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## The Role of External Audit in Limiting Creative Accounting Practices in Light of International Standards from The Point of View of Certified Accountancy Experts in Iraq as a Model

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### Abstract:

This research aims to solve a problem in the field of accounting and financial knowledge in the world today, that is, the problem of creative accounting. Especially after the global financial crisis and the collapse of many large companies in the world, people find that they use creative accounting methods to distinguish them from reality, showing the results of their activities and their financial status. This research discusses the concept of creative accounting, the most important methods used in financial statements and its relationship with external auditing, and procedures to limit accounting creativity. This study uses descriptive analysis methods after confirming its theoretical aspects in practice. Using the statistical program Wolfram Alpha, the results of the questionnaire were distributed to registered Iraqi accounting experts and several results were obtained.

**Keywords:** creative accounting, external audit, international standards.

## **1- Introduction**

Despite the language differences, most audit definitions agree that the audit process includes several elements, namely inspection, verification, and reporting. Inspections are designed to ensure the correctness of operational measurements, the completeness of recording, analysis and classification. As for verification, it aims to judge the correctness of the final financial statements as a reasonable expression of project work during a specific financial period. Regarding the report, the beneficiary wishes to draw a conclusion and submit it to the final statement, which is regarded as the end of the audit process, because the certified public accountant has issued a neutral technical opinion on the financial statement as a whole and honestly. The fair description of the financial situation reflects the authenticity and facts established by the auditor. In this regard, it is worth noting that because the data has gone through multiple from business certification to preparation of final financial statements, the possibility of errors in accounting vouchers and records is self-evident. However, sometimes these errors may be deliberate and may even become a policy manipulated by the company's management through the implementation of certain accounting practices. Here, the role of the external auditor appears, represented by the objective evaluation opinions of the information submitted to him, representing the essence and content of the financial statements. The financial statements are in his hands, using existing loopholes and loopholes to make fictitious improvements to them. It can transform financial statements from what they should be to what translators want. The whole purpose is to improve the image that figures reflect the company's operating performance and financial status in order to achieve a series of goals, such as attracting large amounts of investment, increasing market prices, maximizing current and future returns, as well as the expectations of large owners with cash or in-kind distribution of form stocks, or determining the decision to be at the forefront of a group of directors class to have Certain goals that serve Certain parties , especially in light of the lack of studies that dealt with this phenomenon in the Arab world. On the other hand, this study deals with the role of the external auditor and his ability to enrich the knowledge aspect of the role of audit and audit committees in limiting creative accounting practices, while clarifying the obstacles that may hinder that.

### **1- Study Problem:**

This study deals with one of the most important topics that are currently being discussed in the fields of accounting and financial knowledge, which is the topic of creative accounting.

Creative accounting, or what is known as profit or settlement management, and the role of external auditors in discovering those processes through their competence on the one hand, and the use of international standards on the other.

Therefore, this study is based on posing the following two problems:

- How important are the auditor's practical experiences and scientific competence in revealing creative accounting practices?
- What is the impact of the adoption of International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS) on the validity and reliability of financial statements?

The audited company?

## **2- Study Methodology:**

In this study, the researcher relied on the analytical descriptive approach. This study was based on two aspects: the first is theoretical and the other is practical. **Theoretical side:** In this aspect, the researcher relied on several sources by using what is available from Arab and foreign sources and references, in addition to published articles, theses and other available sources. **The practical aspect:** through a form that was distributed to the certified accountancy experts practicing the profession in Iraq.

### **Research Hypothesis:**

The research hypothesis is established based on the research question and its various elements, because the research hypothesis is a direct answer to the research phenomenon and the expected solution to the research problem, which will become clear in practice. **Reject or accept Possibility.** This research constructs its hypothesis by analyzing and revealing the influence relationship between independent variables (external auditing, international standards) and dependent variables (restricting creative accounting practices). Statistical data between the practical experience and efficiency of external auditors and the limitations of creative accounting practices.

### **3- Theoretical Aspect**

i-Determine the original population of the study since the topic of the research is: the efficiency of external auditing in limiting creative accounting practices in light of international standards; the field study community consisted of CPAs in IRAQ affiliated with the Syndicate of CPAs in IRAQ, whose number is about 0444 Expert Practitioners (LACPA.).( Al-Khashawi,2008,36)

ii -Determine the Sample of the Study

The sample of the study consists of one hundred and sixty-five certified accountants practicing the profession in IRAQ (01% of the total of the practicing certified accountants).

The beginnings of the use of manipulation of accounting data for companies date back to the beginnings of the era of the industrial revolution, as the manipulations were carried out during the conduct of cost calculations, which was

It requires the presence of specialized staff, especially in light of the weak independence and freedom of the accountant available in the use of accounting principles appropriate to their needs, so the behavior of the accountant was limited professional in that era in response to the goals and desires of managers who have the freedom to assets valuation and income estimation. During the nineteenth century, asset valuation methods varied.

This diversity had a direct impact on the adoption of two main methods, namely, the application of replacement cost for assets and deducting depreciation from the cost of assets to show the carrying cost as well as procedures (Chatifield, . Subtle to manipulate accounting data within the framework of accounting and legal requirements1997: 33-37).

The accountant can, based on the desire of the management, manipulate the financial statements by.

This is done with the intention of beautifying creative accounting through the procedures of what is known as creative accounting. The image that the numbers in those lists reflect on the result of the establishment's business and its position financial. As the executive management often sets their perceptions of the number of profits they want to report. It is driven by its motives to maximize current or future rewards and what the big owners expect from them. Cash or in-kind distributions in the form of shares. Accordingly, a practicing accountant with his experience can provide this.

Corporate management seeks to make profit management a part of the accountant's tasks despite that it may be considered deception, deception and misleading, not with all the meaning of this word, as it is considered an act.

It is illegal under the mantle of law (the standard of presentation and disclosure), and although professional bodies seek always to fight the phenomenon of profit management and tighten the screws on practitioners of the profession of accounting and auditing to follow the standards to be applied, but this phenomenon is still an inseparable work of the profession.

**Table No.( 1): Distribution of questionnaire lists to the study sample members**

Statement	The ratio%	the number
Distributed questionnaires	100 %	044
Returned questionnaires	72 %	120
Non-refundable questionnaires	20 %	54
Analyzable questionnaires	72 %	120

Source: Prepared by the researcher

#### iv-The Statistical Method and Tools Used in Data Analysis

To achieve the goals of this research and test its hypotheses, the researchers used the Social Science Statistical Package (WOLFRAMALPH) program to analyze data obtained through sample field studies, as well as a set of other statistical tools, including:

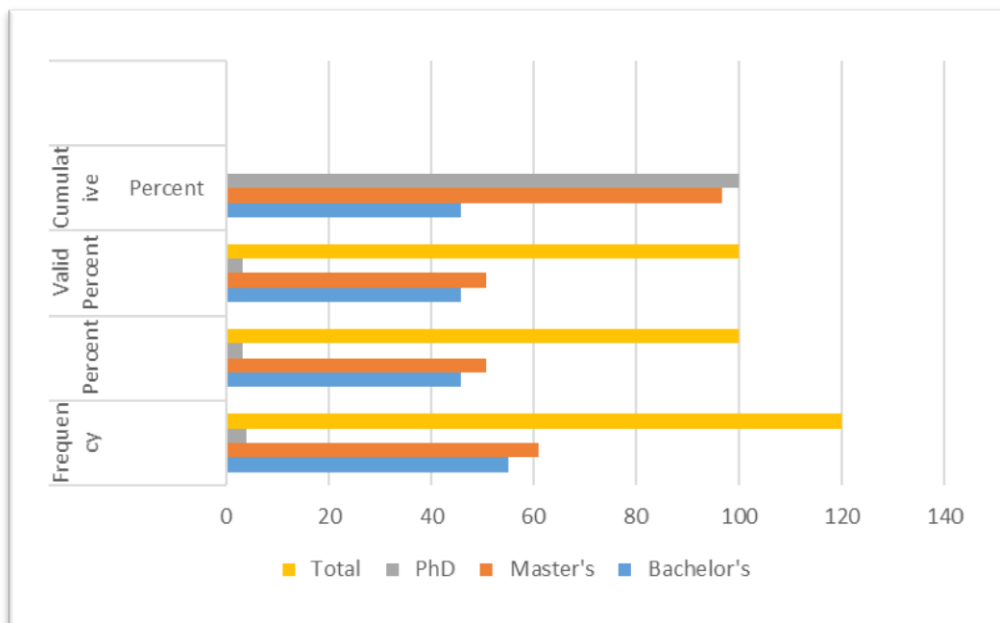
- Arithmetic mean (mean): It is the value gathered around a group of values, through which the rest of the group can be judged, so the value is the arithmetic mean.( Al-Muwafaqi, Ali,2019,121)

- Standard deviation: used to measure the degree of statistical scattering, which means that the value range is in statistical data set.

- t-test (one sample test): This test is used to test a hypothesis related to the arithmetic mean, and the researcher used this test to test the study's hypotheses the (Anas Abdullah Muhammad, 2015, 82).

**v- Statistical description of the study sample****Qualification:****Table No.( 2): Distribution of sample members according to educational qualification**

	Frequency	Percent	Valid Percent	Cumulative Percent
Bachelor's	56	45.8	45.8	45.8
Master's	61	50.8	50.8	96.7
PhD	4	3.3	3.3	100.0
Total	120	100.0	100.0	



- **Figure (1): Distribution of study sample members according to academic qualifications**

- The above table and figure show the distribution of the percentages of the participant's educational qualification in answering the questions of the questionnaire, as 3.3% of the participants hold a "PhD", and 50.83% of them hold a "Master's", while 45.83% of the participants hold a degree.

- "Vacation", and thus the participants who hold a "Master's degree" are the most likely to participate in this study.

**Specialization:**

The various specializations participating in this study were as follows:

Table No. (3): Distribution of sample members according to specialization

	Frequency	Percent	Valid Percent	Cumulative Percent
Accounting	68	56.7	56.7	56.7
Economie	14	11.7	11.7	68.3
Business Management	21	17.5	17.5	85.8
Banking and Financial Sciences	17	14.2	14.2	100.0
Total	120	100.0	100.0	

Source: Prepared by the researcher using the statistical program walframalpha.

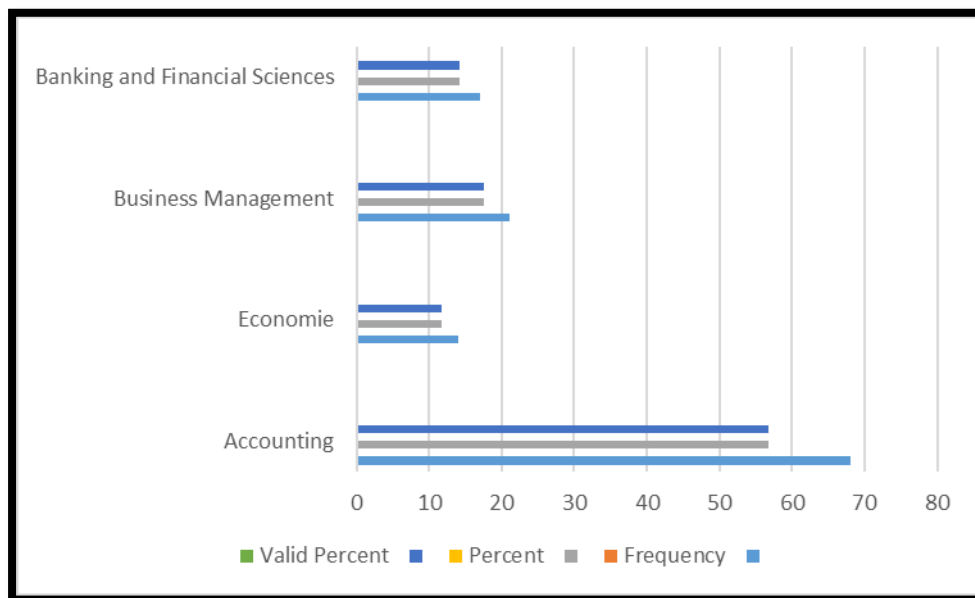


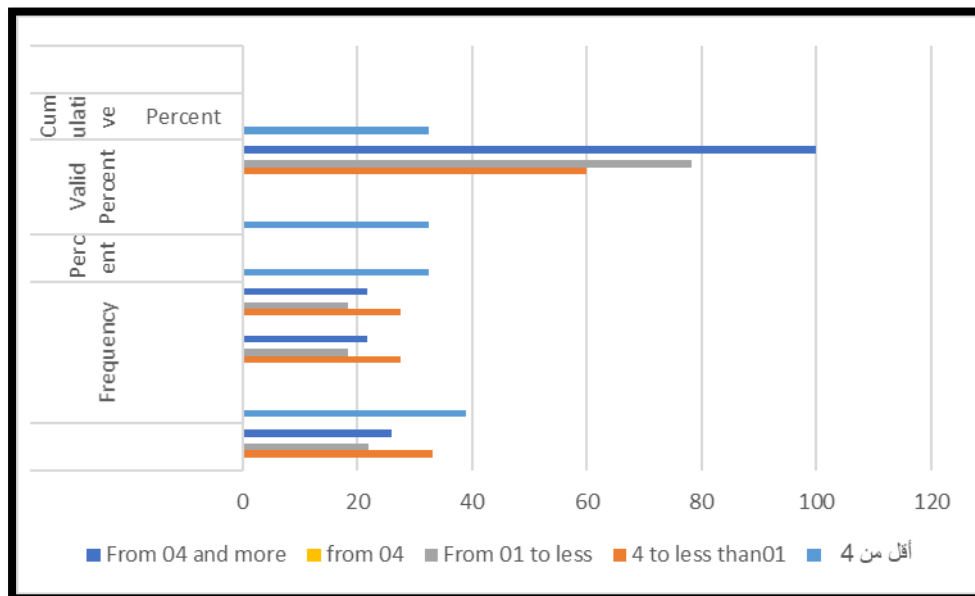
Figure (2): Distribution of sample members according to specialization

From the above, it can be said that specialists in the field of "economics" have attained the lowest position, while specialists in the field of "economics" have won the lowest position.

**Table No. (4): Distribution of sample members according to years of experience in practicing accounting**

		Frequency	Percent	Valid Percent	Cumulative Percent
less than 4		39	32.5	32.5	32.5
	4to less than01	33	27.5	27.5	60.0
	From 01 to less from 04	22	18.3	18.3	78.3
	From 04 and more	26	21.7	21.7	100.0
	Total	120	100.0	100.0	

Source: Prepared by the researcher using the statistical program walframalpha.



**Figure (3): Distribution of sample members according to years of experience in accounting practice**

Through the previous table and figure, it can be said that the largest number of users had years of experience ranging between 4 and 01 years, as their percentage reached 41% of the respondents, while 51% had more than 10 years of experience in the practice of accounting. (Ayman Abdullah Muhammad, 2015, 73)

**vi- Statistical analysis and treatment methods:****b- stability test**

For the purpose of ensuring the stability of the scale used, the coefficient (Cronbach's alpha) was used to determine the accuracy of the answers of the study sample members, and the values of (Cronbach's alpha) are considered statistically acceptable when these values are equal to or greater than (60.0), specifically in administrative research the accounting is as follows: ( Jarira Talal , Al-Bishtawi, 2015, 67)

**Table No(5): Cronbach's alpha coefficient on the total level of the variables**

stability coefficient Cronbach's alpha coefficient	Validity coefficient = stability coefficient islands	number of items
31913	31910	35

Source: Prepared by the researcher in light of the results of the statistical program walframalpha..

Cronbach's alpha coefficient on the overall level of variables to measure the extent of the impact of the auditor's practical experiences and scientific efficiency in limiting creative accounting methods, and the following table shows that the value of the alpha Cronbach coefficient is equal to (1,212) at the level (28), the first axis means that the values of the coefficient(Cronbach's alpha) is statistically acceptable because it is greater than (4,1).

**Table No. (6): Cronbach's alpha coefficient on the total level of the variables in the first axis**

Stability coefficient Alpha Cronbach coefficient	Validity coefficient = stability coefficient islands	number of items
31930	31914	32

Source: Prepared by the researcher in light of the results of the statistical program walframalpha

As for the Cronbach's alpha coefficient for the overall level of variables that measure the impact of creative accounting methods and procedures on the effectiveness and reliability of the audited company's financial statements without the use of International Accounting Standards and International Financial Reporting Standards. The table below shows the Cronbach's alpha coefficient. The value of is (2.1). At level (7), the second axis indicates that the value of the coefficient (Cronbach's alpha) is statistically acceptable because it is greater than (4,1).



Table No.( 7): Cronbach's alpha coefficient on the total level of the variables in the second axis

Number of items	Validity coefficient = stability coefficient	Stability Alpha coefficient	Cronbach coefficient
31933	31934	7	

Source: Prepared by the researcher in light of the results of the statistical program walframalpha

#### 4- Analyzing and testing hypotheses:

i- Repetitions and analysis of the answers of the study sample members:

In the context of the questionnaire processing, a scale was determined to answer the questions contained therein. The researcher used the Likert quinquennial criterion to measure the answers to the questionnaire items. The answers used are as follows:

Table (8): Weighted average

The level	Weighted average
1to 1.79	Strongly Agree
1.80to 2.59	OK
From 2.6 to 3.39	neutral
From 3.4 to 4.19	not agree
4.20to 5	Strongly Disagree

Source: Prepared by the researcher

The first axis: What is the importance of the auditor's practical experiences and scientific competence in uncovering creative accounting practices 1 with the obstacles that may hinder the external audit.( Hassan Al-Moussawi,2017,55)

The following Table No. (2) shows the results of the first six questions from the first axis

Table (9): Results of the first six questions

	The auditor makes sure that the invoices are correct purchases and sales that take place at the end of the year	The auditor makes sure that the A fair allowance for price drops	The auditor verifies the correctness of the exchange rates and corrects the error, if any
N Valid	120	120	120
Missing	0	0	0
Mean	1.95	2.11	2.06
Std. Deviation	.808	.658	.677
	The auditor checks the inventory statements and the physical presence of inventory items and	The auditor makes sure of the fairness of the prices of the goods in comparison with	The auditor verifies the consumption rates by comparison with the prevailing ratios and adjusts the

	excludes damaged goods	the current price lists	consumption accordingly
N Valid	120	120	120
Missing	0	0	0
Mean	2.13	2.27	2.12
Std. Deviation	.788	.847	.852

Source: Prepared by the researcher using the statistical program walframalpha

The above table shows that the trends of the first six questions tend towards agreement, and this was confirmed by the arithmetic mean, which had a value of 1.95 for the first question, 2.11 for the second question, and 2.06 for the third question, which had a value of 2.13 for the fourth question, 2.27 for the fifth question and 2.12 for the sixth question, all below the default mean.

### iii- The second hypothesis:

H0 Creative accounting methods and procedures affect the validity and reliability of financial statements in a company that adopts international accounting standards and international financial reporting standards.( Khaled Jamal Al-Jaarat, 2016,73).

H1 Creative accounting methods and procedures do not affect the validity and reliability of financial statements in a company that adopts international accounting standards and international financial reporting standards .( Sherif Muhammad,2017,59).

## 5- Conclusions and Recommendations

### 5-1 Conclusions

Detecting errors and fraud is the responsibility of the auditor, especially if his task is not performed as required.

- The auditor's responsibility lies in expressing an opinion on the submitted financial statements.
- The process of combating creative accounting practices is a difficult and complex matter, and therefore those interested in this field should strive continuously to discover ways and methods to reduce this phenomenon.
- The presence of qualified auditors, but companies practice creative accounting methods in a technical way that is difficult for the auditor to discover.
- The use of international accounting standards achieves for the prepared and audited data a set of positive elements, the most important of which are credibility and general acceptance.

In addition to its comparability.

- The most prominent difficulties that companies in Iraq face when applying international accounting standards is the difficulty of translating international standards into language

Arabic and existing translations are different in translating professional terms.

- There is an awareness among accountants, external auditors and users of financial statements of the creative accounting methods used in the statements.

Finance.

- The vigilance, experience and competence of external auditors and auditors in discovering creative accounting practices is the most important and powerful means.

To combat creative accounting practices.

- The reliance of external auditors in Iraq on international accounting standards would limit the ability of creative accountants to benefit from the loopholes in the accounting rules.

- The development in accounting and auditing standards in line with developments in the work environment helps in the presentation of accounting information.

With greater fairness and accuracy in serving the parties dealing with data and accounting information in making and influencing their decisions.

### **5-2 Recommendations**

The recommendations made by this study varied, ranging from recommendations directed to corporate management, recommendations directed to external auditors, and others directed to official regulatory bodies and relevant professional bodies.

i- Recommendations for corporate management:

1. Recommendations for corporate management:

2. Focus on the application of international accounting standards when preparing and presenting financial statements, as it is an appropriate means for disclosing appropriate information.

3. To take economic and administrative decisions, as well as to conduct specialized training courses in the field of international accounting standards for employees and to encourage employees.

4. The financial sector should annually review these standards by providing them with them, and the companies' managements should seek the assistance of experts in the field of

5. Accounting with the aim of developing the efficiency of financial statements preparers in light of international accounting standards.

6. Recommendations for external auditors (Certified Accounting Experts in Iraq): -

7. The necessity that the external auditors, when carrying out the audit process, pay sufficient attention to all the elements and components of the financial statements.

8. Adherence to the rules of professional conduct on the one hand, and the international standards for accounting and auditing on the other hand, when auditing financial statements and expressing a technical opinion.

9. Neutral, as the external auditor is responsible for detecting fraud if it is present in the financial statements subject of the audit and conducting cultural courses

10. And quality towards the concept of creative accounting and ways to reduce it, especially if those courses target public and private universities to educate new students

11. On the accounting and auditing profession, clarifying international standards, working on them, and applying them within issues that help students gain professional experience before

12. Practice their profession on the ground.

13. Recommendations addressed to the official regulatory and professional bodies concerned with the profession (Ministry of Finance 1 Syndicate of Experts 1 International Accounting Standards Board Recommendations addressed to the external auditors (certified accountancy experts in IRAQ:).

It is necessary that the external auditors, when carrying out the audit process, pay sufficient attention to all the elements and components of the financial statements, and the external auditor should adhere to the rules of professional conduct on the one hand, and the international standards for accounting and auditing on the other hand.

• The study population consists of three classes (layers), the first of which is the class that implements methods

Creative accounting in Iraqi joint stock companies (management, accountants, and auditors

internal), and the second is the category that audits financial statements and discloses accounting methods.

The categories defined above are based on the methods and a stratified sample was taken from the study population to represent the statistic adopted in selecting samples, and a random sample was taken from each category (layer) to ensure impartiality in the measurement results, formed• Finding an independent reference for accountants to protect them from management interventions that may force them to exceed legal and accounting requirements, as well as to secure their relative independence in order to achieve effective performance in accordance with generally accepted accounting principles and protect them from legal accountability.

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## دور التدقيق الخارجي في الحد من ممارسات المحاسبة الإبداعية في ضوء المعايير الدولية "من وجهة نظر المحاسبين القانونيين في العراق انموذجا"

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- هدف هذه الدراسة التوصل الى .
- هذا البحث الى قياس مدى ممارسة ادارات الشركات المساهمة العراقية .
- هذا البحث الى قياس مدى تأثير اساليب واجراءات المحاسبة الابداعية .
- هذا البحث الى قياس مدى تقيد مدققي الحسابات بأجراء الاختبارات .

### مستخلص البحث:

يهدف هذا البحث الى حل مشكلة في مجال المحاسبة والمعرفة المالية في عالم اليوم ، وهي مشكلة المحاسبة الإبداعية. خاصة بعد الأزمة المالية العالمية وانهايار العديد من الشركات الكبرى في العالم ، يجد الناس أنهم يستخدمون أساليب محاسبية إبداعية لتمييزها عن الواقع. إظهار نتائج أنشطتهم ووضعهم المالي. يناقش هذا البحث مفهوم المحاسبة الإبداعية وأهم الأساليب المتبعة في القوائم المالية وعلاقتها بالمراجعة الخارجية وإجراءات الحد من الإبداع المحاسبي. تستخدم هذه الدراسة طرق التحليل الوصفي ، وبعد التأكد من جوانبها النظرية عمليا. باستخدام البرنامج الإحصائي Alpha Wolfram ، تم توزيع نتائج الاستبيان على خبراء المحاسبة العراقيين المسجلين وتم الحصول على عدة نتائج من أهمها: المحاسبة الإبداعية فن من التلاعب والاحتيال.

المصطلحات الرئيسة للبحث: محاسبة إبداعية ، تدقيق خارجي ، معايير دولية