The Role of Corporate Governance Mechanisms in limiting Creative Accounting Practices: A View from Specialists in Middle East Countries

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Abstract

This study aims to determine the role of corporate governance in limiting the risk of creative accounting practices from the perspective of accounting experts. Creative accounting practices were one of the reasons behind the emergence of the global financial crisis that hit the economies of several countries around the world. These practices led to a lack of reliability of financial data, which in turn had a significant impact on the evaluations and decisions that were made by internal and external stakeholders. By using survey responses submitted by professionals in several Middle East countries, this study investigated four important corporate governance mechanisms that are designed to limit creative accounting practices. These are accounting and auditing standards, the role of the internal auditor, the role of the external auditor and the role of audit committees. The study concludes that, in the opinion of accounting experts, audit committees and external audit mechanisms have the greatest ability to prevent creative accounting practices. This is the first time that a sample of accounting experts from multiple countries in the Middle East region has been used to investigate mechanisms which could reduce creative accounting practices. This research is based on the opinions of the survey participants. Even though they are qualified and experienced, we are aware that these opinions cannot be taken as facts. Instead, this research could be considered as qualitative research that suffers from full objectivity.

Keywords: Creative accounting, corporate governance, internal audit, external audit, audit committee, accounting standards

دور آليات حوكمة الشركات في الحد من ممارسات المحاسبية الإبداعية

(بالتطبيق علي عينة من دول الشرق الأوسط)

المستخلص:

تهدف هذه الدراسة إلى تحديد دور حوكمة الشركات في الحد من مخاطر ممارسات المحاسبية الإبداعية من وجهة نظر خبراء المحاسبة. حيث كانت ممارسات المحاسبية الإبداعية أحد الأسباب وراء ظهور الأزمة المالية العالمية التي ضربت اقتصاديات عدة دول حول العالم. وأدت هذه الممارسات إلى عدم موثوقية البيانات المالية، الأمر الذي كان بدوره له تأثير كبير على التقييمات والقرارات التي تم اتخاذها من قبل أصحاب المصلحة الداخليين والخارجيين. و باستخدام إجابات الاستطلاع المقدمة من المتخصصين في العديد من دول الشرق الأوسط، بحثت هذه الدراسة في أربع آليات مهمة لحوكمة الشركات تم تصميمها للحد من ممارسات المحاسبة الإبداعية. وهي: معايير المحاسبة والمراجعة، ودور المراجع الداخلي، ودور المراجع الخارجي، ودور لجان المراجعة. وخلصت الدراسة إلى أن لجان المراجعة وآليات المراجعة الخارجية، في رأي خبراء المحاسبة، هي الأكثر قدرة على منع ممارسات المحاسبية الإبداعية. و هذه هي المرة الأولى التي يتم فيها استخدام عينة من خبراء المحاسبة من دول متعددة في منطقة الشرق الأوسط لدراسة الآليات التي يمكن أن تقلل من ممارسات المحاسبة الإبداعية. حيث يعتمد هذا البحث على آراء المشاركين في الاستطلاع وعلى الرغم من كفاءتهم وخبرتهم، إلا أننا ندرك أن هذه الآراء لا يمكن اعتبارها حقائق. و بهذا يمكن إعتبار هذا البحث بحثا نوعيا يتمتع بالموضوعية الكاملة .

الكلمات الدالة: المحاسبة الإبداعية، حوكمة الشركات، المراجعة الداخلية، المراجعة الخارجية، لجنة المراجعة، المعايير المحاسبية

1. Introduction

Creative accounting is one of the methods of manipulating accounts to hide the real performance of companies. These practices can serve a group of stakeholders and benefit the company without breaking the rules of recognized accounting regulations and standards. But this can affect the quality of accounting information and hence can mislead other users of this data. The past two decades have witnessed financial collapses in a number of East Asian and North American countries, such as the Enron crisis in the United States of America in 2001 and the WorldCom crisis in 2002, which both occurred as a result of administrative and financial corruption. In these cases, the lack of transparency and accounting disclosure led management to manipulate some accounting procedures and policies in order to display an unrealistic improvement in its profits or its financial position.

There is a broad diversity in accounting policies that are available for application, and this diversity can be exploited to serve the interests of the company's management rather than achieving corporate goals. This is the core of creative accounting, which tends to improve certain figures that are presented in financial reports reflecting the company's financial position. In light of the growing phenomenon of creative accounting, the need for corporate governance mechanisms to control and reduce it becomes increasingly important. Hence, in recent years, researchers pay additional attention to study the role of corporate governance as a tool to control companies and the quality of their financial reports. Based on the key link between corporate governance and creative accounting that is investigated and approved in the literature [1],[2],[3],[4]. This research aims to examine and answer this question: Does the application of corporate governance mechanisms limit creative accounting practices in middle east countries?

This research contributes to the existing literature in three ways; first, the research highlights the importance of corporate governance mechanisms in general and its role in limiting creative accounting practices in particular. It also represents one of the accounting issues which have a fundamental impact on the quality and reliability of accounting information that many external parties depend on when making their decisions. Second, although there is a great body of corporate governance literature but the vast majority of these studies are conducted on the UK, USA and South Asian countries, this research aims to provide empirical findings that are related to Middle East and North Africa countries (MENA) which could help to reduce or prevent creative accounting in these countries. The recent OECD reports show that the compliance of corporate governance and voluntary discloser in MENA region is still low and varied. This may provide a justification why the existing global research is not fully applicable in these countries. Third, most of corporate governance literature is completely quantitative which uses companies' numeric data, while this research employs relatively both quantitative and qualitative analysis since it considers the opinion of accounting experts about corporate governance and its effect on creative accounting practices.

2. Literature Review

There is a growing debate on the phenomenon of creative accounting [5]. Agarwal and Chadha [6] argued that corporate governance may play a role in constraining the restating of company earnings. They concluded that the independence of board and audit committee, along with financial expertise, reduces the use of creative accounting methods. The study recommended the search for more factors that could be tested as tools for corporate governance and contribute to limit the use of creative accounting methods. Odia and Ogiedu [7] examined the effect of corporate governance introduced by the Nigerian Accounting Standards Boards (NASB) on the level of creative accounting practices. They found that corporate governance adherence, and the monitoring activities of regulatory agencies in Nigeria, both had an insignificant impact on creative accounting practices. They suggested that even though these practices have some advantages, such as income smoothing, their disadvantages harmed other users of financial reports, especially if the figures presented in these reports were manipulated.

In a related study, Fadawi [8] aimed to identify the role of three pillars of corporate governance i.e. risk management, disclosure and control, in limiting creative accounting practices by using a sample of 50 French joint-stock companies during the 2007-2009 period. The study concluded that both risk management and disclosure have a significant effect on limiting creative accounting practices whereas control fails to show any significant impact due to the duality in the board of directors in a significant number of companies in the sample. Similarly, Trisanti [9] and Lestari [10] found an inverse relationship between good corporate governance and creative accounting using a sample of Indonesian state-owned enterprises. Al-Jaali [11] determined the role of internal corporate governance mechanisms in reducing creative accounting practices. The study linked internal corporate governance mechanisms with creative accounting in Sudani companies. According to this study, Sudan suffers from weak governance, except in its banking sector, which was established with clear guidelines relating to corporate governance.

Jrairah *et al.* [12] examined the effect of accounting mechanisms of governance in limiting creative accounting in public joint-stock companies in Jordan. Their method included focusing on the companies as a larger umbrella and in an integrated manner instead of focusing on one of the supervisory authorities. The study concluded that the companies' adoption of accounting mechanisms for governance contributed significantly to uncovering creative accounting practices, which positively affected the quality of financial reports and the effectiveness of the control process.

More recently, Waweru and Prot [13] examined whether the compliance with corporate governance requirements has constrained creative accounting in listed companies in Kenya and Tanzania. They concluded that corporate governance may not play a role in limiting creative accounting in eastern Africa. El-Helaly [14] proposed that regulation, corporate governance and auditing can reduce the negative effects of creative accounting practices in Asian counties. In related literature, Sahyoun and Magnan [15] investigated the relationship between voluntary discloser by audit committee and creative accounting practices. They found that when creative accounting practices are high, voluntary discloser by audit committee increases reflecting an attempt by audit committees to engage in impression management.

Recent research in Middle East area also provide evidence that the cognitive creativity of internal audit has a significant role in detecting creative accounting practices [16]. Another study that is conducted on MENA countries showed that the applications of corporate governance and volumetry discloser is still low in MENA region and it varies among countries in this area [17]. Al-Hajaya [18] examined the effect of audit committee on enhancing audit quality as one of the main tools of corporate governance. The study found that large and independent audit committees are more likely to pay high audit fees and hire one of the big four audits.

3. Theoretical Framework of corporate governance and creative accounting

3.1 The concept of corporate governance

The use of the term 'corporate governance' has spread in the last three decades, at both regional and international levels. It is generally identified as the method of practicing good management, or more precisely, wise management [19]. Corporate governance is defined as "*the set of laws, rules and standards that define the relationship between the company's management on the one hand, and shareholders, owners and stakeholders on the other hand*" [20]. The objectives of corporate governance is to maximize firm performance by achieving economic efficiency and to develop systems that constrain the firm's management within an ethical framework that is based on guarantees of accountability and transparency. Corporate governance has attracted significant attention by researchers and policy makers due to its role in (1) attracting investments, whether they are local or foreign investments [21], (2) increasing a company's ability to compete locally and internationally [22], (3) motivating transparency, accuracy and clarity in the financial statements issued by organizations, consequently increasing confidence in the decisions that are taken by investors, (4) reducing the degree of risk relating to the financial and administrative scandals faced by organizations, while working to increase the degree of efficiency of the company's performance, which will then be reflected in the rates of profitability, (5) ensuring the proper use of company funds, the extent of compliance with the law, and the supervision of the company's social responsibility in light of the governance rules, and finally, (6) obtaining a strong board of directors that can test and select qualified managers who are able to achieve company's activities within the framework of laws and regulations [23].

3.2 Accounting mechanisms for corporate governance

In line with the nature of this study, accounting mechanisms for governance should limit creative accounting practices. This will be reflected in the nature of the situation in achieving transparency in accounting disclosure and then presenting accounting information more fairly and accurately. This information is expected to serve all stakeholders of the company and affects their various decisions. Accordingly, the process should be based on the creation of mutual relationships between all accounting mechanisms of governance (i.e. accounting and auditing standards, internal audits, audit committees and external audits) to reduce creative accounting practices. Also, the final result of activating these mechanisms in an integrated manner contributes to the production of reliable accounting information. Jrairah *et al* [12] mention four accounting mechanisms that play a role in achieving corporate governance:

1. Accounting and auditing standards: these are the main mechanism in activating corporate governance because they urge companies to follow rules for accounting and conduct independent periodic reviews in the interest of the company as a whole, where the development of the quality of reports has been observed.
2. Internal audit: this helps organizations to achieve their goals by assuring the effectiveness of internal control. The importance of internal audit relies upon its collaborative working with the board of directors and the audit committee in order to manage and control levels of risk under solid corporate governance processes.
3. External audit: the role of the external audit has become substantive and effective in the field of governance. External auditors report a neutral technical opinion on the internal audit report on the extent of truthfulness and fairness of the financial statements that are prepared by its clients.
4. Audit committees: most of the studies and reports of corporate governance emphasize the need for audit committees in organizations that seek to implement corporate governance. This is due to their vital role in increasing the credibility and reliability of the financial statements prepared by management for shareholders and investors.

3.3. Conceptual framework for creative accounting

The term ‘creative accounting’ has been described in several ways from different perspectives: Jones [24] identifies creative accounting as “*Using the flexibility in accounting within the regulatory framework to manage the measurement and presentation of the accounts so that they give privacy to the interest of the preparers, not the users*”. Tassadaq and Malik [25] defines creative accounting as “*the art of faking or calculating or presenting the balance sheet, and the art of saving money*”. And Bhasin [26] identifies the term creative accounting as “*the accounting practice that may (or may not) follow the accounting principles or standards but deviate from what these principles or standards intend to achieve, in order to show a desired image of the company to the stakeholders*”. Creative accounting therefore exploits the gaps in accounting policies and the multiplicity of its alternatives which may reveal various weaknesses that show the financial data in a way other than its real image, and in a way that serves a specific party that benefits from the formal procedures at the expense of other parties [12].

3.4. The role of corporate governance mechanisms in limiting creative accounting practices

Creative accounting practices is one of the most debated topics in the field of accounting. This is because there is a school of scholars who see the positive side of creative accounting as exercised by accounting professionals when they exploit the flexibility of accounting regulations in a good way [27],[28]. However, another school argues that managers who are the first beneficiary of creative accounting and its techniques should be governed by policy makers in a way that is fair to other stakeholders in the firm [29],[30]. In this section, the role of accounting mechanisms for corporate governance in limiting creative accounting practices is discussed by clarifying the role of these mechanisms.

First - the role of the Accounting and Auditing Standards Board mechanism in limiting creative accounting practices

The International Accounting Standards Board (IASB) is one of world's leading institutions that continually improves and reforms the International Accounting Standards (IASs). This is in order to fill the gap in these standards that may lead to deception or corruption exercised by users in the accounting field [31]. There were several initiatives that were introduced by these standards, including convergence between the International Financial Reporting Standards (IFRS) and the U.S. generally accepted accounting principles (GAAP). The International Financial Reporting Standards Foundation also continually encourages countries around the world to adopt IFRS in an attempt to unify accounting applications among accounting professionals in order to develop high quality reporting systems that could eliminate such gaps as those exploited by CPAs or CFOs in organizations. The IASB also considered the inclusion of some amendments to these standards to avoid the misuse of old standards. This was to eliminate creative accounting practices that were allowed under older international accounting standards. These amendments [32] include:

1. Eliminating most of the alternative (standard treatment) and (alternative treatment) in the new accounting standards set and reframing them in a single accounting treatment.

2. Adding attachments to each accounting standard explaining the practical application. This is considered one of the most important amendments that helps to mitigate the vague use of these standards.
3. Reducing the contradictions and inconsistencies that exist between some of the standards and removing any ambiguities that there may be surrounded the application of those standards.
4. Interfiling clarification statements, which are now attached to each standard instead of being grouped together in the appendices.

Second: The role of the internal audit mechanism in reducing creative accounting practices

In order to ensure that internal audit plays its expected role in reducing management's manipulative behavior using creative accounting practices, a set of conditions must be met [8], including:

1) The professional skills of the internal auditors: the American Institute of Internal Auditors indicated in 2005 that it is assumed that internal auditors have the knowledge, skills and professional ability to fulfill their personal responsibilities. It is assumed that the greater the internal auditors' professional skills, the greater their ability to discover suspicious practices will be.
2) Objectivity: this refers to the extent to which the internal audit department can work independently without facing top management's intervention.
3) Quality of task execution: this depends on several variables, including sufficient planning of review process, the scope of the work performed, the existence of a guide for the internal audit of the company, and the existence of a system for monitoring task performance.

Third: the role of the external audit mechanism in reducing creative accounting practices

External audit is one of the most important factors that helps to improve the quality of financial statements. The external auditor plays a major role in ensuring adherence to adequate, sound and transparent disclosure of information and data issued by companies. The external audit should be done in accordance with international auditing standards to express an objective opinion about the disclosure policy adopted by a company, where the external auditor evaluates all aspects of deficiencies in their report. In some circumstances, top management aims to improve the profit shown in the income statement by stating overestimated profit, usually by either reducing expenses or inflating sales, or both together. This is one of the most commonly exercised creative accounting methods used by earning management [33]. Accordingly, external auditors should work to verify sales invoices, costs of goods sold, operating expenses and extraordinary and exceptional items. Management can also try make the financial position of the company seem improved by either inflating the value of assets or reducing the value of liabilities, or both together. This is mainly to improve the presentation of the ratios derived from them, such as liquidity or profitability ratios. As a response, external auditors have several procedures that can be used to verify and limit these practices.

Fourth: The role of audit committees in reducing creative accounting practices

Audit committees have a critical role in monitoring and supervising company activities that are related to the financial reporting procedures which fall under the responsibility of top management. This can be achieved by ensuring that the accounting policies and principles that were followed in preparing the financial reports have been disclosed. This ensures that any changes in accounting policies, and possible effects of these, have been disclosed and are presented in the financial reports. Audit committees also play an important role in improving the quality of the external audit, leading to increased confidence from investors and external parties in the financial reports. It has also been suggested that there should be strong levels of collaboration between the audit committee and the internal audit in order to overcome any problems expected while preparing financial reports [34].

Several studies confirm that one of the most important responsibilities of the audit committee is its role in examining the internal control system [35],[36]. Recently, many global financial markets have issued a set of laws calling for the necessity of following this principle of corporate governance.

The composition of the audit committee is also one of its basic characteristics which can lead to the reduction of fraudulent financial reports because, in addition to the previously mentioned activities, audit committees have to supervise the risk that the company may be exposed to through:

- Supervising risk management.
- Estimating fraud risk at every level of management.
- Assisting management in designing risk management strategies, according to different types of risk.

- Contributing to understand the risks of investment opportunities and, to some extent, mitigating uncertainty.
- Understanding the relationship between risk management as a whole, and financial reporting, and
- Evaluating the adequacy of control over risks, including external risks.

3.5. Corporate governance framework in Middle East and North Africa countries

Although there has been notable reforms in corporate governance practices in MENA countries in the last few decades, but they are still under the level that is required globally. Research in this area is also modest and uncertain to show in which level these countries are located and what should be done to boost the awareness of applying good corporate governance. Even though the introduction of governance codes and the term ‘comply or explain’ in some of these countries such as Saudi Arabia, UAE and Qatar, there are weaknesses in most of corporate governance elements that are specified in the global framework issued by OECD (G20/OECD Principles of Corporate Governance[1]). This is due to the flexibility of the codes that are implemented in some countries in order to allow for not complying with corporate governance for individual companies. Theses gabs create the slow progress of Middle East countries to reach the level of developed countries in this matter. According to the recent survey of OECD (2019), ownership concentration is considered high in most MENA countries. The majority of listed companies have a controlling shareholder. Other factors that need to be considered in relation to concentrated ownership include pyramid structures, family control, company groups, and state ownership (OECD, 2019[2]).

Another dilemma for MENA countries that is raised when evaluating corporate governance is the regulatory framework; most of these countries mix between hard low requirements (i.e. legal and regulatory) and soft low elements (i.e. codes and principles). This leads to inconsistent applications of corporate governance in these countries. Also, according to the OECD survey, the majority of MENA stock exchanges are state-owned corporations which affects the scope of their responsibilities, present

[1] https://doi.org/10.1787/9789264236882-en

[2] OECD survey of corporate governance frameworks in the Middle East and North Africa © OECD 2019.

potential conflicts of interest, as these exchanges have a role in supporting applying good corporate governance. Also, one of main elements of corporate governance that is assessed by OECD in MENA region is the right of shareholders which seems to be sufficient and adhered by companies in these countries. Furthermore, the majority of MENA countries have shifted recently to IASs in most of their regulations (OECD, 2019). With regards to board size and independence, nearly all MENA countries are fulfilled with the global standards. However, the diversity of gender in the board of directors is still low and needs to be improved. Taken together, it could be said that MENA countries show a real improvement in some of corporate governance elements but they are still undermining other corporate governance requirements that could allow for creative accounting practices to be seen in these countries. Table (1) shows the accounting standards requirements for countries included in this research.

Table (1): Accounting standards requirements

Country	IFRS Requirement	Coverage	National Application
Egypt	Required	All companies	Egyptian Accounting Standards (EAS) as published by Financial Regulatory Authority (FRA)
Saudi Arabia	Required	Listed companies, Authorized persons, banks and insurance companies	IFRS as issued by IASB board. In the case of banks and insurance companies, IFRS standards are incorporated into regulations of the Saudi Arabian Monetary Authority (SAMA). For other companies, they are required by Saudi Organization for Certified Public Accountants (SOCPA)
United Arab Emirates	Required	Listed companies (referred to as Reporting Entities) and Authorized Firms (firms offering financial services	IFRS as issued by IASB board or other financial reporting standards acceptable to the DFSA and as required by the DFSA Markets Rules.
Kuwait	Required	All companies	IFRS as issued by IASB board and written into the Ministerial Decrees
Qatar	Required	Listed companies and legal entities	FRS as issued by IASB board in the Governance Code and the Commercial Company Law No. 11 of 2015

Source: OECD Survey of corporate governance framework

4. Research Hypotheses

Building on previous corporate governance literature, this study adopts the well-known Agency theory in developing its hypotheses. Based on the conceptual framework of agency theory, the goals of the principal party (shareholders) are different from those of the agent (top executives). Thus, those executives may serve their interests and violate the shareholders' expectations by behaving in an opportunistic manner. In light of this theory, the board of directors tends to exercise strict oversight, supervision and follow-up in order to protect the interests of the "principal party" [37]. The board of directors is assumed to be active, participate in most decision-making processes, and be accountable to the shareholders of the firm. Hence, directors, especially financial directors, may exploit loose accounting policies to draw benefits due to the timing of reported income, influencing shareholders to think that the firm is profitable and that the directors are performing well. Taken together, the set of hypotheses are developed:

H1: According to participants' opinion, there is a statistically significant relationship between the improvement of accounting and auditing standards and the limiting of creative accounting practices.

H2: According to participants' opinion, there is a statistically significant relationship between the effective role of the internal auditor and the limiting of creative accounting practices.

H3: According to participants' opinion, there is a statistically significant relationship between the effective role of audit committees and the limiting of creative accounting practices.

H4: According to participants' opinion, there is a statistically significant relationship between the effective role of the external auditor and the limiting of creative accounting practices.

5. Research Design

5.1 Sample size and variables selection

In order to test the research hypotheses, quantitative methods will be applied using a questionnaire. The study population consists of officials, internal auditors, accountants, members of audit committees, heads of departments in banks and audit offices, as well as academics with interest in the research topic. 245 questionnaires were distributed to a convenience sample of contacts. Of these, 244 were returned, and of these 200 were valid and 44 were incomplete. The final sample contained responses from five Middle East countries: Saudi Arabia (58 responses), Egypt (55 responses), the United Arab Emirates (35 responses), Kuwait (30 responses) and Qatar (22 responses). The research model is based on the dimensions of the study problem that highlight the relationship between accounting mechanisms for corporate governance and creative accounting practices. The dependent variable is therefore creative accounting practices and the independent variable is accounting mechanisms for corporate governance, which includes the four variables to be tested:

1. Improving accounting and auditing standards
2. The effective role of internal Audit
3. The effective role of audit committees
4. The effective role of external Audit

5.2 Statistical approaches

In order to answer the study's questions and to analyze the data, the following statistical tests were applied using the Statistical Package for the Social Sciences (SPSS):

- Alpha Cronbach's coefficient is used to determine the stability factor of the study instrument.
- Frequency tables and percentages are used to describe the characteristics of the sample.
- The mean and the standard deviation are calculated to determining the direction and distribution of the sample answers.
- A correlation analysis is applied to identify the link between dependent and independent variables.
- Analysis of variance was conducted for one criterion to compare the averages and arrive at a decision regarding the existence or absence of differences between the averages.
- A simple regression method was applied to study the relationship between the dependent and independent variables. It also helped to determine the extent to which the independent variables could explain the changes in the dependent variable.

5.3 Study tools

In its final form, the questionnaire contains 36 questions, divided into two parts:

The first part contained questions related to the participant, including academic qualifications, experience, and specialization.

(1) The second part contained two main axes:

(2) The questionnaire axes included the variables of the study. The first axis included phrases related to the independent variables of the accounting mechanisms of corporate governance and included 29 phrases distributed across four sub-axes, representing:

- Improving accounting and auditing standards
- The internal audit role.
- The audit committee role.
- The external audit role.

The second axis includes phrases related to the dependent variable, which is the limitation of creative accounting practices, and it included 7 phrases.

To transform the questionnaire responses into quantitative data, a five-point Likert scale [38] was used as follows:

Answer	Strongly Agree	Agree	Neutral	Do not agree	Strongly disagree
Class	5	4	3	2	1

The reliability of the questionnaire can be verified by calculating the Alpha Cronbach's coefficient. The value of this parameter varies between 0 and 1 while the closer the figure to 1.00 the more acceptable/reliable it is. From Table (2), it becomes clear that the values of the stability coefficients are acceptable for all variables of the study, as the survey list included five dimensions, and each dimension consists of more than one statement, and the values of the stability coefficients ranged between (0.764) and (0.892). The reliability coefficient of the questionnaire reaches (٠.٩٤١), which indicates a high degree of reliability on the scale, considering that the alpha coefficient that ranges from 0.50 to 0.60 it is also considered to be acceptable. The alpha coefficient that reaches 0.80 is considered to have an outstanding level of reliability. The value of the self-validity coefficients ranged between (0.874022) and (0.944404) (since the values of the self-validity coefficient are the square root of the values of the reliability coefficient), therefore it can be said that they are good-significant coefficients for achieving the research objectives and can be relied upon as ecologically valid.

Table (2): The reliability and validity of questionnaire parameters

The statement	No. of Items	Stability coefficient (Alpha)*	Self-honesty coefficient
Improving accounting and auditing standards	5	0.764	0.874
Internal audit role	10	0.892	0.944
Audit Committee role	8	0.832	0.912
External audit role	6	0.861	0.928
Limiting or Reducing creative accounting practices	7	0.864	0.930
Total	36	0.941	0.970

6. Presentation of study results

First: Characteristics of the study sample

Table (3): Characteristics of the study sample

		Count	% of responses
Academic Qualification	Diploma	1	0.5%
	Bachelor's degree	68	34.0%
	Master's	53	26.5%
	PhD	77	38.5%
	Other	1	0.5%
Scientific Specialization	Economics	1	0.5%
	Statistics	1	0.5%
	Business Administration	19	9.5%
	Accounting	178	89.0%
	Other	1	0.5%
Job Title	Administrative manager	28	14.0%
	Financial Manager	6	3.0%
	External auditor	21	10.5%
	Internal auditor	6	3.0%
	Accountant	53	26.5%
	Faculty Member	60	30.0%
	Other	26	13.0%
Experience in Years	less than 5 years	16	8.0%
	5-10 years	41	20.5%
	11-15 years	39	19.5%
	16-20 years	44	22.0%
	More than 20 years	60	30.0%

Table (3) represents the characteristics of the study sample. It can be seen that 38.5% of the sample participants have gained doctoral qualification, while those with Bachelor or Master's degree represent 34% and 37% respectively. The majority (89%) of the respondents came from the field of accounting, with the remainder mostly coming from the field of business administration. With respect to job title, faculty members were the largest group, making up 30% of the sample, and accountants were the second largest group, making up nearly 27% of the sample. The majority of the sample (52%) had more than 15 years' experience in their field.

Second: presentation and analysis of the results of the study variables of the study

Table (4): Independent Variables: Accounting Mechanisms for Corporate Governance

The first axis: Accounting Mechanisms for Corporate Governance		Mean	Std. Deviation	Relative importance	Rank	T	Sig. (2-tailed)
Q1.1	The extent of compliance with the application of accounting and auditing standards is the main pillar in activating corporate governance.	4.4200	.53388	.12079	2	37.615	.000
Q1.2	The development and modification of accounting and auditing standards in line with developments in the work environment will help to display accounting information with greater fairness and accuracy that serve the parties dealing with accounting data and information in making their decisions.	4.4000	.58456	.13285	3	33.870	.000
Q1.3	The paragraphs of accounting and auditing standards are clear in theory.	3.8900	.74880	.19249	5	16.809	.000
Q1.4	There is an urgent need to follow up the development of accounting principles and standards issued by professional members.	4.5450	.56531	.12438	1	38.651	.000
Q1.5	Some ambiguity present in some accounting and auditing standards forces those in charge of the accounting and auditing process to follow advanced audit mechanisms and methods that help ensure the correctness, fairness and integrity of the financial statements.	4.3450	.69164	.15918	4	27.502	.000
Q1	1- Improving accounting and auditing standards	4.3200	.45191	0.1046		41.3080	.00000
Q2.1	The internal auditor examines and reviews the official's working methods and ensures their integrity.	4.3050	.59476	.13816	1	31.030	.000
Q2.2	The internal auditor checks the suitability of the objectives and general policies set.	4.2300	.68516	.16198	2	25.388	.000
Q2.3	The internal auditor provides a neutral and independent opinion in the final report that is submitted.	4.1900	.83510	.19931	6	20.152	.000
Q2.4	The internal auditor performs regional and international work in assurance services.	4.1400	.69485	.16784	3	23.202	.000
Q2.5	The internal auditor evaluates the bank's compliance with the principles of corporate	3.9300	.87689	.22313	9	14.999	.000

The first axis: Accounting Mechanisms for Corporate Governance		Mean	Std. Deviation	Relative importance	Rank	T	Sig. (2-tailed)
	governance.						
Q2.6	The internal auditor plays an effective role in managing risks.	3.9100	.80943	.20702	10	15.899	.000
Q2.7	The internal auditor provides consulting services if required.	4.0350	.81677	.20242	8	17.921	.000
Q2.8	The internal auditor works to develop internal control systems to limit creative accounting practices.	3.9750	.79848	.20087	7	17.269	.000
Q2.9	The internal auditor makes periodic evaluations of the internal control system.	4.2000	.73669	.17540	4	23.036	.000
Q2.10	It could be said that the internal auditor's possession of knowledge and adequate familiarity with accounting and auditing standards limits the use of creative accounting methods.	4.2650	.77315	.18128	5	23.139	.000
Q2	2-Internal Audit Role	4.1180	.54559	0.1325		28.9800	.00000
Q3.1	The audit committee verifies the extent of compliance with corporate governance rules.	4.3100	.56167	.13032	2	32.984	.000
Q3.2	The audit committee examines and reviews the financial reports.	4.4450	.57325	.12897	1	35.648	.000
Q3.3	The audit committee works to limit the board's abuse of its powers.	3.9550	.76544	.19354	8	17.644	.000
Q3.4	The audit committee works to ensure the extent of compliance with disclosure and transparency in financial reports.	4.3800	.65402	.14932	4	29.840	.000
Q3.5	The audit committee works on permanent coordination between the board of directors and the internal audit and the external audit.	4.0800	.70433	.17263	7	21.685	.000
Q3.6	The audit committee oversees the preparation and reliability of the financial statements.	4.3050	.64346	.14947	5	28.681	.000
Q3.7	The responsibility of the audit committee is to detect accounting fraud.	4.3400	.81715	.18828	6	23.191	.000
Q3.8	The audit committee contributes to improving and supporting the internal control system, which helps in reducing creative accounting practices.	4.3550	.60065	.13792	3	31.903	.000
Q3	٣- Audit Committee Role	4.2713	.45462	0.1064		39.5460	.00000
Q4.1	The external auditor ensures that the reports of the financial statements and supplementary notes are published annually.	4.3950	.67918	.15453	2	29.047	.000
Q4.2	The external auditor shall develop a plan and a program for the procedures of the review process with clear features.	4.1150	.72415	.17598	4	21.775	.000
Q4.3	The external auditor works to improve the quality of internal control performance and what follows it to raise the efficiency of the performance of the audit process.	4.0550	.91442	.22550	6	16.316	.000
Q4.4	The external auditor works to add confidence and credibility to the accounting information by expressing his neutral technical opinion in the audit report on the extent of the validity and fairness of the prepared financial statements.	4.4200	.77239	.17475	1	26.000	.000

The first axis: Accounting Mechanisms for Corporate Governance		Mean	Std. Deviation	Relative importance	Rank	T	Sig. (2-tailed)
Q4.5	The external auditor works to ensure the effectiveness of internal control in managing risks and controlling them to achieve the quality of banking practices.	4.2050	.68946	.16396	3	24.717	.000
Q4.6	The external auditor supports the senior management to carry out its assigned tasks efficiently and effectively by supporting the independence of the internal auditor and working to protect his neutrality.	4.2800	.78401	.18318	5	23.089	.000
Q4	4- External Audit Role	4.2450	.58763	0.1384		29.9630	.00000

Table (4) shows the average score of the responses that were received in relation to the four variables of accounting mechanisms for corporate governance. The statement related to the first variable of ‘improving accounting and auditing standards’ that received the most agreement from the participants was that “*There is an urgent need to follow up the development of accounting principles and standards issued by professional members*”. The average response of participants was 4.54, with a standard deviation of 0.56 and a coefficient of variation of 0.124. This expression is also tested for its significance and its distance from neutrality, where the improved test value was 38.65, which was highly significant (p = <0.001). The statement that received the least agreement from the participants was that “*The paragraphs of accounting and audit standards are clear in theory*”. The average response of participants was 3.89, with a standard deviation of 0.75 and a difference coefficient of 0.192. The expression was also tested for its significance and its distance from neutrality, where the improved test value is was 16.81, which was highly significant (p = <0.001). Based on the data above, the degree of strength of the first variable ‘Improving accounting and auditing standards’ is very high, with an arithmetic mean of 4.32, a standard deviation of 0.45 and a difference coefficient of 0.105.

The statement related to the second variable of ‘internal audit’ in Table (4) that received the most agreement from the participants was that “*The internal auditor examines and reviews the working methods of officials and ensures their integrity*”. The average response was 4.31, with a standard deviation of 0.59. The coefficient of the estimate was 0.138 and this was highly significant (p = <0.001). The statement that received the lowest agreement was that “*The internal auditor plays an effective role in managing risks*”. The average response of participants was 3.91, with a standard deviation of 0.81 and a coefficient of difference 0.207, which was highly significant (p = <0.001). Based on the data above, the degree of strength of the second variable 'Internal Audit Role' is very high, with an arithmetic mean of 4.12, a standard deviation of 0.55 and a difference coefficient of 0.133.

With respect to the third variable 'the role of audit committee', the statement that received the most agreement from the participants was that "*The audit committee works on examining and reviewing the financial reports*". The average response was 4.45, with a standard deviation of 0.57. The difference coefficient was 0.129 and when the expression was tested for significance and its distance from neutrality it had a difference coefficient of 35.65, which was highly significant (p = <0.001). Likewise, the statement that received the lowest agreement was that "*The audit committee works to limit the misuse of the board of directors of its powers*". The average response of participants was 3.96, with a standard deviation of 0.77. The coefficient of the test was 0.194, which was highly significant (p = <0.001). Consequently, the degree of strength of the variable 'Audit Committee Role' was high, with an arithmetic mean of 4.27 and a standard deviation of 0.455.

The results for the fourth variable 'the role of external audit' show that the statement that received the most agreement from the participants was that "*The external auditor works to add confidence and credibility to the accounting information by expressing his neutral technical opinion in the audit report on the extent of the validity and fairness of the prepared financial statements*". The average response was 4.42, with a standard deviation of 0.77, and a highly significant coefficient of 0.175. The statement that received the lowest agreement was that "*The external auditor works to improve the quality of internal control performance and what follows it to raise the efficiency of the performance of the audit process*". The average response of participants was 4.06, with a standard deviation of 0.91. The coefficient of the estimate was 0.226, which was highly significant (p = <0.001). Based on the above, the degree of strength of the variable 'External Audit Role' was demonstrably high, with an arithmetic mean of 4.25 and a standard deviation of 0.59.

Table (5): Dependent Variable: Limiting creative accounting practices

	The Second axis: Limiting creative accounting practices	**Mean**	**Std. Deviation**	**relative importance**	**rank**	**t**	**Sig. (2-tailed)**
Q5.1	The consistency of using accounting policies from one period to the next limits creative accounting practices	4.37	0.77854	.17816	1	24.886	.000
Q5.2	Motives for creative accounting include tax evasion and financial reporting fraud.	4.07	0.69512	.17100	3	21.667	.000
Q5.3	The lack of alternative accounting treatment methods limits the use of creative accounting methods.	4.00	0.81751	.20412	4	17.386	.000
Q5.4	The inability to face the dangerous practices of creative accounting is due to the failure of the account's manager and not to the audit process.	3.95	1.1331	.28686	7	11.857	.000
Q5.5	Creative accounting always works in order to show unreal profits in the financial statements in several ways.	4.25	0.97068	.22840	2	18.212	.000
Q5.6	It can be said that the audit committee's resistance to the interference and pressures it faces by the board of directors in the audit process contributes to reducing creative accounting practices.	3.98	0.89351	.22478	6	15.432	.000
Q5.7	Intentionally improving the liquidity ratio is one of the motives for creative accounting by not including the installments due during the year from long-term loans.	3.99	0.87107	.21804	5	16.154	.000
Q5	5-Limiting creative accounting practices	4.0871	.66047	0.1616		23.2782	.00000

Table (5) displays the average “agreement/disagreement” responses of sample members regarding statements germane to the dependent variable of ‘limiting creative accounting practices’. The statement that received the most agreement from participants was that “*The consistency of using accounting policies from one period to the next limits creative accounting methods”*. The average response was 4.37, with a standard deviation of 0.779 and a coefficient of difference of 0.178. The expression was tested for significance and distance from neutrality, and the measured test value was (24.89), which was highly significant (p = <0.001).The statement that received the least agreement from participants was “*The inability to face the dangerous practices of creative accounting is due to the failure of the account manager and not to the audit process*”. The average response was 3.95, with a standard deviation of 1.13 and a difference factor of 0.287. The expression was tested for its significance and the test output was 11.857, which was highly significant (p = <0.001). Based on the above, the degree of strength of the dependent variable of ‘limiting creative accounting practices’ is demonstrably high, with an arithmetic mean of 4.09, a standard deviation of 0.66 and a difference factor of 0.16.

7. Results analysis

A simple regression was used to determine the relationship between the dependent and independent variables. Table (6) presents the regression line variance analysis of the study hypotheses i.e. knowing the extent of the impact of accounting mechanisms on corporate governance in general, and the impact of each mechanism separately on the dependent variable of reducing creative accounting practices in particular.

Table (6): Regression coefficients and correlation for the study hypotheses

	B (Std. Error)	**T**	**F**	**R**	**R Square**
Improving accounting and auditing standards	.452 (.081)	4.787**	22.918**	0.322**	0.104
Internal audit role	.543 (.071)	7.627**	58.173**	0.477**	0.223
audit committee role	.788 (0.087)	9.080**	82.447**	0.542**	0.294
External audit role	.880 (.050)	17.726**	314.207**	0.783**	0.613

Standard errors in parentheses

*** p<0.01, ** p<0.05, * p<0.1

Table (6) shows the estimated linear regression results as tested by using the least squares method. For the first independent variable of ‘improving accounting and auditing standards’, an F-test indicates the extent of the significance of the estimated relationship as a whole, at the $p=<0.05$ level of significance, where the calculated F value is 22.92 and is statistically significant. This result validates H1 in that it demonstrates that “According to participants’ opinion, there is a statistically significant relationship between improving accounting and auditing standards and limiting creative accounting practices”. The explanatory ability of the model is tested using R2 which is 10.4%. This means that the independent variable ‘improving accounting and auditing standards’ can explain 10% of the changes that occur in the dependent variable ‘limiting creative accounting practices’.

The second independent variable of ‘the internal audit role’ and its impact on the reduction of creative accounting practices was also tested using F-test. The calculated F value was 58.17 and this is statistically significant. R2 is 22.3 percent, meaning that 22.3% of the changes that occur in the dependent variable of ‘limiting creative accounting practices’ are due to changes in the independent variable of ‘Internal audit mechanisms’. This refers to the strength of the explanatory ability of the model, and the rest is due to random error and other factors. This result validates H2 that “According to participants’ opinion, there is a statistically significant relationship between the role of the internal auditor and limiting creative accounting practices”.

The third independent variable of ‘the audit committee role’ shows an even higher impact on the reduction of creative accounting practices because with an R2 of 0.294 it seems to explain 29% of the limiting of creative accounting practices. This finding validates H3 that “According to participants’ opinion, there is a statistically significant relationship between the role of audit committees and the limitation of creative accounting practices”.

With respect of the fourth independent variable of ‘the external audit role’ and its effect on the reduction of creative accounting practices, the calculated F value reaches 314.2 and this demonstrates that there is a statistically significant relationship between the role of the external auditor and the limiting of creative accounting practices. R2 shows that 61.3% of the reduction of creative accounting practices can be explained by the external audit role. This finding validates H4 that “According to participants' opinion, there is a statistically significant relationship between the role of the external auditor and limiting creative accounting practices".

In order to determine the variable with the greatest influence in the reduction of creative accounting practices a multiple regression model was applied. Table (7) illustrates the results of the multiple regression analysis between the independent variables and the dependent variable.

Table (7): Multiple regression analysis of the independent and dependent variables

	B	Std. Error	t	Sig.
(Constant)	-0.122	0.304	-.402	0.688
Improving accounting and auditing standards	-0.143	0.093	-1.53	0.127
Internal audit role	0.080	0.079	1.01	0.312
Audit committee role	0.287	0.115	2.50	0.013
External audit role	0.771	0.057	13.42	0.000
F	86.64			0.000
R^2	0.640			
Adjusted R Square	0.633			

Standard errors in parentheses

*** p<0.01, ** p<0.05, * p<0.1

According to the results presented above, the significance of the estimated relationship as a whole, at a significance level of 0.05, where the calculated F value reaches 86.64, which is less than the level of significance 0.05, means it is statistically significant. We find that whenever the amount of improving in accounting and auditing standards increases by one unit, the dependent variable (the limiting of creative accounting practices-Q5) decreases by 0.143 with the constancy of the other factors. This result implies that the more improvements in accounting and auditing standards are made, the more creative accounting practices may occur, because top management may exploit the gaps that are created from these changes in standards. Findings also indicate that whenever the degree of internal audit role increases by one unit, the dependent variable (the limiting of creative accounting practices-Q5) increases by 0.080 with the other factors remaining constant. However, these two variables seem to be insignificant because the p-values are above the level of significance (0.127 and 0.312 respectively). These findings therefore show a significant association between the other two independent variables (i.e. audit committee role and external audit role). Furthermore, we find that as the audit committee role increases by one unit, the dependent variable (the limiting of creative accounting practices-Q5) increases by 0.287 with the other factors constant. Finally, the results demonstrate that whenever the role of external audit increases by one unit, the dependent variable (the limiting of creative accounting practices-Q5) increases by 0.771, with the other factors remaining constant.

By examining the value of the coefficient of determination R2, we find that the explanatory capacity of the estimated model is 64.0%, which means that the changes that occur in the dependent variable of ‘limiting creative accounting practices’ can be explained by changes in the independent variable of ‘accounting mechanisms for corporate governance’. This demonstrates the strength of the explanatory ability of the model and the rest is due to random error and other factors. Also, We have added the countries into the fitted regression models. However no changes have been noticed in the estimated regression coefficients for the effects of the independent variables in the dependent variable

8. Conclusion and recommendations

This study examined the relationship between accounting mechanisms for corporate governance and the limiting of creative accounting practices from the accounting experts’ point of view. The accounting mechanisms for corporate governance were identified by four variables; (1) improving accounting and auditing standards, (2) internal audit role, (3) audit committee role and (4) external audit role. The study finds that the audit committee role and the external audit role are seen to be the most powerful governance tools that could reduce the harmful practices of creative accounting. The outcome of the multiple regression asserts the significance of the effect of these two variables. However, it seems that improving accounting and auditing standards and internal audits do not play a significant role in restricting creative accounting practices. It is recommended that future research in this area could address other issues that are related to creative accounting practices, such as a country’s regulations for corporate governance because countries differ in their levels of applying such practices. The study could be expanded and to include data from company databases to support the theoretical aspects of this study.

The study suggests some recommendations for policy makers, and practical implantation, as follows:

- Preparing awareness programs for accountants on the need to adhere to the ethics of the accounting profession and to move away from negative practices of creative accounting.
- The necessity of conducting training courses and workshops for internal auditors to help them recognize the various methods used in creative accounting for the purpose of discovering and combating them.
- There is a need for a standard that addresses creative accounting practices.
- Expanding future research on the impact of corporate governance tools on creative accounting practices.

Conflict of Interests statement

The authors declare that there is no conflict of interests in this research.

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