

ISA and Creative Accounting Practices: Current Developments and Ongoing Challenges

<https://www.doi.org/10.56830/IJAMS10202506>

Ahmed Helmy Gomaa

Professor of Accounting and Auditing, Department of Accounting, College of Administration and Economics, Umm Al-Qura University, Makkah, Saudi Arabia

Email: Amgmohammed@uqu.edu.sa

Received: 20 July 2025. Accepted: 10 Oct. 2025. Published: 20 Oct. 2025

Abstract

Purpose of the Study: The current study aims to examine and analyze current developments in international auditing standards considering the increasing application of creative accounting practices in listed companies. Therefore, the current study critically discusses the motives, methods, repercussions, and potential mitigating mechanisms. It also reviews some of the most controversial accounting scandals in the world.

Methodology: Creative accounting is a global problem, negatively impacting financial statements in every country. To achieve the objective of the current analytical study, five questions were formulated to answer the roots, motives, and methods of creative accounting; to clarify the effects of creative accounting practices on financial statements and stakeholders; to discuss the position of audit researchers on creative accounting practices; and to analyze and evaluate the position of international professional organizations on current developments in international auditing standards and their role in curtailing creative accounting practices.

Results: The study confirmed that there is an unreasonable, dishonest, and excessive use of creative accounting practices in companies, which has led to the downfall of many prominent companies worldwide. Many more will fall in the same direction, because the real problem with creative accounting practices lies in management's behavior and motives, and their use of their right to choose accounting policies and make accounting estimates. International professional organizations have also emphasized in all their publications that the responsibility for preventing creative accounting practices (fraud without embezzlement, manipulation, and misleading) or earnings management falls on management, those charged with governance, the board of directors, and all company employees. These stakeholders have been emphasized in

their efforts to prevent this. Accordingly, the auditor's role in detecting creative accounting practices has been expanded by evaluating four important areas, including revenue recognition, changes in accounting policies, changes in accounting estimates, and unusual items, considering the application of international auditing standards.

Recommendations: Despite the development of auditors' duties and responsibilities through international auditing standards, it is not possible to completely limit the impact of creative accounting practices, because management is the main player by virtue of its responsibility. However, accounting and auditing standards need to be simplified, as they have become more complex considering evolving economic events and activities, financial crises, and investor pressure. Therefore, management ethics play an important role, as do the ethics of the accounting profession. However, perhaps more important is enforcing the law or regulation and creating more effective corporate governance practices to limit the phenomenon of creative accounting in listed companies. Overall, the research contributes to a deeper understanding of the challenges and opportunities associated with creative accounting practices, which guides stakeholders in dealing effectively with this dynamic landscape.

Future Studies: Within the framework of the development of international auditing standards to limit creative accounting practices, the study proposes for researchers and academics to examine the impact of auditor report content developments on the informational value (credibility) of the auditing profession; the impact of expanding auditor professional responsibilities on audit fees; the relationship between creative accounting practices and company/audit failure; the relationship between creative accounting practices and auditor change; and the impact of professional ethics on detecting creative accounting practices. Finally, the researcher hopes to conduct a field study examining the impact of current developments in international auditing standards on limiting creative accounting practices in the business environment in the Arab world, God willing.

Terminology: Auditing Standards - Creative Accounting Practices - Professional Ethics - Governance.

Introduction

These collapses and financial scandals, in addition to the pressures exerted by users (stakeholders) of financial statements, have led to the emergence of a term known as "Accounting Innovation (AI)" or "Innovation Accounting (IA)." This term refers to the use of accounting knowledge to practice fraud or manipulation of accounting figures without violating standards, principles, regulations, or laws. It is also called "Innovative Accounting" because it is considered an art of deception. The Nobel Research Report (Rajput, 2014) on the world's top 50 financial markets indicated the presence of creative accounting practices in many companies in many countries. Investors demand adequate scrutiny of accounting records, earnings, and cash flows.

This is in addition to the lack of transparency in accounting reports and the absence and asymmetry of information for all investors, which prevents them from assessing investment opportunities and associated risks, and their inability to predict their future returns. Some companies' managements use creative accounting methods to influence the significance of financial statements to serve their own interests, which reflects an unfair image of the company and negatively impacts the stock market. This is in addition to the lack of proper planning and implementation of the audit process, the lack of effective audit committees, and the failure to adhere to governance principles.

(Glory, Ifeyinwa, Ese, Ndubuisi, Beryl, & Onyeka, 2024) also noted in their study, "Innovations in accounting and auditing: A comprehensive review of current trends and their impact on the U.S." Businesses noted that the field of accounting and auditing is undergoing radical evolution, driven by rapid technological advancements, regulatory changes, and business model shifts. Technological innovations, particularly the integration of artificial intelligence and machine learning, have revolutionized traditional accounting processes. Automation tools and advanced data analytics simplify routine tasks, enhance accuracy, and enable accountants to focus on more strategic and value-added activities.

The study emphasized the importance of technological developments in shaping the skills required in the accounting profession, and the consequent impact this has on professional development and education. Furthermore, the evolving role of auditors in an era dominated by big data, and the study emphasized the importance of auditors embracing these innovations to provide more accurate and comprehensive assessments of financial statements in a timely manner. Regulatory changes, such as the implementation of new accounting standards and reporting requirements, feature prominently in auditing.

The study also revealed broader implications for decision-making, risk management, corporate governance, enhanced transparency and accountability, and the overall quality of financial reporting. (Ardimansyah, Ginting, Yunisar, Rissa, & Windy, 2025) pointed out in their study on Bibliometric Financial Illusion: A Decade of Creative Accounting Research, which

aimed to study the literature related to creative accounting in the field of accounting during the period from 2013 to 2023, using a combination of bibliometric analysis and systematic review.

The research used a combined methodology that combines bibliometric analysis and systematic review to collect and analyze data from 800 relevant articles, drawn from Google Scholar. The publication trends revealed a continuous and persistent interest in creative accounting, with a steady flow of publications throughout the research period. This highlights the continued importance and interest of creative accounting among accounting researchers, practitioners, and stakeholders, as revealed by VOSviewer. It highlights the close interconnectedness of creative accounting with related topics, such as financial statements, fraud, and corporate governance. This complex web of interconnected concepts highlights the pivotal role of understanding financial reporting, detecting fraudulent activities, and ensuring sound corporate governance in addressing issues related to creative accounting.

Therefore, the auditing profession has been affected recently by a series of collapses that have affected many major international companies <https://www.sec.gov/news/press/2003-34.htm> such as World.Com (2002), Enron (2001), General Electric (2017), Lehman Brothers (2008), Satyam Computer Limited (2016), TYCO (2002), Bernie Madoff's Ponzi scheme (2008), AIG (2005), Freddie Mac (2003), HealthSouth (2003), and before them Waste Management (1998), which suddenly declared bankruptcy, despite achieving high profits, and others. Questions were raised about the role of auditors in these companies, which led to a loss of confidence among users in the auditing profession and a decrease in their confidence in their role, which ultimately led to a loss of confidence in the financial markets.

Also, the study of (Salsiah & Amilia, 2023) on the topic: Creative Accounting: An Overview of Its Practices Where are We Heading Now? While accounting plays an important role in the contractual relationships that shape modern corporations, it is assumed that it mitigates agency costs. However, it is argued that preparers of financial statements tend to have incentives to communicate information that serves their own interests, and this is also likely to impose costs on users of financial statements. This practice is known as creative accounting, which refers to the process of taking deliberate steps within the constraints of generally accepted accounting principles (GAAP) to achieve the desired level of reported earnings.

Although not all accounting choices involve creative accounting or earnings management, and the term earnings management goes beyond the scope of accounting choices, the effects of accounting choices on achieving managers' personal goals are consistent with the concept of earnings management. Accounting is therefore a means used by managers to disseminate private information through the release of accounting information, and the choice of a specific accounting method can play a key role in this communication process. In addition, accounting regulation affects the quality and quantity of financial disclosures, and thus the quality of decision-making by users.

This has led to questions from international organizations such as the (International Organization of Securities Commissions (IOSCO), 2009), the recommendations of the (Group of Twenty Governors, 2009), the European Commission: Audit Policy: Lessons From the Crisis (EC, 2010), the (Securities and Exchange Commission (SEC), 2014) issues regarding the examination of disclosure requirements under Rule S-K, the (Public Company Accounting Oversight Board (PCAOB), 2014) issues regarding improvements to ISA 17, Issue No. 34-71525 on improving transparency in auditing, and Issue No. 34-65163 on the review of stockbrokers and speculators, and other international organizations – such as the (Emerging Issues Task Force (EITF), 2014) with Issue No. 11-A on “Parent’s Accounting for the Cumulative Translation Adjustment (CTA) Upon the Sale or Transfer of a Group of Assets Within a Consolidated Foreign Entity That Meets the Definition of a Business”, and the International Accounting Standards Board amended IFRS 14 on Regulatory Deferral Accounts, issued guidance for IFRS 9 on Hedge Accounting and amended IAS 36 on Disclosure of Amounts Received for Non-Financial Assets.

In addition to studies and reports by the International Federation of Accountants committees, such as The (Professional Accountants in Business Committee, 2004) and the Task Force on Rebuilding Public Confidence in Financial Reporting, 7/2003, which prompted the American Institute of Accountants (AICPA), 2014) and the American Auditing Standards Board (ASB) (1997-2014), the International Federation of Accountants (IFAC) and the International Auditing and Assurance Standards Board (IAASB) (2002-2015), to undertake many efforts to try to strengthen the role of the external auditor in discovering creative accounting practices and restoring confidence and credibility in the financial markets, as the American Auditing Standards Board issued the Auditing Standard (99) statement and the cautionary guidelines for audit risks, in addition to the IAASB developing, based on the clarification project after the subprime mortgage crisis, international auditing standards, especially International Auditing Standard (240), related to fraud, which represents the sixth amendment (1996-2025), in addition to amending, issuing and developing other standards as a result (IFAC, Clarified ISAs, 2013-2025).

Research Problem

Since the Enron events, the term "creative accounting practices" has sparked ongoing debate in accounting thought and practice. Some researchers (Sen & Lnanga, 2000) believe that accounting creativity is a blessing when it creates something new to modify the accounting system, thus adding to the existing body of accounting knowledge. However, it is a curse when unethical and illegal factors interfere. In other words, accounting creativity as a method is not subject to objection.

This is supported by some researchers (Jayanti & Mutmainah, 2013), who argue that creativity gives a company competitiveness at the micro level and is a key tool for achieving

sustainable development at the macro level. (Chong, 2006) also believes that accounting creativity, from an ethical perspective, means excellence in the performance of accounting practitioners who possess high professional skills, abilities, and values that enable them to choose and apply appropriate accounting policies and solve any accounting problem facing management.

Therefore, (Jones, 2011) sees it as the use of flexibility within accounting to manage standards and represent accounts to serve the interests of those who prepare them. (Oliveras & Amat, 2003) also see it as the process of transforming accounting numbers from their actual form to a desired form by exploiting existing laws so that the new numbers give a positive advantage to the company without compromising any of the accounting principles and standards. In the absence of a specific concept for the term creative accounting, various terms have been used to describe accounting innovation/creativity (creative accounting). Some (Fagbemi, Olamide, & Joshua, 2014) call it cosmetic accounting, meaning the exploitation of available accounting alternatives to beautify the company's image in the eyes of beneficiaries at the expense of reality.

Others call it innovative accounting (Hamad, 2011), meaning the selection, use, and interpretation of accounting policies, accounting estimates, and incorrect accounting practices to influence accounting information and the value of items appearing in financial statements, in a way that achieves the goals of a specific group without the other groups, i.e. the transition from neutral accounting to fraud.

Some of them saw it as (Mulford & Comiskey, 2002) The Financial Numbers Game, and others called it (Shah, Butt, & Tariq, 2011); (Griffiths, 1986); (Smith, 1992); (Jameson, 1988) Creative Accounting (CA), which means all the steps used in the financial numbers game, including the selection and aggressive application of accounting principles, fraudulent financial reporting, and any steps taken towards managing profits or smoothing income, and there are those who called it utilitarian (aggressive) accounting.

Aggressive Accounting (AA) (Yadav, Brijesh; Kumar, Anil; Bhatia, Bunny Singh, 2014); (Mulford & Comiskey, 2002) refers to the forceful and intentional choice and application of accounting principles to achieve desired results, whether the practices followed are in accordance with GAAP or not. This approach benefits some groups and harms others.

Despite the multiplicity of concepts and terms used, many studies agree that this approach (method/procedure) represents a deliberate attempt by management to convey a specific signal to users of the financial statements, or an intentional adjustment of reported income with the aim of achieving a desired level or direction. Generally, financial statement manipulation is considered a form of deception, and therefore difficult for auditors to detect because it is usually accompanied by hidden procedures (collusion).

These procedures have been professionally termed, according to accounting literature, earnings management, income smoothing, or financial engineering. Whatever these names may be, they all exploit loopholes in accounting policies, their multiple alternatives, and their various weaknesses to present the financial statements in a way that is not correct and fair, in a way that serves a specific group at the expense of other groups with an interest in the company.

Study Significance

The phenomenon of "negative creative accounting practices," or the manipulation of financial statements, concerns many segments of the global financial community, due to its extremely serious repercussions on the continuity of economic activity, the credibility of transactions on stock exchanges, and the validity and fairness of financial statements. Although management is responsible for these practices, due to pressure from users of financial statements, investors and others see shortcomings in auditing standards and the consequent role of auditors.

Therefore, this phenomenon has received the attention of researchers, academics, organizations, institutes, associations, and international professional unions over the past decade. Reality indicates that the financial scandals resulting from creative accounting practices have shaken many companies worldwide, European companies have retreated from applying American accounting standards, shareholders have questioned the validity and fairness of companies' financial statements, and some American companies have manipulated data by understating expenses and inflating revenues, thereby displaying fictitious profits that benefit company managers.

This has led to the subsequent subprime mortgage crisis, which threatened the real estate sector in the United States, and subsequently banks and global financial markets, posing a threat to the global financial economy. All the above has led to increased pressure from investors and users of financial statements on the auditing profession, which is one of the most important pillars of the success of capital markets.

This pressure has reinforced the credibility of financial statements, which are relied upon in making many decisions, and emphasized the importance of developing the role of the external auditor in reducing them through standards, activating their relationship with those charged with governance, and developing the content of their report to provide protection to investors in the stock market to rebuild confidence in financial statements on the one hand, and the auditing profession on the other. Accordingly, the current study derives its importance from addressing the following:

1. Identifying the roots, motives, and methods of creative accounting.
2. Explaining the effects of creative accounting practices on financial statements and stakeholders.

3. Analyzing the position of researchers in the field of auditing on creative accounting practices.
4. Analyzing the position of international professional organizations on limiting creative accounting practices.
5. Evaluating current developments in international auditing standards to limit creative accounting practices.

Study Questions

The problem of the current study is crystallized in answering the following main question: What are the current developments in auditing standards to limit creative accounting practices in companies listed on stock exchanges? The main question can be explained by answering the following questions:

- Q1: What are the roots, motivations, and methods of creative accounting?
- Q2: What are the effects of creative accounting practices on financial statements and stakeholders?
- Q3: What is the position of audit researchers on creative accounting practices?
- Q4: What is the position of international professional organizations on limiting creative accounting practices?
- Q5: What are the current developments in international auditing standards to limit creative accounting practices?

Study Objective

The current study aims to examine and analyze the development trends in international auditing standards to limit creative accounting practices in listed companies from an international perspective.

Study Organization

The current study, apart from the introduction, is divided into five sections. The first section addresses the roots, motivations, and methods of creative accounting; the second addresses the impact of creative accounting practices on financial statements and stakeholders; the third examines the position of audit researchers on creative accounting practices; the fourth examines the position of professional organizations on creative accounting practices; and the fifth examines current developments in international auditing standards to limit creative accounting practices in listed companies, in addition to the conclusion, findings, recommendations, and proposed future studies.

The Roots, Motives, and Methods of Creative Accounting

Roots of Creative Accounting

Historically, Copeland (1968) notes that creative accounting (IA), accounting scandals (AS), and fraud go back to ancient Mesopotamia, when the South Sea Company collapsed in 1719-1720. More accounting scandals are currently occurring, such as Enron and Parmalat, in

addition to major economic difficulties. Managers are also using accounting manipulation to improve the performance of the economic unit.

(Yadav, 2013) believes that creative accounting is a phenomenon born in the 1980s, likely originating when companies faced difficulties during the recession of the early 1980s. There was pressure to produce better profits, while profits of any kind were difficult to find. Companies discovered that laws only tell you what you can't do, not what you can do! If you can't earn profits, you can at least invent them (creative accounting).

Therefore, creative accounting has been conceptualized in many ways. Copeland (1968) sees it as a pattern of repeatedly selecting accounting measurement and reporting rules to influence the direction of income, while (Barnea, Ronen, & Sadan, 1976) sees it as the deliberate smoothing of fluctuations to a level of earnings considered normal for the company. (Griffiths, 1986) describes creative accounting by saying that every company in the country handles its profits in its own way, that every set of published accounts is based on books that have been carefully cooked or completely roasted, and that the figures the investing public receives twice a year are completely altered to protect and conceal crime.

This is the greatest trick since the Trojan Horse. While (Jameson, 1988) points out that the accounting process involves addressing numerous issues and conflicts between competing approaches or approaches to presenting the results of financial events and business operations.

This flexibility provides opportunities for manipulation, fraud, deception, distortion, or misrepresentation. Regarding creative accounting, (Smith, 1992) noted that he felt that much of the apparent profit growth that occurred in the 1980s was the result of sleight of hand accounting ingenuity rather than real economic growth. We have begun to uncover the main methods involved and provide concrete examples of companies that use these methods.

(Naser, 1993) views creative accounting as transforming financial accounting figures from what they are to what preparers desire by exploiting or taking advantage of existing rules and/or ignoring some or all of them. (Amat, O.; Gowthorpe, C.; Perramon, J., 2003) view creative accounting as: "a process in which accountants use their knowledge of accounting rules to manipulate the figures contained in corporate accounts." While (Amat, Blake, & Dowds, 1999) view creative accounting as a process by which accountants use their knowledge of accounting rules to manipulate the numbers recorded in business accounts, (Fong, 2006) defines creative accounting as the process by which accountants use their knowledge of accounting rules to manipulate the numbers presented in business accounts.

(Mulford & Comiskey, 2002) point out that creative accounting represents some or all the steps used to play the financial numbers game, including arbitrary selection of accounting principles, fraudulent financial reporting, and any other steps taken to manage earnings or smooth income. "Numbers Game" is the term used by Levitt (1998), the former chairman of the New York Securities Exchange Commission (SEC), in a speech on manipulation practiced in the

accounting profession, in which he identified some widespread accounting techniques such as Big Bath and Cookie Jar Reserves.

In general, regardless of definitions or concepts, the term "Accounting Innovation" (Creative) refers to companies resorting to exploiting loopholes in available accounting methods and alternatives to improve the company's image in the eyes of beneficiaries, even if it is at the expense of the truth, i.e. exploiting accounting policies, which is a general term used by critics and analysts of financial markets to describe practices and means of misleading beneficiaries of financial statements, the most famous of whom are (Griffiths, 1986); (Jameson, 1988), (Smith, 1992); finally (Pijper, 1994).

However, (Kaminski, 2014) believes that creative accounting has two aspects: the first is positive innovation accounting (PIA), i.e. respecting laws, regulations, and ethical norms, and allowing for the correct interpretation of the financial report, and the second is negative innovation accounting, i.e. circumventing laws and ethical standards, and the last type belongs to utilitarian (aggressive) accounting, i.e. manipulating financial statements to mislead and confuse. Recipient of information.

Motivation for Creative Accounting

The conflict of interest between various stakeholders within a company is considered the primary source of creative accounting (Yadav, 2013). Managers' interests lie in minimizing taxes and dividends, shareholders' interests lie in maximizing returns on their investments, employees' interests lie in increasing their various management compensations, and executives' interests lie in collecting more taxes. These multiple interests, despite their conflict, are what led to the spread of creative accounting. The philosophy of the right of choice in accounting is among the alternatives to accounting recognition and measurement (What should be measured? - How to measure?) and presentation and disclosure (Which information to disclose? - How to present information?) provided by accounting standards, which affect the outputs of the accounting system in form or content (Kaminski, 2014).

This, in addition to the gaps in auditing standards, the need for future forecasts, the use of estimates and professional judgment, changes in accounting policies, differences in the timing of some financial transactions, and the classification of financial statements, are all factors that have given managers the opportunity to innovate accounting methods capable of maximizing corporate or personal benefits, or both, thus contributing to the spread of the phenomenon of creative accounting. (Shah, Butt, & Tariq, 2011); (Burgstahler & Eames, 2006); (Beneish, 2001); (Stolowy & G. Breton, 2000); (Healy & Wahlen, 1999); (Teoh, Welch, & Wong, 1998); (Schipper, 1989) argue that the main motivations for creative accounting practices can be summarized as: (1) public offerings, regulations, compensation, financial commitments, acquisitions, securities trading, and public offerings of shares; (2) minimizing political costs, the

cost of capital, and maximizing managers' wealth; and (3) meeting financial analysts' expectations.

(Shah, Butt, & Tariq, 2011) argue that the motivations for creative accounting practices include:

1. Meeting internal objectives and external expectations of stakeholders.
2. Income smoothly: To demonstrate a steady stream of income to impress investors and maintain stable stock prices.
- 3- Window dressing for an IPO or a loan through changes in accounting policies (earnings management) to increase income (Sweeney, 1994).
- 4- Taxation: Special tax benefits (earnings management) may be achieved if taxable income is measured using accounting figures.
- 5- Change of Management: Another important trend is for new managers to highlight losses resulting from the mismanagement of previous management through certain provisions. This trend was demonstrated by bank managers in the United States (Dahi, 1996).

From the above presentation, it becomes clear that the essence of innovative accounting practices is earnings management, the basis of which is aggressive accounting, and its most important forms are income smoothing and fraudulent financial reporting.

Therefore, (Modum, Ugwoke, ancial Onyeanu, Modebe, Kodjo, & Odoh, 2014); (Yadav, Brijesh; Kumar, Anil; Bhatia, Bunny Singh, 2014); (Shah, Butt, & Tariq, 2011); (Al Momani & Obeidat, 2013); (Salome, Ifeanyi, Marcel, & Echezonachi, 2012); (Mulford & Comiskey, 2002); Amat, Blake & Dowds, 1999) argue that earnings management includes two types: the first is real management of earnings, which affects cash flows, and the second is accrual management, which involves changes in accounting estimates and policies. This is the most common type and falls under the concept of creative accounting. The first type – real management – may involve fraud and violation of principles.

Accounting literature has primarily relied on the study of discretionary accruals to uncover earnings management in companies, because discretionary accruals constitute the difference between profits and cash flows (Scott & Pitman, 2005). Discretionary accruals do not involve falsifying the facts; rather, they represent another way to deal with apparent short-term earnings discrepancies by bringing profits into the year of need and paying expenses for them.

Aggressive accounting (a product of passive creative accounting), which is the basis of creative accounting, refers to the strong, deliberate selection and application of accounting principles to achieve desired results, such that profits are maximized whether accounting principles are followed (Yadav, 2013); (Shah, Butt, & Tariq, 2011); (Mulford & Comiskey, 2002).

While income smoothing is a form of creative accounting, it is designed to eliminate deviations from the natural profit cycle, including steps to reduce/save gains during good years for use in other years. Smoothed income is generated either naturally, resulting from the

company's operational activities, or artificially, resulting from management intervention aimed at stabilizing income growth.

Therefore, most studies (Yadav, 2013); (Shah, Butt, & Tariq, 2011); (Mulford & Comiskey, 2002) indicate that management can intervene in income smoothing in two ways: The first is real smoothing, which results from real business transactions and operational decisions that entail certain expenses or generate certain profits, and is implemented by management with the aim of reducing cash flow volatility.

The second is unreal smoothing, also called accounting smoothing or artificial smoothing, which results from manipulation of the reporting of earnings or expenses, postponing or accelerating their recognition between accounting periods without directly impacting cash flows.

In general, earnings management and income smoothing are often accomplished using several tools, including investment taxes, classification of extraordinary items on the income statement, dividends, securities gains and losses, pension funds, research and development expenses, advertising expenses, inventory, depreciation, and currency conversion.

Fraudulent financial reporting (accounting fraud) refers to intentional errors or omissions of amounts or disclosures designed to be fraudulent through administrative, civil, or criminal proceedings to deceive users of financial statements (Kaminski, 2014); (Yadav, 2013); (Shah, Butt, & Tariq, 2011); (Mulford & Comiskey, 2002). Fraudulent financial reporting arises from manipulation, forgery, or alteration of data or documents, embezzlement or misappropriation of assets, collusion or omission of entries to influence transactions in accounts or documents, the misrepresentation of transactions, and the incorrect application of accounting policies (Kaminski, 2014).

Therefore, (Gierusz & Martyniuk, 2007) believe that positive creative accounting leads to fair financial reporting, and that there is a relationship between utilitarian accounting (negative creative accounting) resulting from excessive gains within legal limits and leading to manipulation of the financial statement, while fraudulent financial reporting results from excessive legal and illegal gains, and utilitarian accounting.

Creative Accounting Techniques

It is worth noting, first, that (Kaminski, 2014); (Yadav, Brijesh; Kumar, Anil; Bhatia, Bunny Singh, 2014); (Yadav, 2013); (Shah, Butt, & Tariq, 2011); (Smith M. , 1998); (Naser, 1993); Lippe, 1990; (Griffiths, 1986); (Beidleman, 1973) all believe that the following creative accounting techniques clearly impact the income and financial position of companies:

1. Unusual and unexpected items, business combinations, and deferred acquisition considerations.

2. Exclusions from gains on the sale of assets and the deconsolidation of subsidiaries in anticipation of a sale.

3. Accounting for intangible assets (brands) and asset capitalization.

4- Off-balance sheet financial transactions and contingent liabilities

5- Changes in depreciation policy, capitalization of costs, and mismatch between borrowing costs and deposit interest.

6- Pension fund surplus used to reduce annual liabilities.

7- Convertibility of shares, installment sale options, and variable rate preferred stock.

(Shah, Butt, & Tariq, 2011) also argue that all creative accounting methods return to the basic accounting model (double-entry system) or the debit/credit rule, where the term debit is used to record expenses (or reduce revenues), and the term asset (or reduce liabilities or capital). Similarly, term credit is used to record revenues (or reduce expenses), and the term liability (or reduce assets). Therefore, the accounting treatment (as a debit or credit) ultimately affects income and financial position.

Therefore, a creative accountant can mischievously manipulate this basic rule to achieve the desired results. The demand for accountants from management or owners technically depends on manipulating these tools to achieve the desired results. An expense can be treated as an asset to improve book profits, or alternatively, the asset can be treated as an expense to reduce profits. Similarly, a revenue can be treated as a liability (through provisions) to reduce book profits, or a liability can be treated as revenue to increase book profits. This is done according to the whims of the accountant. There are professional tools that a creative accountant uses to achieve the desired results, including:

(1) Big Bath Charges (charging expenses over more than one year).

(2) Creative Acquisition Accounting (determining the purchase price) (IFRS 3).

(3) Cookie Jar Reserves (inflating accrued expenses in the event of high revenues or vice versa).

(4) Materiality.

(5) Revenue Recognition.

We conclude from the above presentation that there are many motives for creative accounting practices, including those related to expectations and evaluation of the financial market (Dechow, Saloan, & Sweeny, 1995); (Healy & Wahlen, 1999); (Sweeney, 1994), as well as administrative and organizational motives (Shah, Butt, & Tariq, 2011), and responding to analysts' expectations.

The Impact of Creative Accounting Practices on Financial Statements and Stakeholders

The practical application of creative accounting indicates management's use of numerous strategies, methods, and models that can influence accounting information and the decisions of its users. Changes in accounting policies and accounting estimates in accordance

with applicable accounting standards have contributed to the increase in these negative practices.

Therefore, researchers and academics (Holda & Micherda, 2007; Jachson, 2006; Merchant, 1994) have focused on studying this phenomenon, which arises from influencing the content of accounting information to align with the type of decisions management intends to make to achieve specific objectives. This is achieved through:

1. Manipulating revenues and expenses for the period with the intent of achieving the desired impact on reported income and distribution rates.
2. Manipulating revenues and expenses in compliance with accounting standards or principles (changes in accounting policies and estimates for the period).
3. Collusion (management fraud).

In addition to the above, Matis et al. (2012) described creative disclosure as occurring according to a complex mechanism that includes motivations for the task of manipulating accounting information, whether at the level of descriptive or numerical information, using the following strategies:

1. Using a creative accounting method that makes the text difficult to read.
2. Using persuasive language, including positive words and affirmations of positive financial performance.
3. Using a creative accounting method to visually manipulate the information presented, with a scope to attract attention to it over other items considered important, but at the same time without flattering financial performance.
4. Using comparative performance, which involves selecting a benchmark that best portrays current financial performance. This type of manipulation is known in accounting literature as "positive bias."

Based on the above, the practice of creative accounting has many effects on measuring income, financial position, cash flows, and subsequently equity, as is evident from the following presentation and analysis:

The Impact of Creative Accounting Practices on the Income Statement

The income statement is one of the financial statements most frequently used for creative accounting techniques. (Mulford & Comiskey, 2002) described it as the "premier playground for those engaged in the financial numbers game." It is important in showing profit or loss and is the product of working capital. It is also the most important from the perspective of investors, lenders, and perhaps the financial community.

Given that there is more than one method for classifying the income statement (single-step or multi-step), creative classification (Mulford & Comiskey, 2002) can be achieved through the following:

1. Moving income statement items into or out of operating income, resulting in either an increase or decrease in operating income.

2. Moving expenses from cost of sales to sales, general expenses, or administrative expenses, resulting in an increase in gross profit.

3- Transferring operations from discontinued operations to continuing operations when they are sold at a gain. When they are sold at a loss, they are classified as discontinued operations, resulting in higher levels of income than continuing operations.

Therefore, many researchers and practitioners (Mulford & Comiskey, 2002); Howard, 2002; (Naser, 1993) have focused on the impact of creative accounting practices on income measurement, particularly sales. Accordingly, the most important items and mechanisms, and their impact on income measurement, can be explained as follows:

Item	Mechanisms	Impact
Sales	- Premature recognition of revenue when merchandise is ordered but not shipped or merchandise is shipped but not ordered - Phantom sales - Recording the sale of assets or investment proceeds as operating income - Transferring current expenses/revenues to prior or subsequent periods - Inappropriate reduction of liabilities - Recognizing future expenses in the current period - Failure to comply with revenue recognition requirements under accounting standards.	Increase profits

Given that premature revenue recognition or fictitious revenue recognition leads to an overestimation of earning capacity, and fictitious revenue is often accompanied by elaborate cover-up activities, the U.S. Securities and Exchange Commission (SEC) has tightened the requirements for revenue recognition (Mulford & Comiskey, 2002) in the following situations:

1. Offering large discounts to encourage orders that are uneconomical from the buyer's perspective, resulting in unsustainable revenue recognition.

2. Side messages, sometimes used to surreptitiously negate the terms of the sale, are not recognized in such cases.

3. Identifying revenue subject to the right of restitution. Therefore, it is important to have the estimated amount of any restitution deducted from the reported revenue.

4. Revenue must be clearly disclosed to related parties, allowing the reader to form an opinion on the sustainability of the recognized revenue.

5. Very specific criteria must be met before revenue is recognized prior to shipment. Among these criteria is the stipulation that the transaction is a bill of sale and a contract and therefore must be arranged at the buyer's request.

6. Service fees cannot be recognized until the related services are rendered. Therefore, contracts that require a long period of time to complete a product or service must be accounted

for using the percentage-of-completion method. It is generally accepted that revenue is recognized as progress is made toward completion, while the completion method recognizes revenue upon completion.

7. Beyond income from continuing operations, the income statement presents items related to discontinued operations, unusual items, and the cumulative effects of accounting changes. These items are typically treated as non-recurring for analytical purposes and are routinely excluded from net income (limited flexibility). As a result, they play a minor role in the financial numbers game.

Therefore, (Mulford & Comiskey, 2002) conclude that there is some evidence that companies have used the subjective dimension in classifying unusual items and discontinued operations to shift gains and losses, whether within or outside income from continuing operations. Furthermore, combining recurring and non-recurring items within other revenues and expenses may obscure the presence of non-recurring items. Furthermore, the creative use of terminology in the income statement may create the impression that something bad is good. Furthermore, errors or mistakes may remain uncorrected if materiality is not applied correctly. This is confirmed by the (2004) study of (39) Spanish companies during the years (1999-2001), which included (20%) of the companies studied.

The Impact of Creative Accounting Practices on the Balance Sheet

(Mulford & Comiskey, 2002) indicate that assets and liabilities may be subject to errors that can alter the results and financial position of a company intent on playing the financial numbers game. Because of the direct link between financial position and income, errors in net income may lead to misleading errors in assets, liabilities, and shareholders' equity. This can occur due to the recognition of early or fictitious revenues, incorrect valuation of future receipts, or an overstatement of accounts receivable. Misleading errors may also occur due to an overstatement of the actual inventory count, an overstatement of actual inventory, or the postponement of write-offs of low-value, obsolete, or slow-moving items.

Therefore, (Cosmin, 2010) classifies the various methods used by managers to obtain the desired results in dealing with tangible assets (depreciation), goodwill (valuation-amortization) and depreciation (method), inventory (method), provisions for liabilities (increase-decrease), and construction contracts (method), which can be explained as follows:

Item	Mechanisms	Impact on Financial Position
Tangible Assets	Leaseback - Sale of Fixed Assets - Transfer of Fixed Assets to Current Location.	Improved Cash Flow
Tangible Assets and Shareholders' Equity	Revaluation of Tangible Assets.	Increase in Asset Value, Depreciation Expense, and Owner's Equity.

Minority Interest	Incorporation into Owner's Equity, Debt, or Between the Two Alternatives.	Change in Indebtedness and Owner's Equity
Loans	Defensive Arrangements by Transferring Assets to Other Parties, While Including Them and Managing Debt.	Reducing the Indebtedness Ratio - Increasing Financial Independence - Increasing Profitability.
Customer Claims	Discount on Order Orders - Assign Claims from a Group.	Reducing the Need for Working Capital - Increasing Cash - Slightly Decreasing Working Capital (from the Difference Between Price and Item Value).

(Mulford & Comiskey, 2002) add that creative accounting practices used in reporting investments in debt and equity may result from the way investments are classified as trading, held to maturity, or available for sale, in determining whether there is a continuous decline in market value, or in accounting for gains or losses realized from the sale. (Oliveras & Amat, 2003) study, which addressed some aspects and evidence of accounting practices when dealing with intangible assets in Spain, indicates that financial statements become relevant to the company's reality due to the increase or decrease of intangible assets. The study's results also indicated that this type of asset holds great importance and occupies a strategic position in corporate performance evaluation processes.

(Mulford & Comiskey, 2002) also confirms that reported operating expenses may lead to a reduction in accrued expenses. Furthermore, future earnings will be subject to higher-than-normal expense levels when accrued liabilities increase, or when payments are made to settle an unaccrued obligation. Accounts payable are typically linked to purchases and cost of goods sold, while contingent liabilities are due when they are likely to occur and their estimated amount is appropriate. Footnote disclosure is appropriate for these liabilities when these criteria are not met.

The Impact of Creative Accounting Practices on the Cash Flow Statement

Researchers, writers, and academics agree that manipulation of the income statement, followed by the balance sheet, is followed by manipulation of cash flows in general, and of operating cash flows, whether prepared directly or indirectly. Therefore, (Matis, Vladu, & Negrea, 2009) attempt to explain how cash is king, which is the primary reason for the impact of creative accounting on the profit and loss account and the balance sheet, but not the cash flow

statement, because it is much harder to manipulate. It is possible to raise or lower the value of cash, but it is impossible to contaminate it.

Therefore, it is not surprising that the scope of creative accounting here is quietly restricted, but not impossible. Therefore, managers have begun to look deeply into opportunities for cash flow hedging techniques. Therefore, (Matis, Vladu, & Negrea, 2009) argue that creative accounting techniques are applied when reporting cash flow hedging methods, and thus can affect future cash flows, but in specific ways. Cash flow hedging focuses on two main areas: the first: foreign exchange and interest rate management. To this extent, foreign currency hedging instruments are linked to interest rate increases. Among the simplest hedging instruments are forward agreements based on the foreign exchange rate.

According to International Accounting Standard (7), the amounts included in the cash flow statement (FASB, 2015) are the actual amounts paid or received. Therefore, payment/repayment rate data is used, and the exchange rate difference in this case is relevant in calculating the amounts paid or received. Unrealized foreign currency differences are not considered cash flows and are recovered from the statement of cash flows. On the other hand, cash flow hedging is intended to manage interest rate risk, so the interest rate at the time of exchange is always used. Therefore, (Matis, Vladu, & Negrea, 2009) see that based on basic research and discussion with experts in this field, the vast area of creative accounting related to cash flow has narrowed, as is evident from the following:

Areas	Cash Flow Creativity Methods
Lack of Honesty Regarding Accounts Payable	A company writes a check to a supplier when the "check is in the mail." This company tends to manipulate cash by not honestly reducing accounts payable, then crediting those amounts to operating cash flow as cash on hand. Related to this method is another way for a company to enhance its cash flow image by delaying the writing of checks to creditors.
Non-operating cash	Non-operating cash is typically money that has no business connection (such as money used in securities trading). Its purpose is to distort the true cash flow performance of the company's activities only. Therefore, it should be treated separately, as the goal is to distort operating cash flow.
Capitalization of Doubtful Expenses	Not all capital expenditures are questionable. Capitalization is questionable if the expenditures are normal production expenses, which are part of the company's operating cash flow performance. If normal operating expenses are capitalized, they are recorded not as normal production expenses but as negative cash flows from investing activities. While it is true that the sum of these figures—operating cash flow and investing cash flow—remains the same, thus enhancing operating cash flow for companies that reduce their expenses in a timely manner, companies engaging in this practice are

	generally merely juggling, shifting expenses from one column to another in order to appear as a company with strong operating cash flow.
Debt securitization (selling accounts receivable)	means a company receives less money than it would have collected from customers. In fact, there is no point in selling receivables just to expedite cash flow unless there is a cash problem or to cover negative operating cash flow performance. Therefore, securitizing debt distorts operating cash flow.

Based on the above, (Mulford & Comiskey, 2002) believes that a complete examination of creative accounting practices requires a careful study of the company's ability to generate cash, and that by examining creative accounting practices for cash flows, it became clear that the flexibility available in reporting earnings is higher than the flexibility available in reporting operating, investment, and financing flows without changing the total change in cash, and that the indirect method is used more frequently than the direct method in preparing the operating cash flow statement.

The Impact of Creative Accounting Practices on Stakeholders

Researchers agree that conflicts of interest between different interest groups are the true cause of creative accounting. The recognition of the phenomenon of creative accounting is widely accepted, but there is controversy surrounding the motivations behind this phenomenon, which has led to confusion over what can be considered a motivation, a performance, or a practice. There is also consensus among researchers regarding the effects of creative accounting (Yadav, Brijesh; Kumar, Anil; Bhatia, Bunny Singh, 2014); (Yadav, 2013); (Shah, Butt, & Tariq, 2011); (Moldovan, S.A., & Avram, 2010); (Elisabeta & Beatrice, 2010); Feleaga, 2006; Soloway & Breton, 2004; (Mulford & Comiskey, 2002) on the firm and stakeholders.

(Elisabeta & Beatrice, 2010), also pointed out that agency theory in the field of creative accounting is linked to conflicts of interest among users of accounting information, and emphasizes (Feleaga, 2006) Based on the previous point, stakeholders can be divided into two active categories. The first is shareholders, who receive their rights after creditors, suppliers, employees, etc., and who bear the risks of profit and company closure. The second is the company's leadership, who possess confidential information that is exploited to achieve their own benefits (Yadav, Brijesh; Kumar, Anil; Bhatia, Bunny Singh, 2014); (Yadav, 2013); (Mulford & Comiskey, 2002). The most important of these are:

- 1- Influencing share value: leading to a higher share price, reduced share price volatility, increased company value, lower cost of equity capital, and increased value of stock options.
- 2- Influencing the cost of borrowing: leading to improved credit ratings, lower borrowing costs, and less stringent debt procedures.

3- Influencing management performance evaluation: by increasing bonuses based on earnings/share price.

4- Influencing political costs: reducing legal costs and avoiding tax increases.

In this context, the focus was on (Moldovan, S.A., & Avram, 2010) sought to answer the question of how accounting information affects external users, primarily how and why do external users receive distorted information? Researchers found an inverse relationship between the accuracy and fairness of financial statements and creative accounting. This means that the correct and fair perspective cannot be easily determined and is the responsibility of company management and auditors. Furthermore, choosing between different methods has provided an opportunity for more creative accounting practices, which relieve good intentions.

If good intentions are used, they lead to the accuracy and fairness of accounting information. (Shah, Butt, & Tariq, 2011) also sought to answer the reasons why managers use creative accounting and how they successfully practice it considering strict rules and procedures. They also sought to discover whether creative accounting practices are good or cause a crisis for the company, linking them to governance, the audit committee, and external audit. They concluded that creative accounting practices cause collapse, citing Enron. Furthermore, the debtor-creditor principle also has a role. International accounting standards and American accounting principles also play a role in creating creative accounting, as they allow managers to choose accounting methods for recognition and measurement that increase or decrease the profits they need.

(Healy & Wahlen, 1999) explored how accounting standard setters might be able to reduce creative accounting practices, while managers manipulate financial figures to achieve their personal interests and increase management compensation, while providing lower salaries to employees and paying small dividends to shareholders.

In general, (Yadav, Brijesh; Kumar, Anil; Bhatia, Bunny Singh, 2014); (Yadav, 2013); (Stolowy, H.; Breton, G., 2004) believe that the potential gains and losses for the company and its stakeholders are as follows:

Category	Gains	Losses
Managers	Reducing the cost of capital. - Maintaining their jobs. - Managing their bonuses. - Honoring debt covenants. - Formal scrutiny. - Reducing income tax. - Obtaining tax benefits. - Improving relations with creditors, employees, and investors. - Avoiding political costs.	. Job and reputation
Existing shareholders	Increasing the market value of shares. - Controlling employee claims.	Transferring wealth to the rightful shareholders.

and bondholders		
Employees	- Maintaining jobs - Increasing bonuses.	Job because of unexpected bankruptcy.
Suppliers	Maintaining customers.	Some money because of unexpected bankruptcy.
Customers	- Continuing services - Honoring guarantees.	Services interrupted - Failure to honor guarantees.
State	- Collecting taxes - Jobs for people.	No increase in tax revenues - Unemployment.
Banks	Repaying loans	Some money because of unexpected bankruptcy.
Society	- Maintaining jobs - Productive wealth.	Job loss - Loss of resources.

Analyzing the Position of Audit Researchers on Creative Accounting Practices

Securities Exchange Commission (SEC) documents indicate that in many cases, when creative accounting practices become prevalent within a company, senior managers spend a significant amount of time finding ways to perpetuate the practices. Since outsiders are unable to observe the day-to-day activities of managers, auditors, financial analysts, and investors should carefully monitor any warning signs that indicate the presence of creative accounting practices. Among the most important of these warning signs are the following (Magrath and Weld 2002):

1. Cash flows not related to profits and customer accounts not related to revenues.
2. Allowances for doubtful debts not related to customer accounts.
- 3- Reserves that are not related to balance sheet items, doubtful acquisition reserves, and earnings that consistently and accurately match financial analysts' expectations.

(Shah, Butt, & Tariq, 2011) also point out that governance plays a role in reducing the risks of creative accounting practices and presenting a true and fair picture of financial reports. Some of the choices in current accounting rules, according to American and international accounting standards, allow managers to choose specific methods for recognizing and measuring various items in financial reports.

Therefore, there must be an independent review of financial reports to reduce information risk and improve integrity. (Shah, Butt, & Tariq, 2011) also argue that an audit committee composed of non-executive members can play an important role in preventing the misuse of creative accounting techniques and observing ethical standards when preparing and reviewing financial reports.

(Yadav, 2013) also argues that governance can play a significant role in improving financial reports and increasing their credibility for investors. He emphasized the role of

investors in making decisions about whether to invest in a company, the importance of the role of independent auditors and their ethics in reviewing company transactions and providing good and accurate information to shareholders and stakeholders (banks), as they can operate without pressure from management. He also emphasized the importance of management's respect for its officials toward the company and consumers, and consistency in choosing accounting policies.

Therefore, (Yadav, 2013) proposes to reduce the impact of creative accounting (fraud and accounting creativity), establishing a robust accounting and auditing system, and more effective governance, through:

- (1) introducing forensic accounting to circumvent white-collar fraud and prevent and detect fraud.
- (2) limiting alternative treatment options in accounting standards.
- (3) amending the Companies Act, enhancing the quality of corporate governance, imposing strong oversight systems, and increasing audit effectiveness.

Despite the proposals, (Yadav, 2013) emphasizes the difficulty of reducing the impact of creative accounting practices, stating:

"Ultimately, we can say that it is not possible to reduce the impact of creative accounting completely due to the involvement of managers and auditors and the slow work of regularities bodies"

(Rabin, 2005) also attempted to describe auditors' attitudes and views toward creative accounting and their ethical behavior in South Africa. He explained that ethical judgment is essential for auditors in forming an opinion about whether the financial statements fairly present the financial position because of a company's operations and cash flows. This differs from compliance with GAAP, and that monitoring management's manipulation of accounting information is a difficult process due to the timing of restructuring transactions. There are three dimensions to auditors' assessment of the quality of financial reporting content, including comprehensibility, relevance, and reliability. These include:

First, the impact of ethical codes on professional practice when evaluating creative accounting practices.

Second, determining whether relevance and reliability are more important than comprehensibility when evaluating the quality of accounting information.

Third, challenging the extent to which understanding management's objectives is achieved by analyzing maximum rewards, governance deficiencies, and factors influencing management's use of creative accounting.

Whatever the case, (Rabin, 2005) believes that auditors' attitudes toward creative accounting are not related to the presence of these factors. The research model demonstrated a negative relationship between experience and auditors' attitudes toward creative accounting,

considering that the more experienced the auditor, the less likely they are to approve of creative accounting practices.

(Balaciu, Bogdam, & Vladu, 2009) also examined the topics of creative accounting and their development to determine the motivations for creative accounting in the accounting literature and how to define this term. They therefore believed that accounting research links creative accounting with areas such as bankruptcy, auditing, governance, financial markets, the public sector, and financial reporting quality to prevent creative accounting practices. (Gherai & Balaciu, 2011) also cited examples of accounting scandals that left a lasting impact on history, such as Enron, Paramount, WorldCom, Xerox, Ahold Royal, and Al-Adil, which ended in bankruptcy.

They argued that Enron and WorldCom, which collapsed in 2002, used creative accounting techniques to manipulate accounts, leading the financial community to lose confidence in financial reporting, audit reports, and the regulations governing the accounting profession. (Gherai & Balaciu, 2011) therefore believe that improving old rules and establishing new ones is supported by all countries affected by the bankruptcy crisis. Thus, the Sarbanes-Oxley Act of 2002 is one of the most important reforms with global repercussions, establishing standards for foreign trading companies listed on the U.S. stock market.

This has led many countries, such as New Zealand and Australia, to implement corporate governance rules. Researchers (Gherai & Balaciu, 2011) have found that there are differences in the method of depreciation, estimating the productive life of assets, and the residual value that lead to fluctuating profits, and that company managers have a major role in the fluctuation of profits that leads companies to a financial crisis after showing profits and growth at the beginning of the year and then collapse at the end, such as Enron, where net income in 1998 amounted to 4.045 million dollars, in 1999 5.338 million dollars, and in 2000 7.232 million dollars, then collapsed in 2001.

Therefore, (Gherai & Balaciu, 2011) see that to exclude creative accounting from the financial statements, auditors play a major role in presenting a correct and fair picture of financial reports, noting that it is not possible to eliminate creative accounting practices completely.

Therefore, a study (Desai et al., 2003) examined reputational penalties for managers who engage in accounting manipulation in the United States through creative accounting practices. The study concluded that penalties should be imposed on managers who deviate from generally accepted accounting principles (GAAP), with the aim of depriving them of future job opportunities and casting doubt on the financial statements issued by the companies for which they work.

A study (Vladus & Matis, 2010) also examined the relationship between creative accounting and governance in the context of management's internal demand for profits and

manipulative behavior, which stems from the fundamental principle of the value of the contractual agency relationship (manager/shareholder). The study concluded that weak governance causes manipulation in accounting practices, and that accounting information about the company's profitability is more available to management, the board of directors, and the CFO than to shareholders and other users.

The study also confirmed that there are five theories that provide theoretical underpinnings for researching opportunistic behavior in the field of governance, including (agency theory, legitimacy theory, Institutionalism, signaling theory, and stakeholder theory combined to describe different aspects of opportunistic management behavior.

Thus, a study by (Teodora & Nicolae, 2009) examined a sample of 110 accounting practitioners to determine the level of compliance with professional ethical standards. Based on the survey results, it was found that they disagreed that accounting creativity or innovation was a form of fraud. They also believed that creativity/innovation in financial accounting reflects quality performance. The results also indicated why companies use creativity and innovation. It became clear that they seek to obtain additional financial resources and avoid legislative ambiguities. The survey results also indicated why companies do not use creativity and innovation. The answers were precision, fear, the presence of internal and external auditors, and stakeholders.

However, (Smith M. , 1998) classified accounting firms (22 audit firms) according to their audit methodologies as "structured," "medium-structured," and unstructured. At the time, the eight accounting firms dominated the world. Major, and using US data, the study concluded that the number of changes in accounting income increase policy in structured audit firms is significantly higher than in unstructured audit firms.

In addition to the above, (Popescu & Nişulescu, 2013) proposed a method for auditors to detect creative accounting practices based on analytical procedures. These procedures include examining accounting records, comparing the accounting policies used in the current fiscal year with previous years, and with the accounting policies and methods used by competitors, analyzing auditors' opinions and reservations in audit reports, current and past unusual results, analyzing the evolution of debtors' turnover and inventory turnover, analyzing related party transactions, and analyzing movements in the reserve account.

From the above presentation, we conclude the following facts:

First: There is recognition of creative accounting practices in companies, and their diverse methods and strong motivations. They have an impact on income, financial position, cash flows, and shareholders' equity, thus representing an ongoing challenge for the accounting and auditing profession.

Second: Some researchers agree that creative accounting is not fraud, but a tool of accounting manipulation. It takes advantage of loopholes in accounting standards and

regulations (methods of depreciation and estimating the productive life of assets, options for recognizing revenue and recognizing losses, and inventory valuation methods). It also operates within the framework of the law (Kaminski, 2014); (Yadav, 2013), Balaciu, Bogdan & Vladu, 2009; (Stolowy, H.; Breton, G., 2004).

Third: Creative accounting practices bring benefits to the company in the short term, but they can lead to serious problems in the long term (Clikeman, 2003), the most important of which are [-reducing the value of the enterprise - eroding ethical standards - concealing operational management problems - economic sanctions - restating financial statements].

Fourth: Creative accounting practices are affected by several internal factors, including unexpected financial results, the desire to obtain external financing and loans, weak control over the company resulting from weak management, the ethics of managers and the administrative system used, the concentration of powers in the hands of specific individuals, and the ownership structure of the company (sole proprietorship or institutional ownership).

Fifth: Creative accounting practices are affected by important areas, including bankruptcy, external auditing, internal auditing, governance, capital markets, financial reporting, the state of the economy, and the expectations of financial analysts.

Sixth: There are two different models through which companies are financed, both of which impact accounting earnings and are linked to the corporate governance model. The first model is the Anglo-American Accounting Model, where the corporate governance model is the shareholder model. Under this model, the capital market plays a major role in corporate finance, and significant consequences are placed on the information available to shareholders due to companies' control over equity.

There is a significant separation between managers and owners, as well as strong consequences for the information and mechanisms used for accounting manipulation. The second model is the Euro-continental Accounting Model, where the governance model is reflected in the stakeholder model. Under this model, there is a strong focus on the information presented to creditors (e.g., banks). Lambert & Sponem (2005), in their study of a sample of 13 companies in France, found that the first governance model encourages creative accounting practices.

Analyzing the Position of Professional Organizations on Creative Accounting Practices

It is worth noting, first, that auditors' attitudes toward creative accounting practices depend on the nature of the method used and management's position on those practices.

As a result of the downfall of prominent companies worldwide, the auditing profession has been subjected to much criticism, beginning with what is known as the phenomenon of "quality expectations," represented by the financial community's expectations of auditors, particularly regarding fraud. To put an end to this phenomenon, the year 1988 witnessed the largest development of American and international auditing standards statements. Given that the

primary driver of creative accounting practices is American companies, based on the above, we address the role of the American Institute of Certified Public Accountants (AICPA) and the role of the International Federation of Accountants (IFAC), as follows:

The American Institute of Certified Public Accountants and Creative Accounting Practices

It is worth noting that the AICPA has issued several auditing standards statements related to fraud, including Statement 30/1960, which was replaced by Statement 16/1977. As a result of the auditing expectations gap that arose at the end of the second millennium, the previous statement was abolished and replaced by Statement 53/1988. As a result of the financial crises that swept the American economy at the beginning of the third millennium, and the emergence of what are known as creative accounting practices, it can be said that the phenomenon of fraud was addressed in three stages:

The first stage: The emergence of the expectations gap: The American Institute of Public Accountants - Auditing Standards Board issued Statement of Auditing Standards 53/1988 (AICPA, ASB, 1988), which stipulates that the auditor should assess the risks of the possibility of errors or irregularities that could lead to the preparation of misleading financial statements. In light of this, an audit program must be designed to provide reasonable assurance of detecting material errors and irregularities in the financial statements, while exercising adequate professional care when planning the audit assignment, exercising professional skepticism, and examining the impact of both the internal control structure and risk factors that help assess audit risk at the level of the financial statements as a whole.

Phase Two: Before the Enron Event: The American Institute of Public Accountants - Auditing Standards Board (AICPA, ASB, 1997) issued a preliminary version entitled "Considering Fraud in an Audit of Financial Statements," which included guidance on assessing the risk of fraud when performing an audit. This was followed by the issuance of Statement of Auditing Standards 82/1997, which subsequently abolished Statement of Auditing Standards (53). The new standard stipulated that the auditor must plan and perform the audit to provide reasonable assurance that the financial statements are free from fraud and management misrepresentation.

Phase Three: After the Enron Event: In September 2002, the American Institute of Public Accountants - Auditing Standards Board (AICPA, ASB, 2002) issued Statement of Auditing Standards (99) to replace Statement of Auditing Standards (82), with the aim of providing guidance to auditors in fulfilling their responsibilities related to fraud.

The Auditing Standards Board believes that Statement (99)¹ will lead to a fundamental change in audit performance, and thus improve the auditor's likelihood of detecting material

¹ - The auditor is required to perform specified procedures aimed at identifying factors which may be indicative of the existence of fraud even when an initial evaluation by the auditor does not identify the company as having a high risk of fraud.

misstatements arising from fraud when auditing financial statements, through increased focus on professional skepticism when studying risk factors, conducting extensive discussions among members of the audit team, extensive inquiries from management and other parties within the company, a wide range of information, reorganizing and modifying risk factor models in accordance with Statement (99), and an expanded focus on potential risks arising from revenue recognition, and evaluating the entity's response to identified risks. Issue (99) also indicated that committing manipulation is subject to three conditions or determinants, which are incentive or motive, opportunity and justifications.

The International Federation of Accountants and Creative Accounting Practices

The International Auditing and Assurance Standards Board (IFAC, IAPC, 1997) repealed Standard 11/1983 and replaced it with Standard 240/1996 (Error and Fraud). Perhaps the most important aspect of the standard was that the responsibility for the prevention and detection of fraud and error rests with management through the implementation and continued operation of adequate accounting and internal control systems. These systems reduce, but do not eliminate, the possibility of error and fraud, as is evident in the following paragraph:

"The responsibility for the prevention and detection of fraud and error rests with management through the implementation and continued operation of adequate accounting and internal control systems. Such systems reduce but do not eliminate the possibility of fraud and error".

While the auditor is not and cannot be held responsible for preventing fraud and error, the fact that the annual audit may be a hindrance to this is evident in the following paragraph:

"The auditor is not and cannot be held responsible for the prevention of fraud and error. The fact that an annual audit is carried out may, however, act as a deterrent".

The standard also indicates that the auditor is responsible for not detecting fraud if the auditor fails to adhere to the basic principles governing the audit process using professional skepticism and recognizing circumstances or events that might lead to the discovery of indicators of existing error or fraud. These questions include, most importantly, [the integrity and competence of management, unusual pressures within the entity, and unusual operations]. The standard also granted the auditor, as part of his responsibility to society, to inform the legislative authorities after seeking legal advice.

As a result of the financial crises, International Standard on Auditing (240) went through three stages of development:

The first stage: After the Enron bankruptcy, the International Auditing and Assurance Standards Board (IASB) introduced new amendments to IASB (240) on June 30, 2002, which included an explanation of the characteristics of fraudulent financial reporting, which are represented by deception, such as manipulation, forgery, or alteration of the accounting records or supporting documents from which the financial statements were prepared; the misrepresentation of financial statements; the intentional omission of events, transactions, or

other essential information; and the intentional misapplication of accounting principles related to measurement, recognition, classification, presentation, or disclosure (IFAC, 1AASB, 2003, Para. 6).

The Board also identified the primary responsibility of those charged with oversight, in preventing and detecting error and fraud, and the auditor's responsibilities, as he does not bear the responsibility for preventing fraud or errors and cannot be explaining this. With the inherited limitations of the review process.

The Board also identified the primary responsibility of those charged with oversight, namely, preventing and detecting errors and fraud. The auditor's responsibilities include not and cannot be responsible for preventing fraud or error, citing inherent limitations of the audit process.

Therefore, the Board emphasized the need for the auditor to use professional skepticism as an audit approach, consider discussing with other members of the audit team the possibility of material misstatements in the entity's financial statements resulting from fraud or error when planning, and conduct inquiries of management to gain an understanding of management's assessment of the risk that the financial statements may be materially misstated as a result of fraud. It also emphasized whether management is aware of any fraud that has affected the entity or of suspected fraud and is investigating it. And assessing audit risk.

The auditor's responsibility has also been expanded to include assessing misstatements if the circumstances indicate a potential misstatement, considering whether the identified misstatement may be evidence of fraud, documenting the fraud risk factors identified during the assessment process and their response to any such factors, as well as obtaining representations from management that they have disclosed all significant facts related to the existence of any fraud or suspicion of fraud of which management is aware and which may have affected the company, and the results of their risk assessment that the financial statements may have been materially misstated as a result of fraud.

Standard (240) also includes indicators of fraud risk factors related to misstatements resulting from fraudulent financial reporting, which are represented in three categories, including management characteristics and their impact on the control environment, the most important of which is the direction of their earnings through unusual accounting practices. In addition to indicators of industry conditions, operational characteristics, and financial stability, indicators of fraud factors related to misstatement resulting from misappropriation, represented in two categories: the susceptibility of assets to misappropriation and control systems, and a list of indicators indicating the possibility of fraud or error, as well as general and specific procedures for auditor response and feedback, in an explicit reference to creative accounting practices.

The second stage: The bankruptcy of global companies after Enron: In October 2002, the Professional Accountants in Business Committee (PAIB) asked the International Federation of Accountants (IFAC) about the reasons for the collapse of global companies in the US (Enron-Xerox-WorldCom-Southwest Airlines), in the UK (Cable & Wireless-Marconi-Tesco), in France (France Telecom-Vivendi), Italy (D Tripovich-Unicredit), the Netherlands (Ahold), Hong Kong (Li & Fung Ltd) and Thailand (Bangkok Mass Transit System).

The PAIB formed a subcommittee that included representatives from five countries: France, Hong Kong, Italy, the United Kingdom and the United States, to study the previous cases. The committee explained in its report that four companies used creative accounting practices: (Enron-Xerox-WorldCom, the American, and Ahold, the Dutch), in addition to other factors related to governance, strategic, ethical and accounting factors (IFAC, PAIB, 2004).

The International Federation of Accountants also formed a special committee (IFAC, 2003) to investigate the causes of the loss of confidence in financial reporting and to propose solutions. In July 2003, the committee issued the IFAC report, "Rebuilding Public Confidence in Financial Reporting."

The committee made several recommendations, the most important of which was that auditing standards, systems, and accounting and reporting practices need to be strengthened, and that the systems issued by the standards need to be raised. Regarding fraud, the committee indicated that this area has been recognized as one of the most difficult considerations for many years, as illustrated by the following statement:

"Auditors claim that they perform the work required by professional standards while users of financial information see cases of fraud and quickly assume that, as the auditors did not prevent or find the fraud, the audit was a failure and that professional standards must be inappropriate".

Based on the above, the committee recommended in July 2003 that the Auditing and Assurance Standards Board We recommend that the IAASB issue a revised standard on fraud as soon as possible; the firms should adopt the additional requirements promptly.

Accordingly, the International Auditing and Assurance Standards Board (IAASB), effective from December 15, 2004, amended International Standard on Auditing (ISA) (240). The standard indicated that fraudulent financial reporting may result from management's efforts to manage earnings to deceive users of financial statements by influencing their understanding of the entity's performance and profitability.

Therefore, the Board emphasized the responsibility of those charged with oversight and management, when exercising their oversight responsibilities, to consider the possibility of management overriding control systems or inappropriately influencing the financial reporting process.

The Board also required the auditor, during discussions among engagement team members, to assess, in addition to several other matters, the circumstances that might indicate

that creative accounting practices employed by management to manage earnings could lead to fraudulent financial reporting; and to consider the known external and internal factors affecting the entity that might create incentives or pressures for management and others to commit fraud (IFAC, IAASB, 2025, 823-88). The International Auditing and Assurance Standards Board (IAASB) also calls on auditors to identify and assess fraud risk factors and unusual or unexpected relationships, including analytical procedures and a review of interim financial information, and to identify and assess the risks of material misstatement due to fraud.

However, it is noted that the IAASB has focused on fraud risks related to revenue recognition, evaluating management's selection and application of significant accounting policies, accounting estimates, and significant transactions that are considered outside the entity's normal course of business or pressure to achieve earnings expectations, and that otherwise appear unusual, potentially indicating fraudulent financial reporting resulting from management's efforts to use creative accounting practices. Phase Three: The Global Economic Crisis (Subprime Mortgage Crisis): The Group of Twenty made several recommendations, including Recommendation (1), which calls for strengthening transparency and accountability in the context of financial information audits.

This recommendation was based on a report issued in April 2008 by the (Financial, 2008) (FSF). Accordingly, the International Auditing and Assurance Standards Board (IAASB) developed a draft clarification of International Standards on Auditing (ISAs), effective from December 15, 2009, and up until now.

ISA (240) has been amended in form, but in substance, emphasis has been placed on management and those charged with governance regarding creative accounting practices, the establishment of a presumption regarding significant fraud risk for revenue recognition, and testing of journal entries in cases of inconsistency. The International Auditing and Assurance Standards Board (IAASB) has clarified and formulated a new definition of fraud that tends to increase the number of key players. It refers to an intentional act by one or more members of management, those charged with governance, employees, or third parties, involving the use of deception to obtain an unfair or unlawful advantage.

It also defined fraud risk factors as events or circumstances that indicate a motive or pressure to commit fraud or an opportunity to commit fraud, and attached examples (IFAC IAASB, 2025).

The IAASB also indicated that the primary objectives of the amendments (IFAC, IAASB, 2025) are:

1. Enhancing the auditor's understanding of nature and characteristics of fraud and the circumstances that may lead to fraud.
2. Improving the auditors' understanding of their responsibilities regarding fraud in an audit of financial statements.

3- Emphasizing the importance of professional skepticism and ensuring that fraud is explicitly considered when identifying, assessing, and responding to risks of material misstatement.

4- Establishing specific procedures in all audit engagements to enhance the auditor's ability to identify risks of material misstatement due to fraud, while recognizing the possibility of overriding the internal control department.

Based on the above, we conclude the following:

First, international professional organizations have emphasized that the responsibility for preventing creative accounting practices (fraud without embezzlement, manipulation, misrepresentation) or earnings management falls on management, those charged with governance, the board of directors, and all employees of companies. These stakeholders have been emphasized in their efforts to prevent this (IFAC, IAASB, 2025).

Second, the auditor's role in detecting creative accounting practices has been expanded by assessing four important areas, including (revenue recognition, changes in accounting policies, changes in accounting estimates, and unusual items).

Third: The developments in the American Auditing Statement (99) issued in 2002 are like the International Standard on Auditing (240) amended in 2004. The latest amendment to International Standard (240), in 2009, is nothing but a re-presentation (organization) of the amended standard (2004). Within the framework of the clarification project of the International Auditing and Assurance Standards Board, Standard 240 witnessed a new development (IFAC, 2025), represented by expanding the scope of parties concerned with fraud only.

Current Developments in International Auditing Standards to Curb Creative Accounting Practices

The period from 2013 to 2025 witnessed the interest of many organizations (OECD), bodies (IOSCO-SEC), institutes (IMA-IIA-FEI), associations and federations (IFAC), and global professional councils in the UK (FRC), Canada (AASB), and the US (ASB-AAA), as well as the International Accounting Standards Board (IASB), the International Auditing and Assurance Standards Board (IAASB), the International Ethics Standards Board (IESB), and the Public Company Accounting Oversight Board (PCAOB) (SAS-ISAs-CASs), as well as the Institute of Internal Auditors (IIA), the Chartered Global Management Accountant (CGMA), and the World Congress of Accountants.

These organizations have also focused on combating creative accounting, both at the level of accounting standards (FAS-IFRSs) and auditing standards. Below, we discuss the role of some international organizations in developing auditing standards to curb creative accounting.

The Role of the Oversight Board Public Company Accounting

From August 8, 2013, to September 22, 2014, the Journal of Accountancy published a series of articles on the PCAOB's trends (Tysiac, 2013); (Tysiac, Ken, 2013a); (Tysiac, Ken, 2014); (Tysiac, Ken, 2014a); (Tysiac, Ken, 2014b). These articles addressed the PCAOB's proposal for a new auditor's report format, the continued focus on internal control over financial statements, the PCAOB's approval of new related party audit requirements, the PCAOB's warning to auditors regarding the focus on revenue, and the auditors' continued responsibility to assess going concern under PCAOB rules.

On December 5, 2014, the Journal of Accountancy also published an article titled "7 Risk Areas for the 2014 Audit Cycle" (Amato, 2014). Amato noted that revenue recognition, Internal control over financial statements and professional prudence are among the seven key areas for auditor consideration in 2014, according to the cautionary guidance issued by the Center for Audit Quality (CAQ). The Center for Audit Quality (CAQ) of the Public Company Accounting Oversight Board (PCAOB) (CAQ, 2014; PCAOB, 2014; PCAOB, 2014a) stated the following:

"When considering these audit areas, auditors should also consider the elements of Public Company Accounting Oversight Board (PCAOB) Auditing Standard No. 12, Identifying and Assessing Risks of Material Misstatement (AS 12), and Auditing Standard No. 13, The Auditor's Responses to the Risks of Material Misstatement (AS 13), as auditing issues identified in these areas may also be indicative of misapplication of these risk assessment standards."

The (Center for Audit Quality (CAQ), 2014) of the American Institute of CPAs, the above-mentioned cautionary guidance issued by the PCAOB covers audit considerations related to (1) Revenue recognition, (2) Going concern, (3) Internal control over financial statements, (4) Review of accounting estimates including fair value measurements, (5) Engagement quality review, (6) Professional caution, (7) Significant unusual related party transactions. There is no doubt that these methods are the most important management tools used in applying creative accounting practices. For the purposes of the current study, the following is a presentation and analysis of the three most important issues related to creative accounting practices: (AICPA, CAQ, 2015):

First Issue: Revenue Recognition: The AICPA and CAQ indicate that revenue is typically a significant expense and often involves significant risks, and therefore a special review is required. In addition to the American Accounting Standards Board and the International Accounting Standards Board agreeing to issue a new international accounting standard on revenue recognition, audit procedures are likely to continue to evolve under the new accounting standard. Furthermore, although the new accounting standard is not yet effective, the auditor must evaluate the required disclosure from management regarding the potential impact of the new standard on the financial statements, including evaluating the form, arrangement, and content of disclosure. The auditor must obtain a high level of convincing

audit evidence when assessing risk, and consider the types, likelihood, and magnitude of potential errors that arise from identified risks.

In addition, the auditor must design tests of revenue controls to obtain sufficient evidence to support their assessment of control risk when relying on internal control when auditing the financial statements. The auditor must also design the required audit tests to simulate the achievement of the objectives for both the financial statement audit and the review of internal control over the financial statements upon completion of the audit.

Second issue: Reviewing accounting estimates: (AICPA, CAQ) indicates that when reviewing accounting estimates, including fair value measurements, the auditor is responsible for evaluating how the accounting estimates have evolved, assessing their reasonableness in the circumstances, and assessing whether they are presented and disclosed in accordance with applicable accounting principles. If the auditor believes that internal control over the financial statements can be relied upon, he is responsible for testing the adequacy of internal control related to significant estimates and evaluating and testing management's control over accounting estimates.

Third Issue: Significant Unusual Related Party Transactions: The AICPA, CAQ indicate that in 2014, the PCAOB and SEC agreed to amend PCAOB Auditing Standard 18 on Related Parties to strengthen auditor performance requirements in three important areas, including (1) related party transactions, (2) unusual transactions, and (3) the company's financial transactions and relationships with executives. Accordingly, the auditor must design special procedures for these three areas, coupled with risk assessment procedures, in addition to considering communication with the audit committee when evaluating the identification, accounting, and disclosure of related party transactions and relationships, and assessing whether significant unusual transactions result in fraudulent financial reporting or misuse of assets, and designing high-level procedures to identify incentives or pressures that lead to achieving a specific financial position or operating results, as executives play a major role in the company's accounting decisions or financial reporting, on the one hand.

The Role of the International Auditing and Assurance Standards Board

From September 2015 to September 2025, the International Auditing and Assurance Standards Board (IAASB, 2025) amended and issued the final revision to the Auditing Standards (ISA No. 260-570-700-705-706), in addition to issuing "Communicating Key Audit Matters in the Independent Auditors' Report" (ISA No. 701). The amendments emphasized audit procedures to mitigate management's creative accounting practices related to fraud and going concern, materiality and its levels, as well as communication with those charged with governance.

They also developed the form and content of the unqualified auditor's report, modifications to the auditor's report resulting from a qualified opinion, adverse opinion, or

disclaimer opinion, and confirmation paragraphs and other paragraphs. The following is a presentation and analysis of the most important issues addressed by the amendments related to creative accounting practices that require communication (IFAC, IAASB, 2025):

First Issue: Accounting Policies: Communication includes the appropriateness of policies. Accounting for the company's specific circumstances, considering the need to balance the cost of providing information with the potential benefits to users of the company's financial statements. Where acceptable alternative accounting policies exist, communications may include identifying the financial statement items affected by the choice of significant accounting policies, as well as information about the accounting policies followed by similar companies, considering the initial choice and changes in significant accounting policies, including the application of new accounting pronouncements.

Communication may include the effect of the timing and method of adopting a change in accounting policy on the company's current and future earnings, the timing of a change in accounting policies in relation to the anticipation of new accounting pronouncements, the effect of significant accounting policies in controversial or emerging areas (or those unique to an industry), particularly where there is no authoritative guidance or consensus, and the effect of the timing of transactions in relation to the period for which they are recorded.

Second Issue: Accounting Estimates: Communications include how management identifies transactions, events, and conditions that may require accounting estimates to be recognized or disclosed in the financial statements; changes in circumstances that may result in new or revised accounting estimates; whether management's decision to recognize or not recognize accounting estimates in the financial statements is in accordance with the applicable financial reporting framework; whether there has been a change in accounting estimate methods from the prior period, and why; the consequences of accounting estimates in prior periods; and management's procedures for making accounting estimates, especially if the specific measurement basis for accounting estimates is in accordance with the applicable financial reporting framework. In addition, the risks of material misstatement and potential indicators of management bias are also addressed.

Third Issue: Financial Statement Disclosure: Communications include issues related to revenue recognition, continuity, wages, subsequent events, contingent liabilities, and impartiality, consistency, and clarity of disclosure in the financial statements.

Fourth Issue: Unusual Transactions: Communications include the potential impact of significant risks (outstanding issues and uncertainties) on the financial statements, the extent to which significant transactions that fall outside the company's normal course of business or are unusual, and factors affecting the values of assets and liabilities, including the company's basis for determining the useful lives of tangible and intangible assets. Communications may explain how factors affecting book values were considered, how alternatives that would affect the

financial statements were selected, and correcting misstatements with the effect of increasing reported earnings, but not those with the effect of decreasing reported earnings. In addition to the above, the auditor's report has witnessed relevant amendments to limit management's practices of creative accounting in terms of form and content.

The report has been divided into two sections. The first section deals with the report on the audit of the financial statements, and the second section deals with the report on legal and regulatory requirements. The first section includes five paragraphs: the first paragraph is the opinion, the second is the basis for the opinion, the third is the key audit matters, the fourth is the responsibilities of management and those charged with governance for the financial statements, and the fifth is the auditor's responsibilities. The auditor's responsibilities also included the report on the following (IFAC IAASB,, 2015):

1- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material mistake resulting from fraud is higher than for error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

2- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. However, future events or conditions may cause the Company to cease to continue as a going concern.

3- We communicate with those charged with governance regarding the scope and timing of the audit, significant audit findings, and significant deficiencies in internal control that we identify during the audit.

(Tysiac, Ken, 2015) emphasized in an article published in the Journal of Accounting that the new changes to the auditor's report format are a response to calls from investors and users for the auditor's report to include more information, particularly relevant information for users based on the audit work performed. The IAASB (2015-2025) also emphasized that the changes to the auditor's report represent an enhancement of the value of the financial statement audit and the continued importance of the audit profession in public interest.

The IAASB believes that, in addition to increasing transparency and enhancing the informative value of the auditor's report, the changes will also have the following benefits (IAASB, 2015-2025):

1- Enhancing communication between investors and auditors, and between the auditor and those charged with governance.

2- Increased attention by management and those charged with governance to the disclosures in the financial statements referred to in the auditor's report.

3- Renewed focus on the auditor's update on matters that should be included in the auditor's report, which may indirectly lead to increased professional caution.

Conclusion, Results, Recommendations, and Future Studies

There are growing international, regional, and local demands to curb the phenomenon of creative accounting practices by developing accounting and auditing principles and standards, professional ethics, and activating governance principles and the role of audit committees. Most exciting is the activation of the external auditing profession, given its role in improving economic efficiency and revitalizing stock exchanges globally through oversight, reducing accounting information risk, and increasing confidence in it by the financial community.

Within this framework, the current study attempts to present the roots of the phenomenon of creative accounting, its motives, its methods, the relationship of its practices to stakeholders, and its impact on financial statements. The study then presents and analyzes the position of researchers in the field of auditing, the position of international professional organizations on creative accounting practices, and finally, an evaluation of the development trends in auditing standards to curb creative accounting practices. After the above presentation, the study reached the following conclusions:

First: There is unreasonable, dishonest, and excessive use of creative accounting practices in companies, which has led to the downfall of many prominent companies worldwide. Many companies will fall along the way, but—in any case— Creative accounting practices cannot be completely restricted, nor can their misuse or abuse be stopped. The real problem with creative accounting practices lies in management's behavior and motives, their use of their right to choose accounting policies, and their use of accounting estimates.

Second: Some researchers agree that creative accounting is not fraud, but rather a tool for accounting manipulation. It exploits loopholes in accounting standards and regulations. It operates within the legal framework and achieves benefits for the company in the short term, but it can lead to serious problems in the long term. It is also affected by several internal factors, most notably internal control over financial statements.

Third: There are two different models through which companies are financed, both of which affect accounting earnings. The first is the Anglo-American accounting model, where the corporate governance model is the shareholder model. The second is the European accounting model, where the governance model is reflected in the stakeholder model. The first governance model encourages creative accounting practices.

Fourth: International professional organizations have emphasized that the responsibility for preventing creative accounting practices (fraud without embezzlement, manipulation, misleading) or earnings management falls on management, those charged with governance, the board of directors, and all employees of companies. These stakeholders have been emphasized in preventing this. However, the auditor's role in detecting creative accounting practices has been expanded by evaluating four important areas, including (revenue recognition, changes in accounting policies, changes in accounting estimates, and unusual items).

Fifth: Current developments in auditing standards have confirmed that there is an international, and perhaps global, interest in limiting creative accounting methods by expanding audit procedures and tests related to revenue recognition, reviewing accounting estimates, including fair value measurements, reviewing significant transactions with unusual related parties, testing the appropriateness of accounting policies and changes thereto, testing the reasonableness of accounting estimates, financial statement disclosure regarding revenue recognition and subsequent events, contingent liabilities, neutrality, consistency, and clarity of disclosure in financial statements, unusual transactions that may affect the financial statements, and correcting errors that affect the increase in declared profits, but not errors that affect the decrease in declared profits.

Sixth: The impact of developments in auditing standards has been reflected in the content of the auditor's report, through more explicit reporting on fraud than before, as well as reporting on the suitability of the going concern assumption as a basis for preparing financial reports, and also reporting on communication with those charged with governance, noting that continuity and communication have not previously been reported in the auditor's report.

As a general conclusion: Despite the evolution of auditors' duties and responsibilities, it is not possible to completely limit the impact of creative accounting practices, because management is the main player by virtue of its responsibility. However, accounting and auditing standards need to be simplified, as they have become more complex considering evolving economic events and activities, financial crises, and investor pressure. Therefore, management ethics play an important role, as do the ethics of the accounting profession. However, perhaps more important is enforcing the law and creating more effective corporate governance practices.

Nevertheless, the study suggests that researchers and academics, within the framework of the development of international auditing standards to limit creative accounting practices, examine the following questions: What is the impact of developing the content of the auditor's report on the informational value (credibility) of the auditing profession? What is the impact of expanding the auditor's professional responsibilities on audit fees? What is the relationship between creative accounting practices and company/audit failure? What is the relationship between creative accounting practices and auditor change? What is the impact of professional

ethics on detecting creative accounting practices? Finally, the researcher hopes to conduct a field study examining the impact of current developments in auditing standards on limiting creative accounting practices in the business environment in the Arab world, God willing.

Reference

- AICPA), A. I. (2014). Summary of Accounting Literature Issued/Updated During the Three Months Ended, Summary of Changes in Auditing Standard. *Accounting Research Manager*, www.accountingresearchmanager.com, CCH, (March), p.5. .
- Al Momani, M. A., & Obeidat, M. (2013). The Effect of Auditors' Ethics on Their Detection of Creative Accounting Practices: A Field Study, Canadian Center of Science and Education. *International Journal of Business and Management*, Vol.8, No.13, pp.118-136.
- Amat, O., Blake, J., & Dowds, J. (1999). The Ethics of Creative Accounting. *Journal of Economic Literature Classification*, www.blackwell-synergy.com, M41, pp/ 5-10.
- Amat, O.; Gowthorpe, C.; Perramon, J. (2003). Earnings Management in Spain: An Assessment of the Effect on Reported Earnings of Larger Listed Companies 1999-2001. *Economic Working Paper Series*, Universitat Pompeu Fabra.
- Amato, N. (2014). 7 Risk Area for the 2014 Audit Cycle. *Journal of Accountancy*, American Institute of CPAs, pp.1-2.
- Ardimansyah, R., Ginting, R., Yunisar, S., Rissa, A., & Windy, J. (2025). Bibliometric Financial Illusion: A Decade of Creative Accounting Research, JPAK. *Journal Pendidikan Akuntansi dan Keuangan*, 13 (1) pp.56-69.
- Balaciu, D., Bogdam, V., & Vladu, A. B. (2009). A Brief Review of Creative Accounting Literature and Its Consequences in Practice. *Annales Universitatis Apulensis Series Oeconomica*, Vol. 11, No.1, JEL Codes:M41, M14, G34, pp.170-183.
- Barnea, A., Ronen, J., & Sadan, S. (1976). Creative Accounting is not English Disease. *Management Accounting*, pp. 54-55.
- Beidleman, C. R. (1973). Income smoothing: the role of management. *Accounting Review*, Vol. 48, No.4, pp. 653-667.
- Beneish, M. D. (2001). Earnings Management: A Perspective. *Managerial Finance*, vol. 27, no. 12, pp.3 – 17.

- Burgstahler, D., & Eames, M. (2006). Management of Earnings and Analyst Forecasts. *Journal of Business Finance & Accounting*, (June/July), Vol. 33, No. 5-6, pp. 633-652.
- Center for Audit Quality (CAQ). (2014). CAQ Alert: Select Auditing Consideration for the 2014 Audit Cycle. *American Institute of CPAs*, (December), pp.1-14.
- Chong, S. (2006). The Ethics of Creative Accounting Does it all add up. (*Creativity, Principles and Accuracy*), www.use.edu.org.
- Cosmin, L. I. (2010). A Census of Creative Accounting Techniques. *Romanian Economic Business Review*, Vol, 5, No.4-1, pp.104-108.
- Dahi, D. (1996). Managerial turnover and successor accounting discretion: bank loan loss provision after resignation. *retirement or death, Research in Accounting Regulation*, Vol, 10, pp. 95-110.
- Dechow, P., Saloan, R., & Sweeny, A. (1995). Detecting Earnings Management. *The Accounting Review*, Vol. 70 (April), pp. 193-225.
- Elisabeta, B. D., & Beatrice, V. A. (2010). Creative Accounting – Players and Their Gains and Losses. *Annals of Faculty of Economics*, Vol.1, No.2, pp. 813-819.
- Emerging Issues Task Force (EITF). (2014). Summary of Accounting Literature Issued/Updated during the Three Months Ended, Summary of Changes in Accounting Principles. *Accounting Research Manager*, www.accountingresearchmanager.com, CCH, (March), p. 2.
- Fagbemi, T., Olamide, O., & Joshua, A. (2014). Cosmetic Accounting: A Review of Literature and Perception of Accountants in Nigeria. *Journal of Poverty Investment and Development*, An Open Access International Journal, Vol.3, pp.85-90.
- Financial, S. F. (2008). Compendium of Standards, (April). www.FSForum.org.
- Fong, A. (2006). Earning Management in Corporate Accounting. *An Overview, Cross-Sections*, Vol, 2, p.84.
- Gherai, D. S., & Balaciu, D. (2011). “From Creative Accounting Practices and Enron Phenomenon to the Current Financial Crisis”. *Annales Universitatis Apulensis Series Oeconomica*, Vol. 1, No. 13, pp. 34-41.

Glory, U. E., Ifeyinwa, F. U., Ese, E. O., Ndubuisi, L. N., Beryl, O., & Onyeka, F. A. (2024). Innovations in accounting and auditing. *A comprehensive review of current trends and their impact on U.S, businesses*, International Journal of Science and Research Archive, 11(01), pp.965–974.

Griffiths, I. (1986). *Creative Accounting'*. London: Sidgwick & Jackson.

Group of Twenty Governors, (-2. F. (2009). Recommendations for Working Group 1 - Enhancing Sound Regulation and Strengthening Transparency. *International Federation of Accountants (IFAC)*, (March), pp. 1-13.

Healy, P., & Wahlen, J. (1999). A review of Earnings Management Literature and its Implication for Standard Setting. *Accounting Horizons*, Vol. 13, No. 4, pp. 365- 383.

IFAC. (2003). *Rebuilding Public Confidence in Financial Reporting*. International Federation of Accountants (IFAC), (July), pp. 1-64.

IFAC IAASB. (2025). *Handbook of International Quality Management, Auditing, Review, Other Assurance, and Related Service Pronouncements*. New York, USA: International Federation of Accountants, (IFAC), www.ifac.org.

IFAC IAASB,. (2015). *The New Auditor's Report: Greater Transparency into the Financial Statement Audit*. International Auditing and Assurance Standard Board, (January), pp. 1-6.

International Organization of Securities Commissions (IOSCO). (2009). IOSCO Statement on International Auditing Standards. *International Organization of Securities Commissions*, (June), pp.1-2.

Jameson, M. K. (1988). *A Practical Guide to Creative Accounting*, Kogan Page. London: p.20.

Jayanti, A. D., & Mutmainah, S. (2013). Analysis of Relationship Among stakeholder Pressures, Environment Management Accounting Use, Strategy, and Innovation: An Empirical Evidence from Indonesia. *Diponegoro Journal of Accounting*, Vol, 2, No.2, (Tahum), pp. 1-15.

Jones, M. J. (2011). Creative Accounting, Fraud and Nonproprietary Disclosures. *The Journal of Business*, Vol.59, No.2, pp.331-66.

Kaminski, R. (2014). Creative Accounting Does Not Need to Equal Falsification of Accounts. *Economic World*, Vol.2, No.4, pp.272-80.

- Matis, D., Vladu, A. B., & Negrea, L. (2009). Cash-flow reporting between potential creative accounting techniques and hedging opportunities case study Romania. *Annales Universitatis Apulensis Series Oeconomica*, Vol.11, No.1, pp. 140-153.
- Modum, U., Ugwoke, R., Onyeonu, E. O., Modebe, N. J., Kodjo, S. N., & Odoh, L. C. (2014). The Effect of Creative Accounting on Audit Failure: The Case of Manufacturing Companies on the Nigerian Stock Exchange. *International Journal of Accounting and Financial Management Research (IJAFMR)*, Vol. 4, Issue 1, (Feb.), pp. 9-14.
- Moldovan, R., S.A., A., & Avram, C. (2010). Fighting the enemy of fair view principle? Getting to know creative accounting. In: *analele stiintifice ale universitatii alexandru ioan cuza diniasi. stiinte economice, Repec: aic: journal*, PP. 51-62.
- Mulford, C., & Comiskey, E. (2002). *The Financial Numbers Game*. Detecting Creative Accounting Practices, USA: John Wiley & Sons, Inc.
- Naser, K. (1993). *Creative Financial Accounting: Its Nature and Use*. Hemel Hempstead: Prentice Hall.
- Oliveras, E., & Amat, O. (2003). *Ethics and Creative Accounting*. www.ssrn.com.
- Popescu, L. M., & Nişulescu, I. A. (2013). Detecting Creative Accounting Practices and their Impact on the Quality of Information Presented in Financial Statements. *Journal of Knowledge Management, Economics and Information Technology*, Vol, III, Issue, 6, (December), pp.1-13.
- Professional Accountants in Business Committee. (2004). Enterprise Governance: Getting the Balance Right. *International Federation of Accountants (IFAC)*, (February), pp. 1-59.
- Public Company Accounting Oversight Board (PCAOB). (2014). *Staff Audit Practice Alert No. 12: Matters Related to Auditing Revenue in an Audit of Financial Statements*. Public Company Accounting Oversight Board (PCAOB), www.pcaopbus.org, Washington, D.C.: (September), pp.1-34.
- Rabin, C. (2005). Determinants of Auditors' Attitudes Towards Creative. *Meditari Accountancy*, Vol. 13, No. 2, pp. 67 – 88.
- Rajput, M. S. (2014). Creative Accounting: Some Aspects. *International Journal of Business and Administration Research Review*, Vol.2, Issue.4, (Jan-March), pp.193-199.

Salome, E. N., Ifeanyi, O. M., Marcel, E. C., & Echezonachi, O. E. (2012). The Effect of Creative Accounting on the Job Performance of Accountant (Auditors) in Reporting Financial Statement in Nigeria. *Kuwait Chapter of Arabian Journal of Business and Management Review*, Vol. 1, No.9, (May), pp.1-30.

Salsiah, M. A., & Amilia, S. A. (2023). Creative Accounting: An Overview of Its Practices Where Are We Heading Now? *International Journal of Academic Research in Accounting, Finance and Management Sciences*, Vol. 13, No. 2, pp. 48-59.

Schipper, K. (1989). Commentary: Earnings Management. *Accounting Horizons*, (December), pp. 91-102.

Scott, B. J., & Pitman, M. (2005). Auditors and Earnings Management. Available From: <http://www.nysscpa.org/cpajournal/htm>.

Securities and Exchange Commission (SEC). (2014). Summary of Accounting Literature Issued/Updated During the Three Months Ended, Summary of Changes in Regulatory Actions. *Accounting Research Manager*, www.accountingresearchmanager.com, CCH, (March), pp.3-4.

Shah, S. Z., Butt, S., & Tariq, Y. B. (2011). Use or Abuse of Creative Accounting Techniques. *International Journal of Trade, Economics and Finance*, Vol. 2, No. 6, (December), pp.531-36.

Smith, M. (1998). Creative accounting: the auditor effect. *Managerial Auditing Journal*, Vol.13 No.3, pp. 155 - 158.

Smith, T. (1992). *Accounting for growth*. London: Century Business.

Stolowy, H., & G. Breton, G. (2000). A Framework for the Classification of Accounts Manipulations, HEC Accounting and Management Control. *Working Paper*, No. 708, pp.1-94.

Stolowy, H.; Breton, G. (2004). Accounts Manipulation: A Literature Review and Proposed. *Review of Accounting and Finance*, pp. 5-92.

Sweeney, A. P. (1994). Debt Covenant violations and managers accounting responses. *Journal of Accounting and Economics*, Vol.17, pp. 281- 308.

Teodora, C. A., & Nicolae, B. (2009). Study Regarding the Ethics and Creativity in the Financial-Accounting Activity. *Review of Accounting and Finance*, Vol, 13, No. 3, pp. 844–849.

- Teoh, S. H., Welch, L., & Wong, T. J. (1998). Earnings Management and the Long-Run Market Performance of Initial Public Offerings. *Journal of Finance*, Vol.53, No. 6, (December), pp. 935-974.
- Tysiac, K. (2013). PCAOB to Consider Proposing New Auditor's Reporting Model. *Journal of Accountancy*, American Institute of CPAs, (August), p.1.
- Tysiac, Ken. (2013a). PCAOB Continues Focus on Audits of Internal Control over Financial Reporting. *Journal of Accountancy*, American Institute of CPAs, (October), p.1-2.
- Tysiac, Ken. (2014). PCAOB Approves New Related-Party Auditing Requirements. *Journal of Accountancy*, American Institute of CPAs, (June), p.1-3.
- Tysiac, Ken. (2014a). PCAOB Alert Calls for Auditors to Focus on Revenue. *Journal of Accountancy*, American Institute of CPAs, (September), p.1-2.
- Tysiac, Ken. (2014b). Auditors Still Responsible for Going-Concern Evaluation Under PCAOB Rules. *Journal of Accountancy*, American Institute of CPAs, (September), p.1-2.
- Tysiac, Ken. (2015). New IAASB Standard Changes Auditor's Reporting Model. *Journal of Accountancy*, American Institute of CPAs, (January), p.1-2.
- Vladus, A., & Matis, D. (2010). Corporate Governance and Creative Accounting: Two Concepts Strongly Connected? Some Interesting Insights Highlighted by Constructing the Internal History of a Literature". *Annales Universitatis Apulensis Series Oeconomica*, Vol. 1, No. 12, pp. 332-346.
- Yadav, B. (2013). Creative Accounting: A Literature Review, The SIJ Transactions on Industrial. *Financial & Business Management (IFBM)*, Vol. 1, No. 5, (November-December), pp. 181-193.
- Yadav, Brijesh; Kumar, Anil; Bhatia, Bunny Singh. (2014). Concept of Creative Accounting and Its Different Tools. *International Journal of Management and Social Sciences Research (IJMSSR)*, Vol 3, No.2, (February), 66-74.