableness of the accounting estimates estimated by management.
- The report must disclose that the audit evidence reached by the auditor is sufficient and appropriate.
- To express his neutral technical opinion.

6- Auditor's opinion

The auditor's opinion paragraph in the report shall include, in the case of expressing an unqualified opinion, that the financial statements reflect the reality of the financial situation and have been prepared in accordance with the financial reporting framework.

7. Other matters

The auditor may elaborate on areas where further clarification is provided regarding the external auditor's responsibilities for auditing the financial statements or for the auditor's report. .

8- Auditor's signature

The auditor must sign in the name of the audit firm or in his personal name or both, and as appropriate for the jurisdiction, and reference may be made to the professional body to which the auditor belongs..

9. Date of the report

The auditor should fix the date of the report on the financial statements, and the date should not be later than the date on which the auditor obtained sufficient and appropriate evidence on which to base his opinion on the financial statements. The auditor took into account the effects of events and transactions that came to the auditor's knowledge and that occurred until the date of the auditor's report.

10. Auditor's Address

The external auditor's report signed in the country or jurisdiction in which the auditor exercises his work must include.

(E) Effects of Creative Accounting Practice on the Auditor's Report

We have previously dealt with the damages resulting from the practice of creative accounting on the financial statements of economic units, so the external auditor must take a set of steps and procedures to reduce them, which will affect the drafting of his report, and this is what we will address in this topic in two aspects, the first side includes, the procedures and tests that must be carried out by the auditor in reducing the practice of creative accounting, while the second deals with the extent of the impact of those Procedures and tests on the auditor's report.

(1) Audit procedures and steps to limit the practice of creative accounting on the statement of financial position:

The management of the economic unit aims to improve its financial position by inflating the values of asset items or reducing the values of liabilities or both through the practice of creative accounting that it applies to the elements of the balance sheet to improve the use of liquidity ratios or profit ratios, for example, etc., and the following are the most important procedures and steps to be applied by to reduce the practice of creative accounting on the statement of financial position (Matar, 2006: 124-127)

1- Cash:

The auditor must exclude restricted cash when calculating available liquidity, as well as verify the correctness of exchange rates and correct errors (if any).

2- Financial investments:

Verifying the appropriateness of the approach adopted in the evaluation of financial investments and the extent of stability on it from year to year.

3- Debtors:

- Require the debtors to provide a detailed list of debtors and ensure the ratio of the debt provision to total debtors.
- Ensure that the accounts of subsidiaries and associates are excluded and disclosed in detail and independently through the audit of the debtors' statement.
- Ensure the integrity of the accounting classification and exclude long-term accounts receivable from current (Fri, 2011: 39).

4- Inventory

- Verify periodic inventory statements and the results of its matching with inventory records and verify the physical presence of items in stores.
- Validate the valuation of stock prices against current prices
- Verify the appropriateness and consistency of the accounting policy followed in valuing the inventory of the last period.
- Verify management's justifications for a change in accounting policies for inventory valuation and determine their impact on financial reporting.

5. Fixed assets

- Verifying the application of the economic unit to the principle of historical cost, as well as verifying the validity of its evaluation and that this evaluation was carried out by specialists.
- Verifying the exclusion of surplus assets from the income statement and showing it in the statement of financial position under shareholders' equity.
- Verify the appropriateness and consistency of extinction methods used to calculate the extinction of fixed assets.

- Verifying management's justifications for the change in accounting policies to calculate the demise of fixed assets and determining their impact on financial reporting.
- Verifying the correctness of the classification of fixed assets and the justifications of management in the reclassification and the extent of its impact on the income statements and financial position.
- Verifying the ownership papers and supporting documents of those assets and determining the extent of the impact achieved on the financial ratios (Zainab and Hayat, 2016: 31).

6. Intangible assets

- Verify the appropriateness of policies for valuation of intangible assets and adjust their valuation appropriately.
- Validate the recognition of unpurchased intangible assets and conduct and determine their impact on the statement of financial position.
- Review the value of intangible assets in the statement of financial position, as well as verify the validity of amortization expenses shown in the statement of income.
- Verifying management's justifications for changing the methods of amortization of intangible assets and studying its effects on the financial statements.
- Verify management's justification for changing accounting policies for amortization methods and determine their impact on financial reporting (Matar, 2006: 124-127).

7. Current liabilities

- Verifying the presentation of the installments of long-term loans due in the statement of financial position under the item of current liabilities as well as recalculating the liquidity ratio.
- Verifying that the unit does not borrow long-term for the purpose of repaying short-term loans and studying the impact, if any, on the interest and assets resulting therefrom.
- Study the impact of advance payments on leverage ratios and adjust them appropriately.

8- Long-term liabilities

- Verifying that the unit does not borrow long-term for the purpose of repaying short-term loans and studying the impact, if any, on the interest and assets resulting therefrom.
- Verify non-disclosure of unusual items such as calling bonds before their maturity dates and adding their realized gains to the net profit.

9. Shareholders' Rights

- Verify that the unit does not show gains from previous years within a net profit figure instead of calculating it with retained earnings.

10. Contingent Assets and Liabilities

- Verifying the non-proof of potential assets before the fulfillment of the conditions for their realization, such as proving the potential revenues collected from lawsuits before issuing a judgment on them.
- Verifying non-disclosure of contingent liabilities, such as non-disclosure of judicial claims filed on the accounting unit.

(2) Audit procedures and steps to limit the practice of creative accounting on the income statement:

As is known, the goal of management is to increase its profits by showing fictitious profits by maximizing sales or reducing expenses or both, and this is achieved through creative accounting methods applied to the items of the income statement represented by revenues and expenses for the purpose of increasing the figures of the financial ratio of sales, costs and net income when calculated as profitability ratios and activity efficiency, and the following are the most important procedures and steps of external auditors that must be taken to reduce the practice of creative accounting (Juma, 2011 : 39):

1- Sales

- Verifying the validity of sales invoices, especially deals executed with entities related to the economic unit, such as subsidiaries and associates.
- Ensure the soundness of credit-related conditions such as repayment or discount terms and the adequacy of the provision for doubtful debts .
- Verifying the integrity of the bills of lading for consignments and then matching them with the receipts of payment of the goods received from the agents.
- Ensure that the goods of the trust sent to the agents are not fixed as sales.
- Ensure that no fictitious sales transactions are made before the end of the fiscal year , and then cancel them in the subsequent fiscal year (Matar, 2006: 124-127).

2- The cost of the goods sold

- Verify that sales transactions are actual, not fake.
- Verify management's justifications for a change in accounting policies for inventory valuation and determine their impact on financial reporting.
- Check the integrity of the custom configuration of the price landing.
- Ensure that the registration of purchase invoices related to the current fiscal year is not postponed to the subsequent fiscal year through documentary examination of purchase invoices. (Rain, 2006: 126) .

3- Operating expenses

- Verify the availability of capitalization conditions in capital expenditures.
- Verifying the management's justifications regarding changing the methods of extinction of assets or amortization of intangible assets and studying its effects in the financial statements.
- Verifying the calculation of extinction expenses according to the recognized ratios.

4- Non-continuous activities

- Verifying the disclosure of the effects of the closure of production lines that materially affect the result of the activity of the economic unit.

5. Exceptional clauses

- Verifying that operating profits do not include profits resulting from exceptional items without disclosing those items, and verifying that the profits of those items are excluded from operating profits, if any..
- Verifying that the share of the parent company is not merged with the profits of its subsidiaries or associates without disclosing this (Zainab and Hayat, 2016: 31).

3. The Applied Aspect of Study

The applied aspect of the study represents the presentation and analysis of the results of the questionnaire on the extent of the impact of creative accounting through optional entitlements and its impact on the formulation of the external auditor's report. We will discuss the most important steps used in collecting and analyzing the results of the questionnaire.

First: The content of the questionnaire

The questionnaire form aims to obtain answers from the responses of the study sample represented by the external auditors. The questionnaire form has been organized and includes a set of demographic questions related to the specifications of the study sample and (20) questions related to the subject of the study, divided into three main axes, as shown below:

- The first axis: demographic questions.
- The second axis: creative accounting.
- The third axis: drafting the external auditor's report.

(150) questionnaire forms were distributed to a random sample of external auditors working in the Federal Bureau of Financial Audit and external audit offices from the private sector. (138) forms were retrieved and (6) were discarded due to their incompleteness of the required information, so that the number of forms representing the study sample was (132). questionnaire, which constitutes (88%) of total number of questionnaire forms distributed, as shown in the following table:

Distributed and returned questionnaires and sample size

Questionnaire forms	Number/form	Percentage
Spreader	150	100%
Recovered	138	92%
Neglected	6	4%
Sample volume	132	88%

Second: Demographic description of the study sample

The frequencies and percentages of the study sample were classified according to the following main axes:

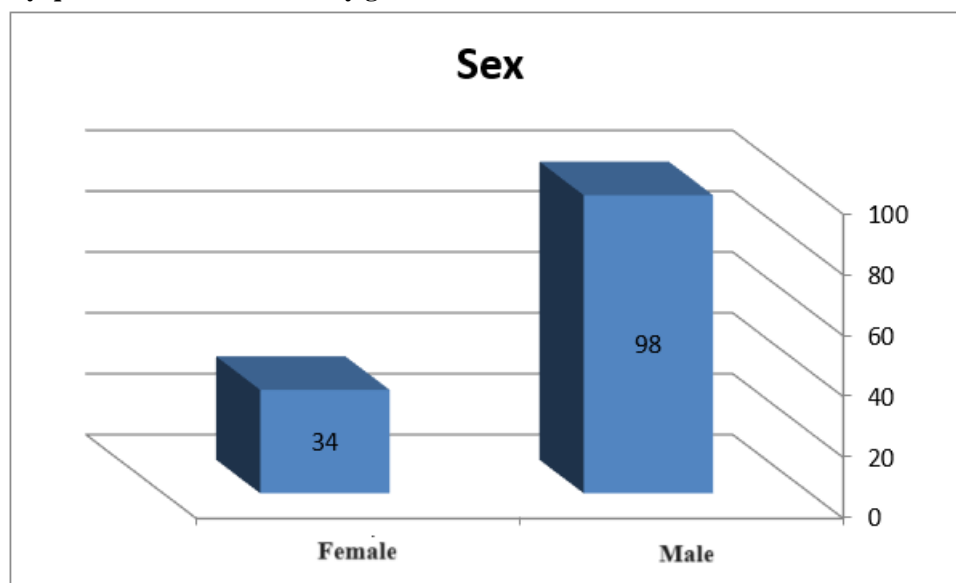
1-Gender:

The number of male external auditors in the study sample was (98) auditors, representing (74%), while the number of females was (34), accounting for (26%), as in Table No. (4) below:

Preparing study questionnaires classified by gender

Sex	Repetition	The ratio %
Male	98	74
Female	34	26
total	132	100

Source: Prepared by the researcher based on the SPSS statistical program
Preparing study questionnaires classified by gender



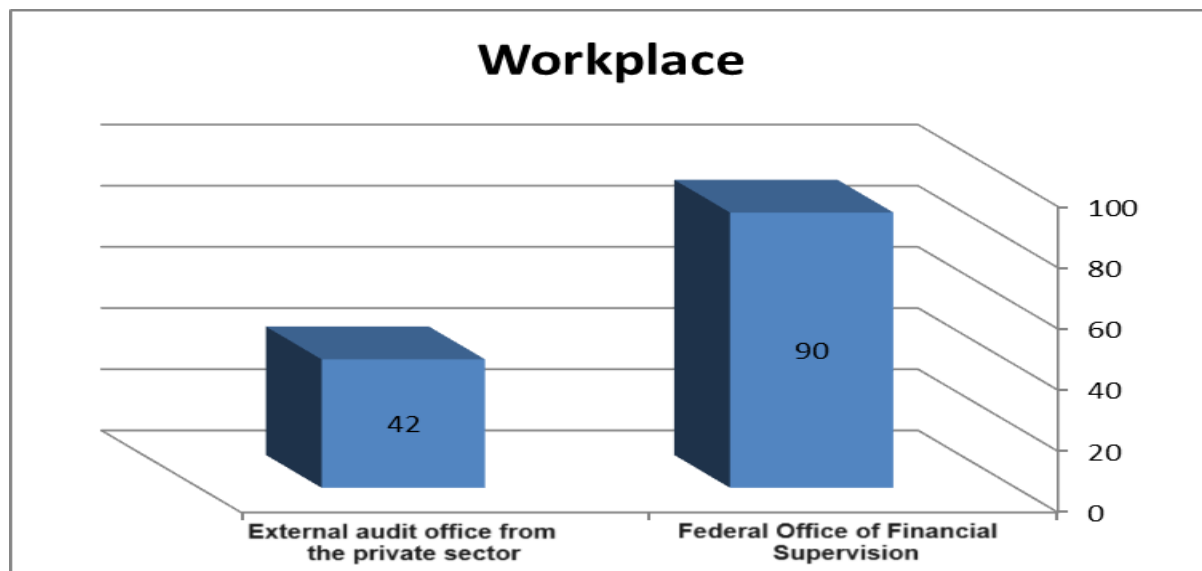
Source: Prepared by the researcher based on the SPSS statistical program
2-Workplace

The study sample included (90) auditors working in the Federal Bureau of Financial Supervision, at a rate of (68%), while the number of auditors working in external audit offices from the private sector reached (42) auditors, with a percentage of (32%), as in the table below:

Preparing study questionnaires classified according to workplace

Workplace	Repetition	The ratio %
Federal Office of Financial Supervision	90	68
External audit office from the private sector	42	32
total	132	100

Source: Prepared by the researcher based on the SPSS statistical program
Preparing study questionnaires classified according to workplace



Source: Prepared by the researcher based on the SPSS statistical program

3-Age

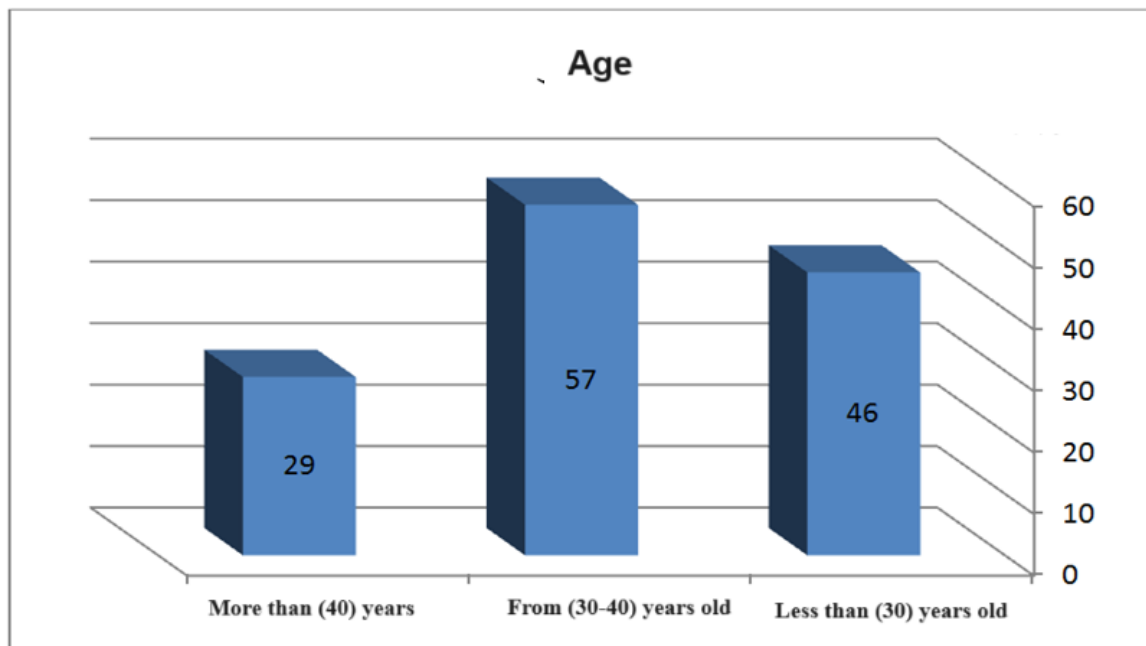
The percentage of external auditors whose ages ranged from (30-40) years was (43%) and represents the largest age group in the study sample, as it reached (57) auditors, as this group is characterized by good experience, awareness, and sufficient understanding to answer the questionnaire questions, as in the table below:

Preparing study questionnaires classified according to age

Age	Repetition	The ratio %
Less than (30) years old	46	35
From (30-40) years old	57	43
More than (40) years	29	22
total	132	100

Source: Prepared by the researcher based on the SPSS statistical program

Preparing study questionnaires classified according to age



Source: Prepared by the researcher based on the SPSS statistical program

4-Years of experience

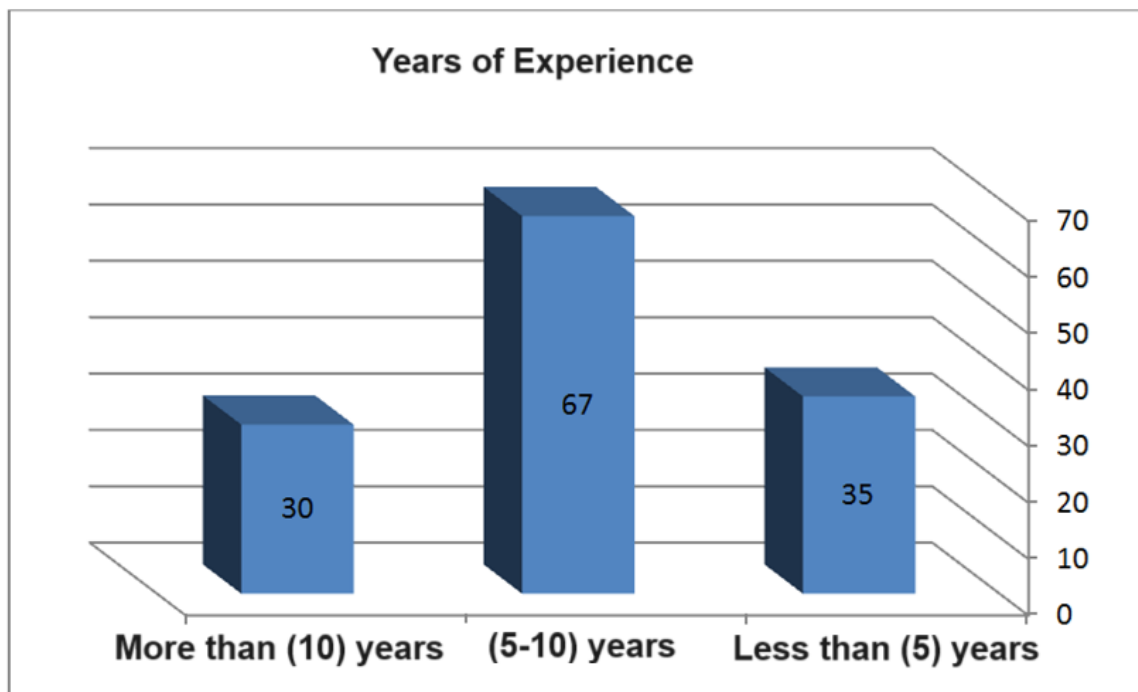
The percentage of external auditors who have (5-10) years of experience constituted (51%), which represents the largest percentage within the study sample, which reinforces the answers of the study sample regarding the topic of external auditing, followed by the percentage of auditors who have less than (5) years of experience, while The percentage of auditors with more than 10 years of experience reached 23%, as shown in the table below:

Preparing study questionnaires classified according to years of experience

Years of Experience	Repetition	The ratio %
Less than (5) years	35	26
(5-10) years	67	51
More than (10) years	30	23
total	132	100

Source: Prepared by the researcher based on the SPSS statistical program

Preparing study questionnaires classified according to years of experience



Source: Prepared by the researcher based on the SPSS statistical program

5- Academic qualification

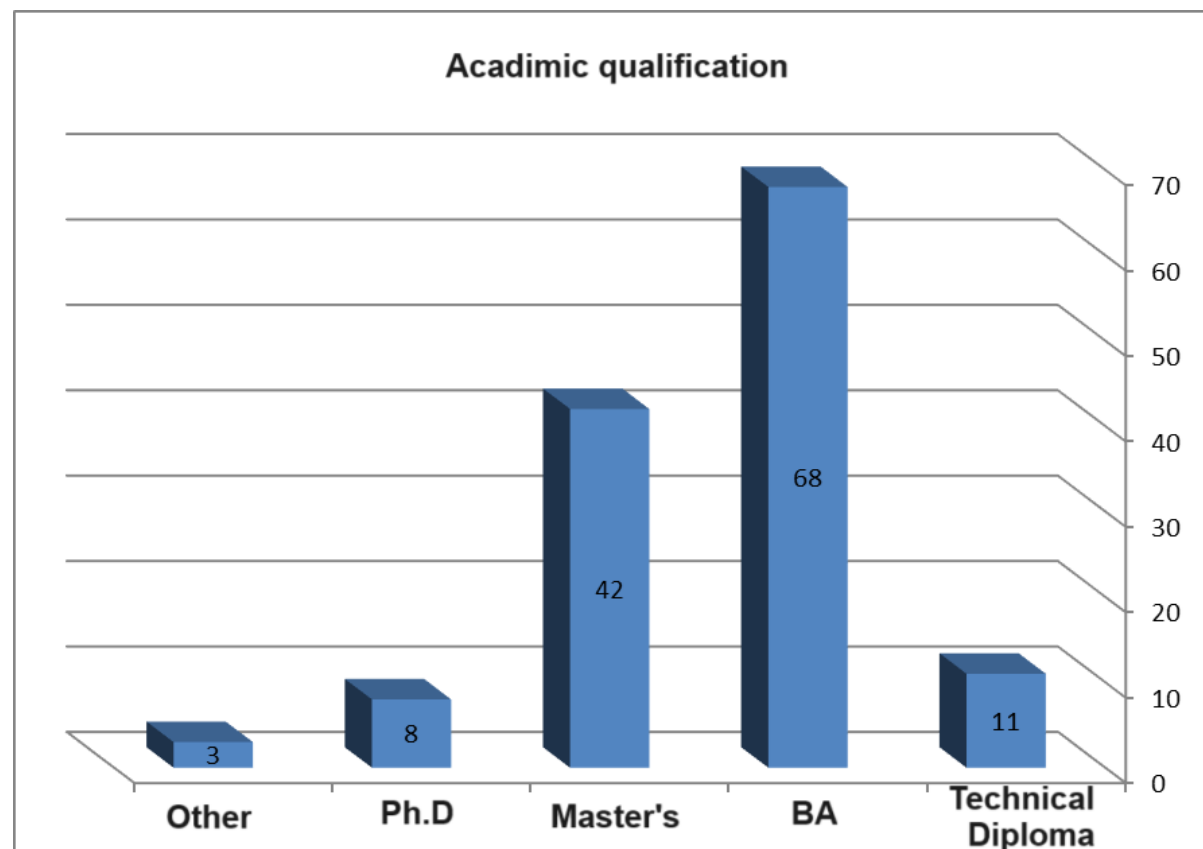
The percentage of those holding a bachelor's degree from external auditors was (52%) and represents the largest percentage among other academic qualifications within the study sample, as the number of those holding a bachelor's degree reached (68) auditors, followed by a master's degree, as its percentage reached (32%) of total academic qualifications. For the study sample, which indicates the quality of the selected sample due to their scientific and academic ability, as in the table below:

Preparing study questionnaires classified according to academic qualification

Academic qualification	Repetition	The ratio %
Technical Diploma	11	8
BA	68	52
Master's	42	32
Ph.D	8	6
Other	3	2
total	132	100

Source: Prepared by the researcher based on the SPSS statistical program

Preparing study questionnaires classified according to academic qualification



Source: Prepared by the researcher based on the SPSS statistical program

Third: Analyzing the data of the study variables

Data for the study variables represented by (creative accounting, drafting the auditor's report) were collected and calculated according to the answer scores, and then the arithmetic mean and standard deviation for each paragraph of the questionnaire were calculated within the study variables and agencies:

1- Creative accounting through optional accruals:

Arithmetic means and standard deviations of the study sample's responses to the creative accounting variable

N=10

NO.		I don't completely agree	I do not agree	neutral	I agree	Totally agree	Mean	S.D	Ranking
1	Creative accounting is resorted to for the purpose of improving the financial position of the economic unit and obtaining financing by inflating the values of asset items, reducing the values of liabilities, or both together.	9	7	13	69	34	3.85	1.081	8
2	Creative accounting practices by the management of accounting units cause a liquidity deficit and the unit's inability to fulfill its obligations, thus causing financial distress.	9	4	15	56	48	3.98	1.105	4
3	Achieving personal benefits for managing the economic unit and increasing its benefits, such as rewards and wages, is a type of creative accounting practice.	20	5	13	63	31	3.61	1.306	10
4	Improving the liquidity ratio by not including receivables from long-term loan installments is a type of creative accounting motivation.	11	4	6	62	49	4.02	1.139	3

5	One of the motivations for creative accounting is the manipulation of revenues and expenses for the purpose of tax evasion.	17	3	3	63	46	3.89	1.274	7
6	The lack of consistency in the use of accounting methods and policies affects the truthfulness and fairness of the accounting unit's financial statement numbers.	17	4	6	64	41	3.82	1.271	9
7	Creative accounting procedures and methods affect the reliability of financial statements issued by accounting units.	4	12	4	70	42	4.02	0.996	2
8	The flexibility found in accounting standards and rules may be misused by management to beautify the financial position of the economic unit.	5	9	4	62	52	4.11	1.016	1
9	Failure to disclose properly in order to hide information or mislead users is considered a type of creative accounting practice.	10	10	5	66	41	3.89	1.154	5
10	Postponing the recording of exchange transactions that relate to the current fiscal year to the next fiscal year, or accelerating the recording of revenue transactions that relate to the subsequent fiscal year to the current fiscal year, is a type of creative accounting practice.	10	11	6	62	43	3.89	1.176	6
total							3.90	1.151	

Source: Prepared by the researcher based on the SPSS statistical program

From the table above, which shows the results of the study sample's responses to the creative accounting variable, the following is clear:

- (1) The item "The flexibility found in accounting standards and rules may be misused by management to beautify the financial position of the economic unit" came in first place with an arithmetic mean of (4.11) and a standard deviation of (1.016), with a total of (114) respondents out of (132) respondents completely agreeing and agreeing. Referring to Table No. (9), it falls within the category (3.40 - 4.20) and corresponds to a high response level.
- (2) A paragraph came "Creative accounting procedures and methods affect the reliability of the financial statements issued by accounting units." It came in second place with an arithmetic mean of (4.02) and a standard deviation of (0.996), and in total, a number of (112) respondents out of (132) respondents completely agreed and agreed, and with reference to Table No. (9) It falls within the category (3.40 - 4.20) and corresponds to a high response level.
- (3) The item "Achieving personal benefits for managing the economic unit and increasing its benefits, such as rewards and wages, is a type of creative accounting practice" came in last place with an arithmetic mean of (3.61) and a standard deviation of (1.306), and in total, (94) respondents out of (132) respondents completely agreed and agreed. Referring to Table No. (9), it falls within the category (3.40 - 4.20) and corresponds to a high response level.
- (4) The overall arithmetic mean for the creative accounting variable was (3.90) with a standard deviation of (1.151), which is higher than the hypothesized mean of the scale of (3) which is adopted in determining the response level for the answers of the study sample, which indicates that the study sample is heading toward agreement on all items of this variable, which indicates that Practicing creative accounting affects the reliability and credibility of financial statements, thus reducing their quality and the impact on users.

2- Drafting the external auditor's report

Arithmetic means and standard deviations of the study sample's responses to the auditor's report wording variable N=10

Variable N-10									
NO.		I don't completely agree	I do not agree	neutral	I agree	Totally agree	Mean	S.D	Ranking
1	Creative accounting is a challenge facing external auditors.	7	5	10	66	44	4.02	1.022	8
2	Creative accounting is considered a violation of ethical and professional rules.	4	8	8	65	47	4.08	0.965	4

3	Adherence to local and international auditing standards when auditing and reviewing professional evidence issued on an ongoing basis contributes to increasing the auditor's ability to discover creative accounting practices.	6	7	6	66	47	4.07	1.013	5
4	The external auditor takes creative accounting into account when planning the audit.	5	6	17	59	45	4.01	1.000	10
5	The external auditor takes creative accounting into account when carrying out the audit process.	10	4	9	60	49	4.02	1.119	9
6	The external auditor takes creative accounting into consideration when drafting the external auditor's report.	7	7	6	65	47	4.05	1.047	6
7	The auditor is interested in developing the scientific and practical aspect to increase his skills and experience and build the ability to limit the practice of creative accounting.	4	2	15	64	47	4.12	0.891	3
8	The external auditor examines the extent of management's consistency in applying accounting methods and policies to limit the practice of creative accounting.	8	6	9	60	49	4.03	1.084	7
9	Increasing awareness and awareness of accounting among investors, creditors, and users of financial reports contributes to reducing the practice of creative accounting.	2	2	6	70	52	4.27	0.753	1
10	The auditor follows up and studies the decisions of the Board of Directors with the aim of restricting management from using creative accounting methods.	3	3	3	75	48	4.23	0.797	2
total							4.09	0.969	

Source: Prepared by the researcher based on the SPSS statistical program

From the table above, which shows the results of the study sample's responses to the auditor's report wording variable, the following is clear:

(1) A paragraph came "Increasing awareness and understanding of accounting among investors, creditors, and users of financial reports contributes to reducing the practice of creative accounting." It ranked first with an arithmetic mean of (4.27) and a standard deviation of (0.753), with a total of 122 respondents out of 132 respondents agreeing and completely agreeing, with reference to the table No. (9) falls within the category (4.20 – 5.00), which corresponds to a high response level.

(2) A paragraph came The auditor follows up and studies the decisions of the Board of Directors with the aim of restricting management from using creative accounting methods." It ranked second with an arithmetic mean of (4.23) and a standard deviation of (0.797) and a total of 123 respondents out of (132) respondents completely agreed and agreed, with reference to Table No. (9). It falls within the category (4.20 – 5.00), which corresponds to a high response level.

(3) A paragraph came The external auditor takes creative accounting into consideration when planning the audit process. It comes in second place with an arithmetic mean of (4.01) and a standard deviation of (1.000) and a total of 104 respondents out of (132) who completely agreed and agreed. With reference to Table No. (9), it falls within... Category (3.40 - 4.20) which corresponds to a high response level.

(4) The overall arithmetic mean for the creative accounting variable was (4.09) with a standard deviation of (0.969), which is higher than the hypothesized mean of the scale of (3) which is adopted in determining the response level for the answers of the study sample, which indicates that the study sample is heading toward agreement on all items of this variable, which indicates Increasing auditing procedures limits the economic unit from practicing creative

accounting and thus reduces the possibility of exposure to financial default, which is reflected in the quality of the auditor's report formulation.

Fourth: Testing the study hypothesis

There is a statistically significant effect of creative accounting through optional entitlements on the formulation of the external auditor's report:

To test this hypothesis, simple linear regression analysis was used, and the results were as in the table below:

Simple linear regression analysis to demonstrate the effect of creative accounting practice on the formulation of the auditor's report

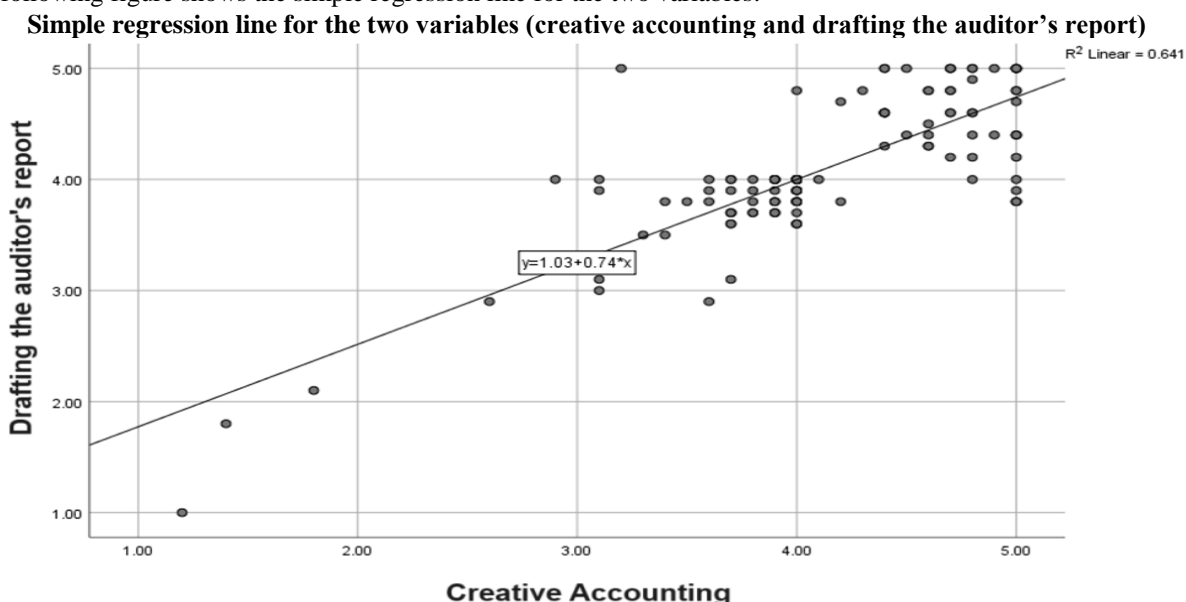
dependent variable	Model	Beta	Std. Error	t	t Sig.	R ²	F	f Say.	VIF
Drafting the auditor's report	(Constant)	1.031	0.203	5.071	0.000	0.641	232.450	0.000	1.000
	Creative accounting	0.742	0.049	15.246	0.000				

Source: Prepared by the researcher based on the SPSS statistical program

To determine the relationship between the wording of the auditor's report and the explanatory variable (creative accounting), a simple linear regression model was used, in which the variable of practicing creative accounting was considered as an explanatory variable and the variable of wording the auditor's report as a dependent variable. The results of the regression model showed that the regression model is significant through the value of (F). (232.450) with a significance of (0.000), which is less than the level of significance (0.01). The results showed that the explanatory (independent) variable explains (64.1%) of the variance occurring in influencing the wording of the auditor's report, and this appeared clearly through the value of the coefficient of determination. (²R), and the value of (Beta) of (0.742) explained the relationship between the formulation of the auditor's report and the practice of creative accounting, which is statistically significant, and this can be deduced through the value of (T) and the significance associated with it. This means that the more creative accounting is practiced by the management of the economic unit By one unit, the greater the influence on the wording of the auditor's report by (0.742) units. The table also shows the result of the multicollinearity test, where the result revealed that the variance inflation factor (VIF) for the model was (1.000), which is less than (3). This indicates that there is no multicollinearity problem among the model's variables, which indicates the presence of **A statistically significant effect of creative accounting through optional entitlements on the formulation of the external auditor's report** Hence accepting the hypothesis ' Thus, the equation of the regression line is as follows:

Creative Accounting 742. + 1.031 = Influencing the formulation of the auditor's report

The following figure shows the simple regression line for the two variables:



3. Conclusions and recommendations

First: Conclusions

The study reached a set of conclusions:

- 1- Adherence to local and international auditing standards when planning and implementing the audit process, and disclosing the risks to which the accounting unit may be exposed in the external auditor's reports, contribute to reducing the economic unit's exposure to external environmental risks.
- 2- The procedures and methods used in practicing creative accounting affect the truthfulness and fairness of the financial statements prepared by the accounting unit departments.
- 3- Failure to properly disclose by concealing or manipulating some financial information with the aim of misleading its current or prospective users is considered a type of creative accounting practice.
- 4- Increasing external auditors' awareness and understanding of the issue of creative accounting and taking it into consideration when planning and implementing the audit process leads to improving the quality of their reports.
- 5- The results of testing the study hypothesis showed that the simple linear regression model between the variables of creative accounting and drafting the auditor's report is significant, through the value of (F) amounting to (232.450) in terms of (0.000), which is less than the level of significance (0.01), and the value of the coefficient of determination (R^2) The variable (creative accounting) explains (64.1%) of the variance occurring in influencing the formulation of the auditor's report. The Beta value of (0.742) also clarified the relationship between the formulation of the auditor's report and the practice of creative accounting, which is statistically significant, which indicates There is a statistically significant effect of creative accounting through optional entitlements on the formulation of the external auditor's report.

Second: Recommendations

The study recommends a set of recommendations:

- 1- It is necessary to train and qualify external auditors to use modern methods when auditing, such as prediction models and regression equations that help them study and analyze the external environment of the accounting unit and thus identify the risks facing it and disclose them in the report.
- 2- The need to spread awareness among external auditors regarding the dangers of practicing creative accounting through the holding of scientific and educational courses and conferences by professional organizations and unions.
- 3- It is necessary to take creative accounting into consideration when planning and implementing the auditing process for accounting units.
- 4- The need for coordination between the Federal Financial Supervision Bureau and professional organizations and unions to design an audit program that includes steps and guidelines that help external auditors detect cases of creative accounting practice.
- 5- Postgraduate students were urged by the Ministry of Higher Education and Scientific Research to conduct studies and research regarding introducing creative accounting and explaining the harms of its practice by economic units and its effects on auditors' reports.

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