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The Role of External Auditor to Reduce the Effects of Creative Accounting on the Reliability of Financial Statements: Insights from Libya

Hasen Mohamed. A. Albeksh

Faculty of Economics and Administrative Sciences, Department of Business Administration, Kastamonu University, Turkey

Abstract: ***This study offers some important insights into clarify the role of external auditor in the limiting of practices the creative accounting and methods of manipulation practiced by the administration in the financial statements and the reasons and motives of this manipulation, as well as the statement of the most important tools that can be used to reduce the effects of the manipulation of the beneficiaries of the financial reporting, and to achieve this goal has been distributed (129) questionnaires were distributed on a random sample of certified public accountants in audit offices and licensees for them to auditing the Libyan companies as well as a number of internal auditors inside these companies. where, 103 of them answered the questionnaire, which represent (79.9%). Descriptive and inferential statistics were used to generalize the results and conclude the findings. The study concluded to that the reliability of financial statements, neutrality, honest representation, possibility of verification, ethical values a significant impact the reliability of financial reporting. Where it was clear that the external auditors have spent enough effort to apply of methods and procedures adopted and act with a reasonable care in conducting an assignment.***

Keywords: Creative Accounting, Ethical Conduct for Auditor, financial statements

1. Introduction

Facing the audit profession today violations of the professional ethics that have adversely affected the results of the audit process in the aftermath of recent financial scandals, where it has already proved the involvement of the world's leading auditing firms in the financial corruption scandals. After the recognition of major frauds of accounting. A company named Anderson Arthur was involved in accounting manipulations initiated by the managers of companies, which finally resulted in a collapse of many companies in 2002. The examples of such companies include Enron (energy sector), World Com (communications), and Parma Late (food). This was a major blow to the credibility of accounting and auditing profession, and the auditors lost trust of investors who suffered significant financial losses [1]. An improved system of codes and rules was required to avoid this. Major parties like investors, creditors, legislators and workforce took notice of such crisis [2].

The concept of creative accounting has enormously become the focus and attention of auditors and accountants during the last years. Because it refuges of some companies to the utilization of the gaps within the available methods and substitutions in order to improve the company's image before the beneficiaries even if that was on the account of reality [3]. So it's the process of converting the financial and accounting numbers from its current situation, the situation which is preferred by the arrangers of these numbers through utilizing of some of the available laws or overlooking some of them [4]. It believes in the need to establish international bases of ethical behavior for the professional accountants to be a base of establishing ethical requirements for the professional accountants with taking into consideration all basic objectives and principles for all of the professional accountants whether they are in the public service, industry, commerce, private sector, or education.

Creative accounting plays significant role in financial statements but has been negatively correlated that means more managers involved in it may decrease the value of financial information. Government regulation/international standards have positive and significant role if it is flexible in financial reporting [5]. As auditor's comment also plays positive and significant role in financial reporting. Ethics plays an important and positive role in financial reporting. The more ethical values mean lesser manipulative behaviors. So the manipulative behaviors only destroy the image of any company.

Meant by creative accounting is the refuge of some companies to the utilization of the gaps within the available methods and substitutions in order to improve the company's image before the beneficiaries even if that was on the account of reality, so it's the process of converting the financial and accounting numbers from its current situation, the situation which is preferred by the arrangers of these numbers through utilizing of some of the available laws or overlooking some of them [6].

The ethical decisions of the auditor are basically formed by the rules, policies and judgments of an organization. These things play a key role in forming the ethical decisions of the auditor forwards a report's fairness. He can decide on these things whether the final statement of the company matches the cash flows and other transaction. For this purpose, method of accruals is used as any fraud in the transaction is difficult to find and the management can exploit the timings of changing of a certain transaction [7]. The ethical practices of creative accounting are there basically to help the external auditors to increase their efficiency and accuracy in finding any fraudulent act. It is difficult for people o differentiate between earning management and fraud. For an external auditor it is necessary to be able to differentiate the minor hair line difference between the two. External auditors can do the job of finding out whether it was a fraud or a financial error which resulted in the loss. And in order to stop the future fraud he should be able to find out the methodology of the fraudulent person. And to have the external auditors work at their best the regulators should provide them with the best guidance information and help them as much as they can [8].

In view of the great changes taking place in Libya in this period, it is necessary to review the rules governing the performance of the accounting profession represented in the technical standards and ethical rules so that the profession can meet the requirements of the stage new. Either by issuing evidence of accounting and auditing standards and ethical standards or by explicitly providing legislative texts for the application of international standards [9].

The objective of this paper is not only to figure out the importance of ethics in financial statements but also point out those factors which cause unethical creative accounting practices. And how to limit those factors which cause unethical practices in creative accounting. And to develop a proposed model of creative accounting practices through literature review in addition to recognize the importance of accounting ethics and their vital role in controlling the manipulation in the financial reports and the accounting lists.

2. Statement of the Problem

Due to prevailing conditions in business world, and resort of many Libyan companies' Administrations to refine financial data in order to improve financial situation both in terms of financial strength or the size of the profits to achieve personal aims. These administrations tend to use methods of creative accounting, this study seeks to identify the nature of these methods and to indicate the extent of the initiative of the external auditors in Libya to undertake the necessary audit procedures to reduce those methods to the credibility for financial statements. Based on the above, the problem of the study is to find answers to the following questions:

- What is the creative accounting and what role of external auditor to reduce the effects of creative accounting on the reliability of financial statements?
- Do creative accounting methods and procedures affect the reliability of financial statements issued by Libyan companies?
- Do the Libyan companies practice methods and activities of creative accounting when preparing financial statements issued by these companies?

It is argued that the audit reports users and the auditors have different thinking about the obligations and requirements that auditors are require for. Audit report users' think that auditors are required to disclose and report every irregularities and frauds amongst other issues in accounting records. While on the other hand, the audit profession had a view that the users interpret the obligations of auditors mistakenly, as fraud detection is not one of the core goals behind the audit. It seems that public misunderstanding is a key reason of the legal liability dilemma that faces the auditing and accounting profession. Auditors have always viewed audit as an objective and independent evaluation of financial statement based on prescribed audit standards which rely on test basis purely depend on sufficient and appropriate audit evidences .

This paper attempts to answer the study question and it seeks to recognize methods and showing external auditors' action to make the required audit procedures to reduce these methods in order to achieve credibility of published financial data.

3. The Importance of the Research

The importance of the study stems from the importance of creative accounting as an important problem Especially in light of the use of corporate management methods to show the result of activity and financial position that achieve its short and long-term goals, even if that was at on the expense of other categories , and this contributed to the financial crisis and broke of a group , one of the greatest worldly groups , this study also aims to recognize the roles of financial auditors in detecting these methods and coming out with group of result and recommendations which serve many categories like investors , analysts , auditors and others from the categories of society.

4. The Aim of the Study

This study aim to show the most important methods that used in the creative accounting, and their effect at the credibility of accounting data and showing the motivations of administration of using the creative accounting methods and their effect at the credibility of accounting measurement and the submitted financial data, as well as recognizing the moral perspective of the creative accounting and the trends that used to discover creative accounting activities, and their contribution in imitating the manipulation of financial statements and show the role of the external auditors of Libyan companies in reduce the creative accounting and procedures practiced by the boards of directors of the Libyan public shareholding companies in the audited financial reporting.

5. The Hypotheses of the Study

The following hypothesis and research framework were created in consideration of identified variables, where the researcher identified five independent and one dependent variable (s) for current study as follows:

H1: There is statistically significant effect according to the opinions of the study categories: the external and internal auditors regarding with creative accounting methods and procedures on the "reliability of financial statements" issued by the Libyan companies.
H2: There are statistically significant effect according to the opinions of the study categories: the external and internal auditors regarding with "the neutrality" by the boards of directors of the Libyan companies and the methods and

procedures of the creative accounting in the preparation of the financial statements issued by those companies.

H3: There are statistically significant effect according to the opinions of the study categories: the external and internal auditors regarding with "the honest representation" by the boards of directors of Libyan companies and the methods and procedures of creative accounting in the preparation of financial statements issued by those companies.

H4: There are statistically significant effect according to the opinions of the study categories: the external and internal auditors regarding with "the possibility of verification" by the boards of directors of Libyan companies and the methods and procedures of creative accounting in the preparation of financial statements issued by those companies.

H5: There are statistically significant effect according to the opinions of the study categories: the external and internal auditors regarding with " the ethical values" by the boards of directors of Libyan companies and the methods and procedures of creative accounting in the preparation of financial statements issued by those companies.

6. Theoretical Frame Work and Literature Review

6.1. Concept of creative accounting

The manipulation in financial data is considered an art of fraudulent arts though its lack of ethics, and it might be difficult to audit destinations, both external and internal auditors, or even the auditing destination which related to the government to discover this fraudulent especially during the presence skillful and practiced accountant as well as he his acquainted with this art.

Aggressive accounting, income smoothing, earnings management and creative accounting are the financial statements gimmicks used to moderate company's financial reports to encourage investors to buy the company's stocks to increase the firm's market value [10].

These creative accounting practices in financial statements have been termed as "the art of faking the balance sheet" (Bertolus), "the art of calculating the balance sheet" (Lignon), "the art of presenting a balance sheet" (Gounin), last but not least "the art of saving money" (Ledouble).

Mostly stakeholders are unable to detect or understand the fact of financial number games because they do not have an accounting background or awareness about creative accounting. So, these kinds of. individuals are incapable to do detailed analysis [11].

The manipulation of financial information depends on manipulative behaviors. So, one cannot deny the significance of ethics of creative accounting in financial reporting. That is why just and fair attitude must be kept in mind while doing financial statements [12].

Mostly stakeholders are unable to detect or understand the fact of financial number games because they do not have an accounting background or awareness about creative accounting. So, these kinds of individuals are incapable to do detailed analysis [11].

Much has been written on creative accounting. Anglo-Saxon is the first person, who wrote about creative accounting in his literature in 1970s. Watts & Zimmerman (1990) state in their literature about accounting practices and provides guideline about positive creative accounting. In a same manner Shah et al, (2011) [13] concludes that creative accounting is a weapon which is used in a critical situation of a firm. They also conclude that creative accounting is not that bad if firm shows some flexibility in its accounting regulations. It also depends on the ethical environment of any firm that how and why management is using creative accounting techniques as a weapon. Some analyst shows the dark side of creative accounting practices. They think that mostly setbacks happen because of unethical conduct of creative accounting for example Enron and WorldCom etc. As Gherai & Balaciu (2011) [2] predict in their literature, they said that enterprise stake is at risk when it indulges in practices of creative accounting. Because these practices give a firm only short term benefits. At the end enterprise would be surrounded with scandals. So there is really a need of close governance of financial reporting. It also concludes that management should try to find out all those causes which may provoke practices of creative accounting.

Managers and auditors play an important role in any firm. At the end manager gets rewards from the company's performance. Auditor's close supervision may reduce the chances of applying creative accounting [14]. Yadav (2013) [15] finds that involvement of outsides director may reduce the practices of creative accounting. And more the outside users, less creative accounting practices. He says that involvement of professionals in financials decision can build a trust of stakeholders on enterprise. So, qualified accountants can help companies about the use of creative accounting techniques. The study also suggests that corporate governance is a best way to reduce these practices. While Kassem (2012) [8] argues that the ethical practices of creative accounting are there basically to help the external auditors to increase their efficiency and accuracy in finding any fraudulent act. It is difficult for people to differentiate between earning management and fraud. For an external auditor it is necessary to be able to differentiate the minor hair line difference between the two. External auditors can do the job of finding out whether it was a fraud or a financial error which resulted in the loss and in order to stop the future fraud he should be able to find out the methodology of the fraudulent person and to have the external auditors work at their best the regulators should provide them with the best guidance information and help them as much as they can.

Auditors audit report adds credibility to the financial information so they must mention in their audit report whether the concerned firms have given true and fair view or not. To detect any kind of accounting fraud, auditors must be vigilant and must adopt relevant audit procedures. Auditors should always examine the accounts with due care so that its financial records reflect the real image of the firm. To prevent any such creative practices to turn into a scam in the future, auditor must detect the accounting manipulations well in advance. If auditors find any suspicious transactions, they should pinpoint it immediately and put that into the audit report. An auditor must have thorough knowledge of existing laws and regulations and he should be always updated [14].

There several definitions to the creativity accounting made by researchers and the learners, but we can choose the following definition of creative accounting:

- Creative accounting means a method of manipulating accounts, and it's used to hide the real performance of companies in order to achieve useful results for the company or for some of its employees, and it pursued not by exceeding accounting standards and acceptable principles, but by making use of the flexibility and the choice in these standards and principles [16].
- It is processes or invented modern and complex activities, where the accountants use their knowledge in accounting laws and rules deal with the numbers that recorded in companies' accountings or manipulation of these number to achieve certain aims [17].
- Creative accounting is the transformation of financial accounting figures from what they actually are to what preparer desires by taking advantage of the existing rules and/or ignoring some or all of them [18].
- Is any action on the part of management which affects reported income and which provides no true economic advantage to the organization and may in fact, in the longterm, be detrimental [19].
- Many terms can be used to describe the practices of changing the facts in accounting, e.g. aggressive accounting, massaging the numbers, window dressing, earnings management, etc.

Table 1: Common Labels for Financial Numbers Game

Label	Definition
Aggressive Accounting	A forceful and intentional choice and application of accounting principles done in an effort to achieve desired results, typically higher current earnings, whether the practices followed are in accordance with GAAP or not.
Earnings management	The active manipulation of earnings toward a predetermined target, which may be set by management, a forecast made by analysts, or an amount that is consistent with a smoother, more sustainable earnings stream.
Income Smoothing	A form of earnings management designed to remove peaks and valleys from a normal earnings series, including steps to reduce and "store" profits during good years for use during slower years.
Fraudulent financial reporting	Intentional misstatements or omissions of amounts or disclosures in financial statements, done to deceive financial statement users, that are determined to be fraudulent by an administrative, civil, or criminal proceeding
Creative accounting practices	Any and all steps used to play the financial numbers game, including the aggressive choice and application of accounting principles, fraudulent financial reporting, and any steps taken toward earnings management or income smoothing.
Source: (Mulford & Comisky (2002) [10].	

6.2. Professional Ethics in Creative Accounting

The ethics of profession is defined as the moral principles system and codes of practicing which became a standard for the right professional behavior, so for each profession it's morals which formed and grew gradually with time till they became certified legally and morally.

Gherai & Balaciu (2011) [2] has taken examples of accounting scandals that have left traces in the history due to their strong impact like the Enron phenomenon, Paramalat, Worldcom, Xerox, Xerox, Ahold Royal, or Equitable Life bankruptcy are few examples. About this, Albeksh (2016 b) [20] mentioned that Enron, WorldCom which were collapsed in year 2002 used accounting techniques to show manipulated accounts which decrease the confidence in financial reporting, audit reports and regulations governing the professional accountancy. To improve old rules and setup new stream lines were supported by all countries effected by the bankruptcy crisis.
Albeksh (2016 c) [21] sees that ethics of auditor's unethical behavior of firms/auditors can only give them temporary success but in the long run if they continue such practices, success of the firm will be definitely at stake [21]. Auditors are not only required to be well qualified and conversant with the accounting standards and business practices but they also need to follow their ethics strictly. Auditor is provided only the authority of verification and detection of accounts, even if they identify any sort of creative accounting, it is legitimate. Generally, auditors don't disclose the manipulations they find in financial records of the client, as they have the fear of losing their audit fee and to get blamed if the firm fails. But it has to be recognized that if auditors fail to disclose company's actual numbers, it can damage the reputation of auditors, the goodwill of the firm, the image of their country and the audit profession at large. Today, the auditors are required to prove themselves really vigilant, watchdog and pointers timely. Only those audit firms will survive and dominate who perform with both diligence and ethics. The auditors are expected to live up to code of ethics as prescribed by many professional associations like the American Institute for Certified Public Accountants (AICPA), the Institute of Management Accountants (IMA), and the Institute of Internal Auditors (IIA) etc. Different professional bodies across the globe have related this profession to ethics under four heads: objectivity, integrity, due diligence, confidentiality, and professional skepticism [22]; [20].

6.3. Reasons for Creative Accounting

Largay (2002) [23]; Mulford & Comiskey (2002) [10] mentioned that six principles which show the maximum use of creative accounting practices. For example, flexibility in regulation, a dearth of regulations, assumptions about future, use of artificial transaction, timing, reclassification and presentation of financial number games.
Following are the reasons for the directors of listed companies to manipulate the accountants are as follows:

- Income Smoothing, company prefers to show steady growth in profit rather than fluctuating high or low. So, companies charged provision for liabilities against assets to reduce profits in good year.

- A variant on income smoothing is to manipulate profit to tie in to forecasts.
- Company directors may keep an income –boosting alternative in hand to avoid unfavorable news.
- Creative accounting may help maintain or boost the share price both by reducing the apparent levels of borrowing, so making the company appear subject to less risk by creating the appearance of a good profit trend. This helps the company to raise capital from new share issues, offer their own shares in takeover bids, and resist takeover by other company.
- Manager can use creative accounting to delay release of information for the market, thereby release of information for the market, thereby enhancing their opportunity to benefit from inside knowledge if the directors engage in „insider dealing‟ in their company.

Amat et al., (1999) [24] perceived the various methods of creative accounting can be considered to fall in four categories:

- There are different options to choose accounting methods sometimes like in many countries for example; a company is allowed to choose between a policy of writing off Research and Development expenditure as it occurs and amortizing it over the life of the related project. A company can therefore choose that accounting will give them preferred image.
- Some entries in accounting involve an unavoidable degree of estimation, judgment and prediction. In some cases, for example, in estimating life of an asset for calculating depreciation, these estimates are normally made inside the business and the creative accountant has opportunity to err on the side of caution or optimum in deciding estimate.
- Artificial transactions can be entered for the purpose of manipulate balance sheets amount and increase profits between accounting periods, which is achieved by two or more related transactions with an obliging third party, normally a bank.
- Genuine transactions can also be timed so as to give the desired impressions in accounts [24].

Following are the methods which can be used to tackle each of these approaches by accounting regulations who wish to curb creative accounting:

- Choice of accounting methods can be reduced by reducing the number of permitted accounting methods or by specifying the circumstances in which each method can be used.
- Abuse of judgment can be curbed in two ways. One is to draft the rules that minimize the use of judgment and second is apply „consistency‟ so that if one country applies one method which suits in one year also applies the same in unfavorable year.
- Artificial transactions can be tackled by invoking the concept of „substance over form where by accounting substance determines by economic substance rather than legal form of transactions.
- The timing of genuine transactions is clearly a matter for the discretion of management. However, the scope to use this can be limited by requiring regular regulations of items in the accounts so that gains or losses on value changes are identified in the accounts each year as they occur, rather than only appearing in total in the year that a disposal occurs [12].

In this aspect, Smith (1988) [25] classified accounting firms as "structured", "intermediate" or unstructured in terms of their audit methodologies. Using US data at a time when the Big 8 accounting firms still predominated, he classified 22 auditing firms. The number of accounting income increasing policy changes was higher for „structured" auditors and massively lower for "unstructured" auditors.

Smith also reported on the accounting manipulations employed by 208 of the largest quoted UK companies and identified 12 different techniques in the common use, all of which would impact on the Profit and Loss account and Balance Sheet of the companies concerned.

- The techniques specified can be described as follows:
- Extra ordinal and exceptional items,
- Pre-acquisition writes down,
- Deferred consideration on acquisition,
- Disposals- profits on sales of asset taken "above the line" and deconsolidation of subsidiaries in anticipation of sale.
- Brand Accounting- capitalization of assets,
- Off-balance sheet finance,
- Contingent liabilities,
- Changes in depreciation policy(Method),
- Capitalization of costs (interest and R&D),
- Currency mismatching between borrowing and depositions,
- Pension fund surplus used to reduce annual charge,
- Convertible with premium put options or variable rate preferred stocks.

6.4. The Prevıous Studıes

Hussey & Ong (1996) [26] clarified that creative accounting first became very prevalent in the 1980. Due to loopholes of accounting regulations, companies could produce accounts which flattered their financial performance. It talks about type of creative accounting like capitalizing interest, brand accounting, methods of depreciation, stock valuation, and accounting standards which prevent the major abuses which used to occur and has issued a number of regulations in the form of Financial Reporting Standards.

Also, Shah et al., (2011) [13] tried to give answer that why do managers do creative accounting and how they become successful in performing such practices in the presence of stringent rules and procedures. They also tried to explore whether creative accounting practice is good or bring crisis in the companies and link of corporate governance with creative accounting. Many world examples given like Enron which show higher profit than actual and then collapse. The role of debit and credit has also explained in which playing with different items like assets, expenses or liabilities which creates creative accounting and increase or decrease profits according to their wants.

Teodora & Nicolae (2009) [27] have taken 110 samples to explain the level in which financial accounting professional comply with the professional ethics standards. Based on results of survey they found managers do not agree with the statement that "financial-accounting innovation and creativity" is fraud. In their first hypothesis testing questioned and they found based on survey results that the financial accounting creativity and innovation is a well-appreciated performance. Survey results are also explaining why creativity and innovation is used by companies and they found the answers by their survey was that they want to get additional financial resources, the desire to avoid legislative ambiguities and tried to explain answer why companies do not use creativity and innovation was- Correctness, fear, existence and internal and financial auditors, stakeholders.

While, Vladu & Matiş (2010) [28] tried to explain the topic of creative accounting and corporate governance in the context of internal demand for manipulative behavior which emanates from the contracting value of earning management in the principal-agent relationship between shareholders and mangers poor corporate governance causes manipulating accounting practices. The topic of information asymmetry is also discussed since no approaching regarding creative accounting omits it. In which one party has better information than other party in the context of managers and shareholders where manager has more information than shareholders in an enterprise. Information asymmetry work in context of capital market. The CFO and board of company know more than the shareholders and other users about the profitability of the company. Five theories have provided the theoretical underpinning for research opportunistic behavior in the area of corporate governance. Which are: Agency theory, Legitimacy theory, Institutional theory, Signaling theory and Stake holder theory.

Describing different aspect in association with managerial opportunistic behavior. There are two different patterns through which companies are financed and both of them affecting accounting earning the companies are related to the corporate governance model that prevails in a particular country. If corporate governance model is the shareholder model if countries belongs to the Anglo-American accounting model. Capital market has a great role in financing companies in the context and as consequences great importance will be put on information available to shareholders. Companies are dominated by equity shares and there is a great separation between managers and owners and as consequences information exists and incentives to manipulate accounting information are considered to be strong.

Mindak et al. (2016) [29] investigated whether companies use creative accounting techniques to meet the analysts' forecasts and exceed last year's earnings and whether the market rewards or punishes such manipulations. The conducted research has shown that all the companies that have managed to beat the targets have used creative accounting methods to artificially increase earnings and have been rewarded by the market for doing so. In contrast, companies that have managed earnings in order to reduce them (by increasing reserves, for example), so that they barely meet the set goals, were not rewarded. The reason is that most of the targeted earnings are actually determined by analysts' forecasts, so the most important goal of earnings management is to beat the forecasts, because companies that succeed in doing so are considered "good" companies. Thus, companies trying to maintain the same level of earnings over the years are not considered "good" since they do not surpass the expectations.

7. Society and Sample of the Study

The population in this study are the Libyan companies, it has been selected 17 companies. A total of (129) questionnaires were distributed to the Libyan independent auditors of licensees to auditing these companies as well as a number of internal auditors inside these companies. The number of usable questionnaires was (103), yielding 79.9 percent response rate.

8. Methodology of the Study

Many researchers have conducted research on this topic with different variables and different economic settings. This research is based on quantitative research design. Data has been used and gathered through structured questionnaire. Data collected from Libyan companies through questionnaires. SPSS 22.0 has been used to analyze data, which is standard statistical package for Social Science researches. Multiple regression and correlation analysis is conducted to find out the relationship between dependent and independent variables and descriptive statistics is used to find out the percentages and frequencies of respondents.

9. Data Analysis

9.1 Test of Normality

The key objective of any quantitative study is to check if the study the sample data has a normal curve. Explicitly, the researcher is trying to identify if the current sample data set is normally shaped. According to the bellow table, which the table of Tests of Normality, the current sample data set is not different than normal. Based on the results of Table 2, the probability-values of both Kolmogorov-Smirnov test and Shapiro-Wilk 0.200> 0.05 and 0.997> 0.05, which means the null hypothesis is supported. As the null hypothesis states that the sample data set of the current research is not statistically different than the data set of a normal population. Thus, this result of the normality test shows that the parametric test statistics could be utilized to test the current research hypotheses.

Table 2: Tests of Normality

	Kolmogorov-Smirnov[a]			Shapiro-Wilk		
	Statistic	df	Sig.	Statistic	df	Sig.
Data1	0.028	103	0.200*	0.997	103	0.997

Note: a. Lilliefors Significance Correction
*. This is a lower bound of the true significance

9.2. Analyzing Demographic Characteristics of the Study Respondents

This section investigates the current characteristics of the current study participants:

Table 3 below demonstrates the demographic characteristics of the survey respondents. The study participants were categorized into the following six group according to gender, age, specialization, function, academic qualification and experience. Of the 103 total study respondents, the first largest participant group was men (95.1% or 98 men). Nevertheless, the female participant group was small compared with male group (4.9% or 5 women). This may indicate that the majority of employees in the Libyan context was males. The demographic characteristics according to age group are provided in Table 3. Approximately (7.8%) of the total study population were auditors within Less than 30 years old; (21.4%), 30 and less than 35; (30.0%) 35 and less than 40, and finally, about (40.8 %) of the total population of classified within more than 40 years old. In terms of specialization, the largest participant group was accounting (68% or 70 participants) then financial management (17.5% or 18 participants) after that finance and banking sciences (13.6% or 14 participants) and finally Other/ business (0.9% or 1 participant). While looking at the academic qualification, it is clear that most of the respondents had the Bachelor's degree (47.6%) as compared to other academic qualifications. In the same way, it was noticed that the dominant functional variable in the sample settings is the external auditor group, which was (79.4%) of the total samples while the most dominating group included auditors having 10 - less than 15 of experience (39.8%).

Table 3: Demographic Characteristics

Gender		
	Frequency	Percent
Male	98	95.1
Female	5	4.9
Total	103	100.0
Age group		
Less than 30 years old	8	7.8
30 and less than 35	22	21.4
35 and less than 40	31	30.0
40 years old and more	42	40.8
Total	103	100.0
Specialization		
Accounting	70	68.0
Financial Management	18	17.5
Finance and Banking Sciences	14	13.6
Other / Business	1	0.9
Total	103	100.0
Function		
Internal Auditor	11	20.6
External Auditor	94	79.4
Total	103	100.0
Academic Qualification		
Higher institute diploma	35	34.0
Bachelor's degree	49	47.6
Master's degree	13	12.6
PhD	6	5.8
Total	103	100.0
Experience years		
Less than 5 years	1	1.0
From 5 - less than 10	22	21.3
From 10 - less than 15	41	39.8
15 years old and more	39	37.9
Total	103	100.0

9.2.1. Reliability Study

It is crucial to verify and examine the reliability of the questionnaire. This is done in order to remove the existence of irrelevant incorrect answers [30]. Accordingly, 2 lecturers who teach auditing courses in the university have verified the questions' reliability by going through the questions. Based on their comments, the questionnaire was modified. Reliability was also verified through by defining the level of uniformity of the answers which means that the questionnaire was free from any errors. If the outcomes of the questionnaire were the same when recurring consistently, this means it is reliable [31]. Cronbach's Alpha has scaled responses (The score has 5-point scale for the purpose of scoring numerical values given, 5 points for strongly agree, 4 points for agree, 3 points for neutral, 2 points for disagree, 1 points for strongly disagree) and it was used to define the internal reliability of the questionnaire's variables.

Table 4: Reliability of the Questionnaire#

Factors	Questions	Cronbach's Alpha
Reliability of financial statements (RFS)	1-8	0.957
Neutrality (N)	9-16	0.987
Honest representation (HR)	17-23	0.789
Possibility of verification (PV)	24-31	0.809
Ethical values (EV)	32-39	0.985
Methods and procedures of creative accounting (MPCA)	40-47	0.974
Total questions	**47**	**0.822**

The outcomes shown in Table 4 were found after SPSS calculations. It can be noticed that the questionnaire got a score 0.822. All values are accepted since they are more than 0.60 [31].

9.2.2. Means and Standard Deviations

This part will explain the statistical analysis of the generated results of the study sample responses that were adopted through the presentation of the preliminary statistical indicators by using the means, standard deviations for each variable. Furthermore, it will test the hypotheses of the study and their relative statistical indications. Before initiating the correlation analysis, the researcher investigated sufficient variability in the constructs/variables. This is obvious from the means and standard deviations as in the Table 5 where shows that the means ranged between 3.99 – 2.47, the total mean was computed and found 3.27, it is a medium degree. Honest representation was observed to have the highest mean of 3.99 with a standard deviation of 0.81; this is which is deemed to be significant. However, the sixth variable came at the end with the lowest mean of 2.47 and a standard deviation of 0.52, which is a medium importance level. This outcome shows that the reliability of financial statements was median in the respondents' point of view. Overall, the reliability of financial statements has moderate effect to reduce practices of creative accounting, (See Table 5).

Table 5: Means and Standard Deviations

Variables	Mean	Std. Deviation
Honest representation (HR)	3.99	0.81
Possibility of verification (PV)	3.75	0.76
Ethical values (EV)	3.28	0.69
Methods and procedures of creative accounting (MPCA)	3.26	0.66
Neutrality (N)	2.89	0.56
Reliability of financial statements (RFS)	2.47	0.52
Medium	3.27	

10. Testing the Study Hypotheses

In the previous parts, the reliability analysis was supported and has produced an evidence that the current study scale is a reliable for measuring the main current study variables and by using the regression analysis, the hypothesis will be tested. However, it is worth to mention that there are some constraints and necessities that needs to be considered to confirm the correctness and precision of the regression analysis, as follows:
1) Correlation Analysis.
2) Multi-collinearity test.

The existence of the effects of creative accounting on the reliability of financial statements reflects all the independent variables which are pertinent by the dependent variable. According to the bi-variate correlation matrix. The table below show the results of the correlation matrix between all the needed variables of the role of external auditor to reduce the effects of creative accounting, which are pertinent to the reliability of financial statements. The correlation coefficients were the rate from 0.237 to 0.314. Thus, the correlation was significant at 0.01 and 0.05 confidence level. that is, the positive increase in the role of external auditor to reduce of the effects of creative accounting will lead to the reliability of financial statements (See Table 6).

Table 6: Results of correlation between independent variables with dependent variable

Variables	RFS	N	HR	PV	EV	MPCA
RFS	1					
N	0.218**	1				
HR	0.248**	0.408**	1			
PV	0.560**	0.456**	0.400**	1		
EV	0.069*	0.120*	0.214**	0.332	1	
MPCA	0.237**	0.314**	0.252**	0.249**	0.266**	1
**Correlation is significant at 0.01 level (2 tailed) *Correlation is significant at the 0.05 level (2 tailed)						

In this aspect, to verify the independence of the determinants and to make sure that they do not interfere with each other, the Variance Inflation Rate and Tolerance was used. Regression model is said to be free of multicollinearity, if Variance Inflation Factor (VIF) value obtained is less than 10 and Tolerance value obtained is more than 0.20 from the multicollonierity test (Hair, Black, Babin, & Anderson, 2013).

Based on the multicollinearity test, all regression models have value of Variance inflation factor (VIF) less than 10 - Reliability of financial statements (**RFS**) (1.009), neutrality (**N**) (1.025), honest representation (**HR**) (1.031), possibility of verification (**PV**) (1.032), ethical values (**EV**) (1.036) and methods and procedures of creative accounting (**MPCA**) (1.042). Also, all regression models have tolerance value more than 0.20 - Reliability of financial statements (**RFS**) (0.991), neutrality (**N**) (0.976), honest representation (**HR**) (0.970), Possibility of verification (**PV**) (0.972), Ethical values (**EV**) (0.988) and Methods and procedures of creative accounting (**MPCA**) (0.947). Multicollinearity test shows that the regression.

With reference to Table 7, the VIF and Tolerance, verifies the independence of the study variables and based on the outcomes of the validity of the data, the regression analysis test is found to be useful in answering the main question of the study and its test for hypotheses. Accordingly, this was used to test the hypothesis of the study so as to reject or acceptance the hypothesis.

Table 7: Multicollinearity test

Constructs	Tolerance	VIF
Reliability of financial statements (RFS)	0.991	1.009
Neutrality (N)	0.976	1.025
Honest representation (HR)	0.970	1.031
Possibility of verification (PV)	0.972	1.032
Ethical values (EV)	0.988	1.036
Methods and procedures of creative accounting (MPCA)	0.947	1.042

10.1. Regression Analysis

A regression test is used to analyze the impact of the independent variable on a dependent variable with the influence of constant. Regression test helps the researcher to debug and detects undesirable causes occurs in the data. It helps the analyst to interpret the equation according to the desired outcome achieved from the test. It is usually based on OLS (Least Square Method). In this study, the researcher tested the main hypotheses using ordinary least squares (OLS) regression and he used multiple regressions to acknowledge the impact of each previous independent variables (Reliability of financial statements, neutrality, honest representation, possibility of verification, ethical values) on the dependent variable which are shown in the below Table 7.

The table below shows that the variance of all independent variables (Reliability of financial statements, neutrality, honest representation, possibility of verification, ethical values) depending on adjusted R square is 27.1%. Moreover, the statistical value F is 11.076 with a level of significance lower than 5%, which indicates that there is a significant impact for the regression model related with all factors to reduce the effects of creative accounting in the Libyan companies. Thus, accept all alternative hypothesis. Also, it is noticed from Table 8, while reviewing calculated t values, it was found that all the independent variables have significant impact on the reliability of financial statements with a level of significance lower than 0.05.

Table 8: Multiple Regression Analysis to variables

Constructs	B	Std. Error	Beta	T	P Value
(RFS)	0.412	0.96	0.412	2.746	0.007
(N)	0.418	0.94	0.518	2.282	0.011
(HR)	0.633	0.98	0.721	3.312	0.016
(PV)	0.721	0.98	0.611	4.564	0.013
(EV)	0.516	0.98	0.516		
R Square	0.271				
Adjusted R Square	0.211				
F Value	11.076				
P Value	0.037				

Note: *Significant at p≤0.05

11. Findings of the Study

Table 9: Hypotheses testing

Hypotheses	Outcome
First Hypotheses H1	Supported
Second Hypotheses H2	Supported
Third Hypotheses H3	Supported
Forth Hypotheses H4	Supported
Fifth Hypotheses H5	Supported

12. Discussion and Conclusion

The creative accounting offers a formidable challenge of the accounting profession which when carried to extreme negativity, has cast aspersion on the credibility of accounting principles and standards. In general, Creative accounting lends itself as a deceitful and undesirable practices. The ethical implications of creative accounting raises the need for a close scrutiny of the potential abuse of accounting policy choice and manipulation of transactions. The study establishes a relationship fact of the multi-dimensional nature of the ongoing financial crises which has it deep root in the financial reporting, burdened with the adoption of Creative Accounting.

The findings of the research study, serve as the basis for making the conclusion as below: The Reliability of financial statements, neutrality, honest representation, possibility of verification, ethical values a significant impact the reliability of financial reporting. External auditors have spent enough effort to apply of methods and procedures adopted and act with a reasonable care in conducting an assignment. Furthermore, the internal auditors have to follow up the efforts spent by the external auditors which it will lead to reduce the effects of creative accounting. accounting.

13. Recommendatıons

Keeping in view, the researcher has been proposed to carry out further research for enhancing the study on to reduce the effects of creative accounting on the reliability of financial statements. The study found the following recommendations: [14]

The Libyan legislators must be adopting of the set of global financial reporting standards known as international financial reporting standards (IFRS) must be embrace by all operators of accounts and those performing accounting duties and greater emphasis on enforcement of code of corporate governance and ethics. Proper enforcement of changes in accounting regulations, ethical standard government code by regulatory authorities will prevent companies from employing misleading reporting practices of creative accounting in the Libyan environment.

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