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THE RELATIONSHIP BETWEEN CREATIVE ACCOUNTING RISKS AND AUDITING RISKS FROM THE PERSPECTIVE OF EXTERNAL AUDITORS IN SAUDI ARABIA

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ABSTRACT

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The present study aimed to identify the relationship between creative accounting risks and auditing risks from the perspective of external auditors in Saudi Arabia. The sample comprised licensed auditors who serve in Saudi statutory audit offices. The outcomes showed that external auditors were aware of creative accounting risks. In addition, their professional technical factors, such as professionalism, commitment to training programs and continuing education, mentorship, considering professional standards in auditing, good planning for external auditing, their supervision of auditing teamwork, and auditing fees, enormously helped identify creative auditing practices. There were no statistically significant differences in the external auditors' estimates of the effect of creative accounting risk on auditing risks according to the variables of (academic qualification, professional qualification, occupation, and experience). No statistically significant differences were found in the external auditors' estimates of the external auditor's responsibility to detect creative accounting practices according to these variables. The research recommends giving concern to the concept of creative accounting risks, and set the standards and procedures that the auditor must follow to address these practices because of their negative effects on the reliability of the financial statements.

Contribution/Originality: This study was the first in Saudi Arabia to identify the external auditors' views on the impact of creative accounting risks on auditing. The findings will encourage statutory audit offices to consider detecting creative accounting practices, and thus confidence in financial reports is promoted.

1. INTRODUCTION

Constant expansion in the size and financial transactions of the economic institutions has increased the relevant negatives and creative accounting practices which appeared in several terms, such as creative accounting, aggressive or fraudulent accounting, and profits smoothing, earnings management, income smoothing, cosmetic accounting, disclosure management, massive complex, ...etc.

The researcher claims that although the above-mentioned terms differ, the management adopts them to achieve unreal improvement in profit or financial status through exploiting the gaps in external auditing methods, or taking advantage of the alternative accounting policies which allow the company to use accounting standards in developing the measurement and disclosure methods to prepare inaccurate financial statements and avoid particular contractual issues (Alsahli, 2007; Matar, 1997). This manifests that reducing the risk of creative accounting practices in auditing is complicated, so the concerned ones constantly strive to uncover those practices, increase awareness, scientifically prove their seriousness for auditing, and reduce them (Alkhashawi & Aldossary, 2008).

2. STATEMENT OF THE PROBLEM

Because of the economic problems of the institutions, departments attempt to benefit from the flexibility offered by accounting standards to adopt creative accounting through influencing and directing decisions within the law to achieve their personal goals. The researcher contends that auditing plays an important role in reducing creative accounting risks, and promoting financial reports quality. Moreover, the auditor is responsible for identifying creative accounting risks, and making the financial statements report. This requires conducting adequate auditing procedures based on the concept of auditing risks to be sure that financial statements have no material misstatements resulting from creative accounting practices. Accordingly, the study seeks to address the issue by posing the following major question:

What is the relationship between creative accounting risks and auditing risks from the perspective of external auditors in Saudi Arabia?

This major question can be subdivided into two minor ones:

1. What is the perspective of the external auditors on creative accounting methods adopted by companies in Saudi Arabia?
2. What is the responsibility of the external auditor for detecting creative auditing practices from the perspective of external auditors in Saudi Arabia?

3. SIGNIFICANCE

Reviewing the previous local, Arabic and foreign pieces of literature demonstrated lack in the papers and studies that addressed the topic under study. Thus, significance of the present study stems from the fact that it is the first one to address such issue in Saudi Arabia. Hence, it will enrich scientific research, especially with regard to assessing the external auditors' views on the impact of creative accounting risks on auditing. The researcher also expects that the field study, which is conducted in Saudi Arabia, will encourage statutory audit offices to consider detecting creative accounting practices, so confidence in financial reports is promoted.

4. OBJECTIVES

The present study aims *to identify* the relationship between creative accounting risks and auditing risks from the perspective of external auditors.

The major objective can be subdivided into the following minor objectives:

- *Identify the effect of creative accounting risk on auditing, define the difference between accounting error; accounting fraud; and creative accounting, and address the debate among researchers on methods; procedures and detection of creative accounting, as well as its impact on the reliability of financial data and reports.*
- *Identify the external auditors' perspectives on creative accounting practices.*

5. HYPOTHESES

- There are no statistically significant differences at significance level ($\alpha \leq 0.05$) in the external auditors' estimates of the effect of the creative accounting risks on auditing risks according to the study variables.
- There are no statistically significant differences at significance level ($\alpha \leq 0.05$) in the external auditors' estimates of the external auditor's responsibility to detect creative accounting practices according to the study variables.

6. METHODOLOGY

The study adopted the descriptive analytical approach. For the descriptive approach, the researcher read relevant books, periodicals, Arabic and foreign articles, as well as theoretical and field papers to develop the foundations on which the concept of creative accounting is based. Thus, the researcher can provide a background on

creative accounting risks and their relationship to auditing risk. Moreover, the researcher read the relevant previous pieces of literature, which constitute the study domains. For the analytical field approach, a survey was conducted; the data obtained from the questionnaire, which was distributed to answer the questions and test the hypotheses of the study, were analyzed; and the outcomes were interpreted using the appropriate statistical methods.

7. LIMITS

- *Spatial limits:* The study was conducted at Saudi statutory audit offices available on the official website of the Saudi Organization for Certified Public Accountants (SOCPA) and (2) questionnaires were sent to each office.
- *Temporal limits:* The study was conducted for the academic year 2019/2020.

8. THEORETICAL FRAMEWORK

8.1. Creative Accounting

According to Agostini and Favero (2012) creative accounting is "the process by which creativity organizes the accounting outcomes required in advance, rather than neutral and consistent outcomes ". Hammad (2006) defines it as "a broad term that comprises all practices that adjust the presented financial outcomes as well as financial status, and change the attitude towards the performance of the institution. It is a comprehensive term that describes all measures (i.e. aggressive accounting, profit management, mitigating income fluctuations, or fraudulent financial reporting).

Amora and Sharifi (2011) define it as "providing accounting information in the form of high-quality information, which benefits beneficiaries, so they always search for it, and wish to obtain it. According to Bataineh (2010) it denotes adopting some tricks and accounting methods to raise the profile of the joint stock company in terms of the strength of its financial status, volume of net profits, or its competitive; financial and transactional status.

The researcher claims that although the above-mentioned definitions differ, they agree that creative accounting is a procedure adopted by the management to achieve unreal improvement in financial statements through exploiting the weaknesses in external auditing methods as well as measurement and disclosure methods to present inaccurate financial numbers and achieve particular goals. Therefore, the auditor should be distinguished with credibility, transparency and the ability to adopt standards with which he can easily detect fraud and its percentage.

8.2. Positive and Negative Aspects of Creative Accounting

Despite controversy on creative accounting practices, most researchers agree that it has two aspects:

- I. *Positive Aspect:* Accountants resort to imagination to explain financial, economic and legal innovations which lack standard accounting solutions when they occur. In other words, it helps find unfamiliar accounting solutions and procedures that help make decisions, provide high quality accounting information, as well as renews and develops accounting methods and procedures (Amora & Sharifi, 2011; Karim, Fowzia, & Rashid, 2011).
- II. *Negative Aspect:* Creative accounting involves adopting tricks, methods of misrepresentation and numbers manipulation, i.e. adjustments arising from financial engineering, to demonstrate a particular situation in accordance with its effect on the balance sheet and the company outcomes to serve the interests of certain parties or conceal facts. Jameson (1988) stated that creative accounting practices do not violate law or accounting standards, so they are consistent with the law not with the spirit of the law. However, they distort financial outcomes and corporate positions, as well as mislead users of accounting information (Amora & Sharifi, 2011; Karim et al., 2011).

The researcher supports the negative aspect of creative accounting practices because they transform reality into a desired state to achieve personal interests that may contradict the others', and this is a deception in the financial report. Furthermore, deception fundamentally affects the financial reports. Transformation process may be considered fraud in the financial statements. She also asserts that most researchers classify it as fraud in the financial reports, and others classify it as management fraud. Although some creative accounting methods are acceptable, they result in incorrect and misleading financial statements. Figure 1 shows the nature of creative accounting practices.

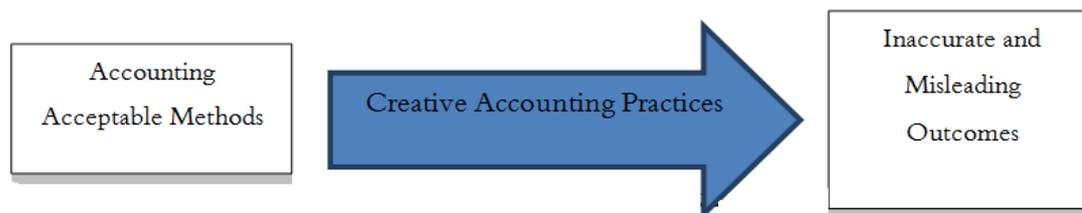


Figure-1. Nature of creative accounting practices.

8.3. Creative Accounting

The researcher claims that creative accounting is the accountant's ability to find new things, i.e. ideas, solutions, methods, procedures or practices when using his/her skills and creative personal experience to devise new accounting methods that help find accounting solutions and achieve particular goals for the benefit of certain parties although they may conflict with the others' interests and fail to achieve the overall benefit. Hamada (2010) clarifies the common aspects of creative accounting practices, as follows:

- Exploitative practices adopted in selecting accounting estimates.
- Unavoidable practices.
- General and common practices.
- Reasonable practices.
- Fraudulent practices that convert real numbers to unreal ones.
- Legal practices that are within the framework of international accounting principles and standards.
- Practices harmful to internal and external parties.

Hammad (2006) reports that creative accounting practices involve the whole methods used in financial numbers manipulation, including intentional and unintentional selection, deceptive and unethical application of accepted accounting principles, fraudulent financial reports, and the steps that manage profits or reduce income fluctuations. Saleh and Fatiha (2010) indicates that creative accounting comprises several characteristics, such as the accountant's ability to analyze and synthesize, visualize and use intuition, have courage and self-confidence, and develop his/her self through self-criticism.

The researcher contends that accounting error is unintentionally committed, but the values of the financial statements involve items against the accepted accounting principles. When it is detected, the necessary adjustments are made to correct the items of the financial statements. In addition, it signifies distortion, negligence, or unintentional exclusion that occurs because the personnel of accounts department ignore accounting standards. Whereas, fraud is associated with the attempt be hidden to cause intentional misrepresentations that cannot be easily detected. Moreover, its detection is related to the strength or weakness of the internal control system, and the auditor's ability to detect and observe the distortions. Sacks (2004) states that what distinguishes accounting fraud from accounting error is that fraud is intentionally committed, and occurs either in misleading financial statements, or in financial assets embezzlement. In addition, no comprehensive system is available for detecting accounting fraud. Thus, the auditor may fail to detect it despite the appropriate planning for auditing process. Table 1 shows the similarities and differences between error, fraud and accounting creativity.

Table-1. Similarities and differences between accounting error, accounting fraud, and creative accounting.

Accounting Error	Accounting Fraud	Creative Accounting
Illegal procedure	Illegal procedure	legal procedure
Unintentional	intentional	intentional
Easy detection	difficult detection	difficult detection
Misleading financial statements	misleading financial statements	misleading financial statements

Note: All cases have the same result, i.e. presenting misleading financial statements.

8.4. The Relationship between Creative Accounting Risk and Auditing Risk

The topic of creative accounting risk and auditing risk has grabbed the attention of numerous affiliations because the higher the quality of auditing process, the less the auditing risk. Hence, the auditor feels confident to express his/her neutral technical opinion on the validity and reliability of the financial statements. Accordingly, auditing risk is a substantial but unintended failure in the financial statements (Bernoth & Wolff, 2006).

8.5. Audit Risk Components

8.5.1. Inherent Risk

Inherent risk is embedded in the nature of the institution, industry, or account. It also denotes the exposure of a transaction, an account, or a balance in the financial statements to a serious error with no internal control procedures. Risk always occurs if the financial statements are inaccurate. The administration may insert incorrect data to show an increase or decrease in net profit. Thus, more return is obtained and the amount of zakat or taxes reduces. Various examples reflect such improper actions. Therefore, the auditor must properly know the activity and the financial status of the company as well as the surrounding circumstances, and verify that the creators of financial statements encounter no pressure. Consequently, he/she can accurately assess inherent risk when planning for auditing process, which increases the effectiveness of his/ her decisions in detecting those errors and irregularities that cause fundamental distortion in the financial statements (Alanqari, 2007; Almaqtari, 2011).

The standard of auditing risks and relative significance issued by the Saudi Organization for Certified Public Accountants (2000) defines the inherent risk as “the possibility that the company statements conceal serious errors and fraud assuming the absence of internal control procedures.” (Item 142). The American Auditing Standard No. (47) defines it as “the financial statements certainty of creative accounting practices assuming the absence of internal control structure” (Frag, 2009).

8.6. Control Risk

It denotes that the internal control may not prevent or detect fundamental errors in one or more elements in the financial statements. It may involve the risk of accessing confidential data files, as well. Hence, the auditor should identify the elements, efficiency, and weaknesses of the internal control structure on one hand. On the other hand, he/she should conduct commitment tests to justify control risk reduction below the maximum level (Almaqtari, 2011).

The standard of auditing risks and relative significance issued by the Saudi Organization for Certified Public Accountants (2000) defines control risk as “serious errors and fraud are not prevented or detected in the statements on time because of the internal control weakness.” (Item 143). Control risks have a direct correlation with the effectiveness of designing and implementing internal control in achieving the establishment's goals related to preparing its financial statements. It is an internal risk that the auditor cannot influence, but he/she should only evaluate it to define the required auditing procedures which reduce the detection risk to the acceptable level (Kharwat, 2009). The American Auditing Standard No. (47) defines it as “the creative accounting risks that occur in a particular certainty in the financial statements and cannot be prevented or detected by the internal control procedures” (Frag, 2009).

8.7. Detection Risk

It implies that the auditor may fail to detect the errors in the financial statements that have not been prevented or detected by internal control accounting system. In addition, it is the only element that the auditor can control by increasing or decreasing the basic tests, which are carried out in the stages of planning and implementing auditing process. Accordingly, the auditor should analyze and evaluate inherent risk, as well as carefully examine and estimate control risk to reduce detection risk to the lowest possible level.

The standard of auditing risks and relative significance issued by the [Saudi Organization for Certified Public Accountants \(2000\)](#) defines it as "the auditor's inability to detect serious error or fraud in one of the certainties. It is associated with the effectiveness of auditing procedure, and how the auditor applies it. These risks partially stem from uncertainty elements arising from the auditor's failure to examine 100% of the account balance or type of transaction, and from other uncertainty elements that exist even if the auditor examines 100% of the account balance or a type of transactions. Other uncertainty elements arise from performing inappropriate auditing, poor application of an appropriate procedure, or misinterpretation of auditing results. Other uncertainty elements may be reduced to a negligible level through adequate planning, supervision, and implementation of the office's auditing work in accordance with appropriate control standards "(item 144). The American Auditing Standard no. (47) defines non-detection risks as "the inability of auditing procedures to detect creative accounting practices that exist in a particular certainty in the financial statements."

International Standard No. (400) defines creative accounting risks as (non-detection risk) as "the risks resulting from not detecting the auditing procedures the auditor performs - creative accounting practices in the account balance or in a type of transactions. This may be distortion in itself or if added to other creative accounting practices in the balances of other accounts or other types of transactions" ([Farang, 2009](#)).

8.8. Major Elements of Creative Accounting Risks and their Effect on Auditing Quality

8.8.1. Litigation Risk

Litigation risk is one of the factors that influence auditing profession, as well as accounting information and its quality. The auditor is sued when the client claims that he/she did not do the task competently, i.e. the auditor failed to detect creative accounting practices in the financial statements, or detected them, but never reported them. Several studies addressed the factors affecting the auditor's litigation as clarified in (financial hardship, growth in ownership, long / short auditing period, auditor's independence, adjusted opinion, and size of the customer's establishment).

8.9. Sanctions Risk

It represents the penalties and sanctions which regulators impose on the auditor because of his/her issues with the client. They affect his/her salary, behavior and professional reputation.

8.10. Damaging the Auditor's Professional Reputation

Damaging the auditor's reputation is an aspect of creative accounting risks because of his/ her litigation or sanctions. His/her reputation is a determinant of his/her professional performance quality. [Fearnley, Beattie, and Brandt \(2005\)](#) state that auditing risks can be countered by auditing the account balances annually, and testing compliance with internal control systems through paying frequent visits to the company's control systems, especially the automated ones. Combating creative accounting risk is difficult and complicated. Thus, auditors seek to know the developments of creative accounting to detect and reduce its risk.

[Hamada \(2010\)](#) argues that the role of audit committee should be activated to diminish creative accounting practices and carry out the following procedures and tasks:

- Supervise and oversee the financial reports, as well as investigate and disclose the adopted accounting policies in light of the objectives of the financial reports.
- Support and improve the quality of the external audit function through appointing experienced and competent auditors, help the external auditor do his/her tasks and maintain independence, coordinate between the external auditor and the internal auditor and consider their observations, and oversee the services of the external auditor to increase the investors and external parties' confidence in financial reports.
- Examine the activities, plans and results of the internal auditing, and evaluate its performance.
- Evaluate internal control systems to address weaknesses and strengthen them.
- *Audit committees oversee the company's business to ensure a high level of disclosure, transparency, and appropriateness for its clients.*
- Risk management in companies: *Supervise risk management, help the administration design risk management strategy according to different types of risks, comprehend the relationship between risk management and financial reports, assess fraud risk at every level of the management, help identify risks to take advantage of opportunities and reduce uncertainty, and assess adequacy of risk control; including external risks.*

8.11. Factors of Creative Accounting Risks

According to Hammad (2006) and Farag (2009) they are the characteristics that reflect creative accounting practices in the company, and are defined, as follows:

- *Risk factors related to management characteristics and their impact on control environment:* They are closely related to the management capabilities, pressures, and its relationship with internal control as well as the financial reporting.
- *Risk factors related to industry circumstances:* They involve the economic and organizational environment where the facility operates.
- *Risk factors related to operational characteristics and financial stability:* They are associated with the complicated nature, transactions, financial status, and profits of the facility.

Accordingly, Farag (2009) claims that factors of creative accounting risks should be classified based on the triangle of creative accounting risks which involve the three following factors:

- *Motivational factors:* The management's willingness to do creative accounting practices in the financial statements.
- *Opportunities-related factors:* The opportunity to perform creative accounting practices and the possibility of their occurrence in the financial statements. These factors are represented in weakness of the internal control structure.
- *Logical justifications:* The ability of those involved in creative accounting practices to justify their action, especially in light of opportunities availability, because they usually have the ability to deceive.

Risk model reveals that the auditor successfully detect these practices if he is able to:

- Properly identify factors of creative accounting risks.
- Assess creative accounting risks accordingly.
- Establish audit procedures that reduce the risks of material distortions in the financial statements resulting from undetected creative accounting practices.

9. LITERATURE REVIEW

Alwashali (2010) measured the auditors' perception of the responsibility to assess and detect management fraud and their response to fraud risks, as well as the relative effect of their characteristics on detecting management fraud.

Hamada (2010) covered the activities carried out by the audit committees to reduce creative accounting practices, and the views of external auditors and members of audit committee on the role of audit committee in reducing these practices. To achieve the study objective, the deductive inductive approach was adopted. The researcher distributed a questionnaire to some external auditors and members of the audit committee in joint-stock companies in Syria. The questionnaire comprised the audit committees' activities when carrying out their tasks to reduce these practice in companies.

Salome, Ogbonna, Marcel, and Echezonachi (2012) addressed the impact of creative accounting on accountants' performance when reporting financial statements and data in Nigeria, the financial reporting system, the process of choosing an accounting policy, and handling financial reports. They also aimed to verify whether a well-designed framework of accounting regulations can reduce creative accounting practices in the financial reports of companies. The study employed empirical survey. (227) out of (500) participants were selected.

Almaqtari (2011) investigated improving quality, addressing changes of the competitive environment in auditing market, and reducing audit risks through highlighting the auditor's professional role in improving audit risks estimates in Yemen. Moreover, a field study, focusing on the Yemeni business environment and involving a sample of auditors, was conducted.

The results of the theoretical and field study highlighted the importance of the auditor's professional specialization in auditing which improves the efficacy of audit risk assessment represented in control risk, detection risk, and inherent risk. This is accomplished through the accurate defining of compliance tests, improving the decisions of audit process planning, reinforcing the auditor's independence, detecting profit management cases, upgrade professional competition among audit offices, and reducing the cases of using experts. The aforementioned variables reflect the quality of professional performance. This agreement reflects the auditors' perception of the importance of auditing specialization in improving the quality of professional performance.

Karim et al. (2011) tackled causes, techniques, and consequences of creative accounting. Findings of the descriptive statistics revealed that the perceptions of the three categories of the participants are different about the various aspects of creative accounting. They also showed the opinions and concerns of internal auditors, external auditors and accountants on these practices continuity. Their study revealed that creative accounting is a global one and accounting policy choice represents a particular problem for both developed and developing countries. Furthermore, various methods encourage managers to engage in creative accounting. In addition, accountants who accept the ethical challenge that creative accounting raise need to be aware of the scope for both abuse of accounting policy choice and manipulation of transactions.

Alqateesh and Alsufi (2011) shed light on the most important methods adopted in creative accounting and their impact on the reliability of accounting data. They also aimed to identify creative accounting practices and the auditor's role in such practices. The study adopted the descriptive analytical approach and (50) questionnaires were distributed to some audit offices in Jordan. The results exhibited that the public joint stock companies in Amman Stock Exchange do not manipulate obligations, revenues, expenses, assets and property rights using creative accounting practices.

Abu Tammam (2013) aimed to identify creative accounting practices used in cash flow statements, and its impact on the reliability of the financial statements included in cash flow statements. To achieve the study objective, the researchers addressed two types of data: preliminary data and secondary data. The sample comprised (261) accountants, auditors, financial analysts, and financial data users.

The study manifested the effect of using creative accounting practices on the reliability and relevance of cash flow statements. In addition, there were no statistically significant differences in the participants' opinions on the accountants, auditors, financial analysts, and financial statements users' perception of the procedures that can be employed to reduce the effects of creative accounting on cash flow statements.

Alazmi (2015) addressed how to counter auditing risks resulted from creative accounting practice, narrow expectations gap, and achieve the desired quality of auditing process using various mechanisms to prevent creative accounting practices, enhance the reliability of accounting information, and narrow the gap of credibility and confidence in auditing profession, The study adopted the inductive deductive approach. The results showed statistically significant differences between the methods of creative accounting practices and auditing quality. In addition, auditing process is responsible for exposing the faults of creative accounting.

Alzain (2017) tackled the role of constant auditing in increasing confidence in the electronic financial statements of the Sudanese banks, and reducing their manipulation as well as online penetration risk. The study aimed to increase transparency of financial statements in Sudanese banks, reduce manipulation of profit rates in the electronic financial statements, and develop new auditing methods that increase the efficacy of the information presented to users. Significance of the study lies in activating the role of constant control in reducing the risks of the electronic availability of financial statements in the Sudanese banks and helping the statements users make the proper decisions regarding their investments in these banks. The modern methods used by banks increased the penetration risks for the reports presented to the internal and external users.

The results demonstrated that constant auditing reduces creative accounting practices in income statement, financial status and cash flows. Moreover, delivering training to internal auditors and arranging internal and external courses increase their ability to detect errors. Additionally, constant auditing reduces manipulation in the electronic financial reports. The study recommended giving concern to appointing qualified employees at internal audit department. Furthermore, professional organizations should transfer internal auditors to learn modern methods of detecting errors. In addition, instant examination of the sites, on which the bank's financial reports are published, has to be conducted.

Ali and Jellaba (2017) addressed the impact of creative accounting on the quality of accounting information in the banks' financial statements and how far the accountant's ethical behavior contributes to its emergence. The study demonstrated the necessity of increasing concern for the accountant's ethical aspect in order not to adopt creative accounting practices. The study recommended applying relative consistency to accounting methods and policies to help compare the financial statements.

Abu Alkhair (2018) addressed the role of the international auditing standards in reducing creative accounting practices in the financial statements. The study adopted the descriptive approach by presenting various definitions and terms relevant to the subject using the preliminary and secondary information obtained from books, journals, studies and periodicals. It also utilized Statistical Package for Social Sciences (SPSS) and analytical approach.

The results revealed that accounting information resulting from financial statements prepared in accordance with the requirements of auditing standard No (500) for evidence in accurate financial statements. Moreover, the auditor knows that the more the risks, the more evidence he/she uses. He/she also has the right to select the evidence appropriate for the examined account. Furthermore, accounting information resulting from financial statements prepared in accordance with the requirements of audit standard No. (560) for the consequences, following the budget date has a high degree of relevance and objectivity that helps the statements users to make correct economic decisions. In addition, failure to modify data of the financial reports affected by the consequences following the balance sheet date exposes enterprises to numerous crises and losses, such as paying taxes on fictitious profits and distributing fictitious profits, which cause their capital erosion.

Alsayaghi (2018) investigated modern methods of control to disclose creative accounting practices and reduce risks. The study adopted the historical deductive approach to define the study domains and the descriptive analytical approach to collect data using the questionnaire that was distributed to (150) joint stock companies and Sudanese banks. The results demonstrated that adopting modern methods of control contributes to exposing creative accounting risks in Sudanese banks. Moreover, there was positive relationship between adopting modern methods of control and risks reduction in the Sudanese banks in Khartoum.

Most previous pieces of literature separately covered auditing risks and creative accounting risks, where most studies that addressed auditing risks focused on the external auditor's contribution to mitigating their impact on the financial statements. In addition, majority of studies clarified the concept, nature, causes, ethical aspects, and consequences of creative accounting practices and the external auditor's roles in reducing them. Moreover, the relationship between creative accounting risks and auditing risks has not been adequately covered. Thus, the present study attempts to shed light on it.

10. SAMPLING

The sample comprises (138) licensed Saudi statutory audit offices available on the official website of the Saudi Organization for Certified Public Accountants (SOCPA). The statement involved names, addresses, telephone numbers of the offices as well as names and number of the licensed auditors who were approximately (200).

Accordingly, the researcher distributed (200) questionnaires to a random sample of auditors serving in Saudi statutory audit offices. The researcher collected 143 questionnaires with a percentage of (71.5%). The researcher could not collect the other questionnaires because the auditors lacked cooperation. Only (3) incomplete questionnaires were excluded, so (140) questionnaires with a percentage of (70%) were valid for the analysis. Table 2 shows the characteristics of the sample.

Table-2. Characteristics of sample according to its variables.

Variable	Category	Number	Percentage
Scientific Qualification	Bachelor	118	84.3
	Master	20	14.3
	Doctorate	2	1.4
	Total	140	100.0
Professional Qualification	Saudi Fellowship	22	15.7
	American Fellowship	11	7.9
	British Fellowship	3	2.1
	Other	104	74.3
	Total	140	100.0
Occupation	Auditor	51	36.4
	Senior Auditor	42	30.0
	Auditing Director	47	33.6
	Total	140	100.0
Experience	Less than five years	19	13.6
	5-10 years	31	22.1
	More than ten year	90	64.3
	Total	140	100.0

The Table exhibits that the percentage of bachelor was the highest (84.3%) compared to that of the other qualifications.

10.1. Data Collection

The questionnaire was adopted as a tool to collect the data essential to answer the questions and test the hypotheses. It is a tool frequently used in many Arabic and foreign studies to evaluate opinions because it is transparent and comprehensive. It first indicated title, objectives and concepts of the study. It was divided into two sections, as follows:

10.2. First Section

It involves the participants' personal data and four items (scientific qualification, professional qualification, occupation, and experience) to measure the differences in external auditors' estimates of the study domains according to the above-mentioned variables to test the study hypotheses.

10.3. Second Section

It comprises the questionnaire questions which measure the questions and hypotheses of the study. It contains the two following domains:

- *First Domain:* It evaluates the impact of the creative accounting risks on auditing risks from the perspective of external auditors to test the first hypothesis. Accordingly, it was divided into two parts: The first involves (20) items showing examples of creative accounting practices selected from the previous pieces of literature, particularly the study of Alqari (2010) which covered the most prevalent practices in Saudi Arabia, to answer the question of the study from the external auditors' perspective on those practices in terms of their consistency or inconsistency with the accepted accounting principles, or whether they are classified as accounting fraud; to identify their impact on auditing risk; and to the answer the major question on defining the relationship between creative accounting practices and auditing risks. The second part comprises (7) items. The first part adopts three-point Likert scale (contrast the accepted accounting principles, does not contrast the accepted accounting principles, and accounting fraud). However, the second part adopts five-point Likert scale (strongly agree, agree, undecided, disagree, and strongly disagree).
- *Second Domain:* It measures the external auditors' perspective on their responsibility to detect creative accounting practices to test the second hypothesis. It consists of (7) items and adopts 5-point Likert scale (strongly agree, agree, undecided, disagree, and strongly disagree).

10.4. Validity and Reliability

To verify the questionnaire validity, it was reviewed by distinguished reviewers from the faculty members at Accounting Department, Faculty of Economics and Administration, King Abdulaziz University, as well as some external auditors who serve in Saudi statutory audit offices to evaluate the participants' opinions and to benefit from their experience in accounting and auditing. The researcher asked the reviewers to express their opinion about how far the items matched their objective, and how far the items were clear and comprehensive, and to adjust, add, or delete some items.

To verify the tool reliability, the researcher applied it to a pilot sample consisting of (30) participants selected from and out of the study population. Then, Cronbach's alpha was calculated. Table 3 shows Cronbach's Alpha reliability coefficient.

Table-3. Tools Reliability Coefficients according to Cronbach's alpha.

Item	Domain	Reliability Coefficient
Creative accounting risks in auditing risks	Creative accounting practices	0.92
	Relationship between creative accounting risks and auditing risks	0.88
The external auditor's responsibility to detect creative accounting	-	0.89

Table 3 shows that reliability coefficients for the domain of creative accounting risks in auditing risks were (0.88) and (0.92), and (0.89) for the external auditor's responsibility to detect creative accounting.

11. RESULTS AND DISCUSSION

To answer the first question, arithmetic means and standard deviations of the participants' responses on the creative accounting practices of the companies were estimated. The researcher classified the arithmetic means as follows: less than or equal (1.66) is consistent with the accepted accounting principles, above (1.66) and less than or equal (2.33) is inconsistent with the accepted accounting principles, and above (2.33) is fraud. Table 4 shows Arithmetic means and standard deviations of the participants' responses on the creative accounting practices of the companies.

Table-4. Arithmetic means and standard deviations of the participants' responses on the creative accounting practices of the companies.

Accounting Method	Mean	Standard deviation	Percentage			Classification Degree
			Consistent	Inconsistent	Fraud	
Postpone sales recording to obtain an increase in sales in the next fiscal year.	2.56	0.58	4.3	35.7	60.0	Fraud
The holding company does not disclose the subsidiaries losses.	2.44	0.55	2.9	50.0	47.1	Fraud
Send goods to potential customers, and record them as sales to expedite approving their revenue.	2.44	0.68	10.7	34.3	55.0	Fraud
Exaggeration or reduction in the inventory assessment.	2.44	0.59	5.0	46.4	48.6	Fraud
Transfer current expenses to previous or following accounting periods.	2.39	0.53	2.1	56.4	41.4	Fraud
Conceal liabilities or restrictions of some assets, such as mortgage, security, and leasing.	2.39	0.56	3.6	54.3	42.1	Fraud
Intentionally improve liquidity ratios by not including due installments from long-term loans throughout the year.	2.36	0.62	7.9	48.6	43.6	Fraud
Overestimate the value of intangible assets.	2.34	0.65	10.0	45.7	44.3	Fraud
Change the classification of short-term investments to long-term investments to avoid the effects of falling prices	2.31	0.64	9.3	50.0	40.7	Consistent
Keep accounting books open for some days despite the end of their fiscal year to record some expected sales (in agreement with customers).	2.31	0.63	9.3	50.7	40.0	Consistent
Possess the assets of a subsidiary through rights merger (book value). Then, sell them to make gains added to profit with no disclosure.	2.20	0.61	10.7	58.6	30.7	Consistent
Overestimate future profits corresponding to revenue expenditure (advertising expenses)	2.20	0.65	12.9	54.3	32.9	Consistent

Inventory is stagnant or obsolete.	2.19	0.74	19.3	42.9	37.9	Consistent
Non-recurring revenues are categorized as operating earnings.	2.16	0.53	7.1	70.0	22.9	Consistent
Influence depreciation rate through changing the adopted depreciation method.	2.13	0.62	13.6	60.0	26.4	Consistent
Classify some operating expenses as non-recurring losses in income statement.	2.12	0.58	11.4	65.0	23.6	Consistent
Revenue is rapidly recorded although sale process has not been confirmed yet.	2.11	0.52	8.6	71.4	20.0	Consistent
Capitalization of research and development expenses with no requirements for capitalization.	2.11	0.44	5.0	79.3	15.7	Consistent
Overestimate or underestimate the asset life.	2.09	0.65	17.1	57.1	25.7	Consistent
Underestimate allowance for doubtful account	2.03	0.61	17.1	62.9	20.0	Consistent

Table 4 indicates that, according to the perspective of the Saudi external auditors on the creative accounting methods adopted by the companies, some methods contradict the accepted accounting principles, while others are classified as fraud. However, none is classified as "does not contradict accounting principles".

This result asserts that creative accounting practices affect the reliability of financial reports as well as auditing risks if they are not detected or reported. (60%) of creative accounting practices contradicted the accepted accounting principles, and (40%) was classified as fraud. The researcher contends that creative accounting practices are considered fraud because they affect the reliability of financial reports regardless their impact degree. Thus, auditors must take into account, when assessing auditing risks, factors and practices of creative accounting and report them to enhance the quality of financial reports. In addition, the accounting practices classified as fraud are represented, as follows: Postpone sales recording to obtain an increase in sales in the next fiscal year ranked first; with arithmetic mean (2.56), the holding company does not disclose the subsidiaries losses, and send goods to potential customers as well as record them as sales to expedite approving their revenue ranked second; with arithmetic mean (2.44), transfer current expenses to previous or following accounting periods and conceal liabilities or restrictions of some assets, such as mortgage; security and leasing ranked third, with arithmetic mean (2.39), and overestimate the value of intangible assets raked fifth and last, with arithmetic mean (2.34).

Moreover, the accounting practices that contradict the accepted accounting practices are represented, as follows: Change the classification of short-term investments to long-term investments to avoid the effects of falling prices and keep accounting books open for some days despite the end of their fiscal year to record some expected sales (in agreement with customers) ranked first; with arithmetic mean (2.31), possess the assets of a subsidiary through rights merger (book value) and sell them to make gains added to profit with no disclosure as well as overestimate future profits corresponding to revenue expenditure (advertising expenses) ranked second; with arithmetic mean (2.20), inventory is stagnant or obsolete ranked third; with arithmetic mean (2.19), non-recurring revenues are categorized as operating earnings ranked fourth; with arithmetic mean (2.16), influence depreciation rate through changing the adopted depreciation method ranked fifth; with arithmetic mean (2.13), classify some operating expenses as non-recurring losses ranked sixth; with arithmetic mean (2.12), revenue is rapidly recorded although sale process has not been confirmed yet as well as capitalization of research and development expenses with no requirements for capitalization ranked seventh; with arithmetic mean (2.11), overestimate or underestimate

the asset life ranked eighth; with arithmetic mean (2.09), and underestimate allowance for doubtful account ranked last; with arithmetic mean (2.03).

To answer the second question, arithmetic means and standard deviations of the participants' responses at the level of each item and at the total level were estimated. The researcher classified the arithmetic means, as follows: Less than or equal (2.33) is low, above (2.33) and less than or equal (3.66) is moderate, and above (3.66) is high.

Table-5. Arithmetic means and standard deviations of the participants' responses on the relationship between creative accounting risks and the auditing risks.

Item	Rank	Arithmetic mean	Standard Deviations	Relationship Degree
The higher the quality of auditing process, the fewer the accounting practices risks.	1	4.41	0.74	High
Failure to detect errors and manipulation in financial statements increases accounting practices risks.	2	4.27	0.78	High
Accounting practices risks are considered when estimating auditing risks.	3	4.14	0.80	High
Accounting practices risks form a substantial element of auditing risks if the auditor does not detect them and report the financial statements accurately.	4	4.10	0.77	High
Accounting practices risks is relevant to non-detection risk which has to be combined with control risk and inherent risks to identify the accepted auditing risk.	5	4.07	0.75	High
Accounting practices help conceal the actual performance of companies as well as distortion in financial statements.	6	4.06	1.05	High
The fewer control risks and inherent risks that the auditor conceives, the more the detection of accounting practices that the auditor accepts.	7	3.93	0.94	High
Total	-	4.14	0.53	High

Table 5 reveals that the mean of the participants' estimates of the relationship between creative accounting risks and auditing risks, and at the total level was high, with arithmetic mean (4.14), and standard deviation (0.53). This result asserts the strong relationship between creative accounting risks and auditing risks.

The degree of all items was high. Classification of the items was, as follows: "The higher the quality of auditing process, the fewer the accounting practices risks" ranked first, with arithmetic mean (4.41) and a degree (high). This result demonstrates the participants' agreement on the negative relationship between auditing quality and creative accounting practices. In other words, performing auditing process competently results in detecting and handling errors and fundamental irregularities, fundamentally represented in creative accounting practices, which positively reflect on the quality of financial reports.

"The fewer control risks and inherent risks which the auditor conceives, the more the detection of accounting practices that the auditor accepts" ranked last, with arithmetic mean (3.93) and a degree (high). This result asserts the researcher's perspective that creative accounting risk is major part of detection risk because it is associated with the auditor's procedures. It also asserts the participants' agreement that there is an inverse relationship between detection risks, control risks and inherent risks. The fewer control risks and inherent risks, which the auditor conceives, the more detection risks of accounting practices that the auditor accepts. Conversely, the more control risks and inherent risks, which the auditor conceives, the fewer detection risks of accounting practices that the auditor accepts. To test validity of the first hypothesis, arithmetic means and standard deviations of the external auditors' estimates of the effect of creative accounting risks on auditing risks according to the variables (academic qualification, professional qualification, occupation, and experience) were estimated.

Table-6. Arithmetic means and standard deviations of the external auditors' estimates of the effect of creative accounting risks on auditing risks according to the study variables (academic qualification, professional qualification, occupation, and experience).

Variable	Category	Arithmetic Mean	Standard Deviation
Scientific Qualification	Bachelor	4.14	0.53
	Master	4.13	0.61
	Doctorate	4.21	0.30
Professional Qualification	Saudi Fellowship	4.20	0.64
	Other Fellowships	4.13	0.52
Occupation	Auditor	4.12	0.46
	Senior Auditor	4.01	0.64
	Auditing Director	4.29	0.49
Experience	Less than five years	4.06	0.46
	5-10 years	3.98	0.65
	More than ten year	4.21	0.50

Table 6 reveals significant differences in the arithmetic means of the external auditors' estimates of the effect of the creative accounting risk on auditing risks according to the variables of (academic qualification, professional qualification, occupation, and experience). The researcher used multiple ANOVA to identify whether the differences are statically significant or not.

Table-7. Adopting multiple ANOVA to identify differences in the external auditors' estimates of the effect of the creative accounting risk on auditing risks according to the study variables.

Variance Source	Sum of Squares	Freedom Degree	Mean Squares	F-Value	Significance Level
Scientific Qualification	0.190	2	0.095	0.337	0.715
Professional Qualification	0.102	1	0.102	0.362	0.548
Occupation	0.991	2	0.496	1.756	0.177
Experience	0.687	2	0.344	1.217	0.299
Error	37.258	132	0.282		
Total	2440.408	140			

Table 7 shows no statistically significant differences at the significance level ($\alpha \leq 0.05$) in the external auditors' estimates of the effect of creative accounting risk on auditing risks according to the variables of (academic qualification, professional qualification, occupation, and experience) which verifies the hypothesis validity.

To test validity of the second hypothesis, arithmetic means and standard deviations of the external auditors' estimates of the external auditor's responsibility to detect creative accounting practices according to the variables of (academic qualification, professional qualification, occupation, and experience) were estimated.

Table-8. Arithmetic means and standard deviations of the external auditors' estimates of the external auditor's responsibility to detect creative accounting practices according to the variables of (academic qualification, professional qualification, occupation, and experience).

Variable	Category	Arithmetic Mean	Standard Deviation
Scientific Qualification	Bachelor	3.89	0.59
	Master	3.71	0.63
	Doctorate	3.64	1.11
Professional Qualification	Saudi Fellowship	3.66	0.64
	Other Fellowships	3.90	0.59
Occupation	Auditor	3.83	0.60
	Senior Auditor	3.78	0.55
	Auditing Director	3.95	0.64
Experience	Less than five years	3.78	0.66
	5-10 years	3.76	0.65
	More than ten year	3.91	0.57

Table 8 manifests significant differences in the arithmetic means of the external auditors' estimates of the external auditor's responsibility to detect creative accounting practices according to the variables of (academic

qualification, professional qualification, occupation, and experience). The researcher used multiple ANOVA to identify whether the differences are statically significant or not.

Table-9. Adopting multiple ANOVA to identify differences in the external auditors' estimates of the external auditor's responsibility to detect creative accounting practices according to the study variables.

Variance Source	Sum of Squares	Freedom Degree	Mean Squares	F-Value	Significance Level
Scientific Qualification	0.731	2	0.366	1.016	0.365
Professional Qualification	0.858	1	0.858	2.383	0.125
Occupation	0.866	2	0.433	1.03	0.304
Experience	0.238	2	0.119	0.331	0.719
Error	47.518	132	0.360		
Total	2136.796	140			

Table 9 shows no statistically significant differences at the significance level ($\alpha \leq 0.05$) in the external auditors' estimates of the external auditor's responsibility to detect creative accounting practices according to the variables of (academic qualification, professional qualification, occupation, and experience) which verifies the hypothesis validity.

12. RECOMMENDATIONS

- Provide constant concern to the external auditors' qualification and using new technologies to accomplish their work through delivering continuous training and educational programs for the personnel serving in statutory accounting offices to improve and develop their performance to match the ongoing developments of business.
- The external auditor must analyze the control system and factors of creative accounting practices to prevent creating inaccurate financial reports whose users need to know the results of assessing their strength to reduce auditing risks.
- Emphasize the importance of the external auditor's consideration of creative accounting when estimating auditing risks, and paying attention to his/her responsibility to detect and report them to improve the quality of financial reports.
- Professional organizations should give concern to the concept of creative accounting risks, and set the standards and procedures that the auditor must follow to address these practices because of their negative effects on the reliability of the financial statements.
- Constantly arrange prepare specialized scientific, financial, and legal conferences and seminars, and prepare brochures that expose creative accounting risks and their negative effects on the future of companies and economy and its local, regional and global reputation.
- Encourage researchers to conduct further studies that help reveal creative accounting practices because their methods are constantly evolving and changing because of the established fact that human creativity has no limitations.

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