

The Relationship between Assessing Audit Risks and Revealing Creative Accounting Methods in Accounting Estimates: The Perspective of Algerian External Auditors

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Abstract: - Numerous studies have underscored the pivotal role of external auditors in identifying unfair estimates and preventing accounting manipulation. This is achieved by gathering sufficient and appropriate evidence when material misstatements are detected and verifying the existence of such misstatements. This study aims to explore the relationship between audit risk assessment (comprising the assessment of inherent risks, control risks, and the control of detection risks) and the detection of creative accounting methods in accounting estimates, from the perspective of Algerian external auditors. To fulfill this objective, a descriptive-analytical approach was adopted. The review encompasses the most significant findings of prior studies, supplemented by a field study involving the distribution of a questionnaire to a random sample of Algerian external auditors practicing the profession (n=300). The collected data were subsequently analyzed using the Statistical Package for the Social Sciences (SPSS26). The study concludes that there exists a positive and statistically significant relationship between the assessment of audit risks and the revelation of creative accounting methods in accounting estimates, according to Algerian external auditors. This implies that as audit risks are assessed, the likelihood of detecting creative accounting methods in accounting estimates increases, accounting for 62.8% of the variance. The remaining 37.2% is attributed to other factors. Notably, there is a positive relationship, varying in degree, between the assessment of audit risks and the detection of creative accounting methods. Assessing inherent risks has the highest impact, followed by assessing control risks and controlling detection risks. Additionally, the study identifies statistically significant differences in the perception of audit risks and creative accounting methods in accounting estimates among Algerian external auditors based on demographic characteristics within the study sample.

Key-Words: - external audit, creative accounting, accounting estimates, inherent risks, control risks, discovery risks.

Received: July 6, 2023. Revised: November 5, 2023. Accepted: December 7, 2023. Available online: December 22, 2023.

1 Introduction

Accounting emerged from the necessity to maintain a clear understanding of all economic and financial activities within a company, [1]. This need evolved

into the preparation of financial statements, considered the foundation upon which users base their decisions and evaluate a company's financial performance. Consequently, the information within

these financial statements must be devoid of any misleading or embellishments, [2]. However, the issue of manipulating financial statements, dating back to the Industrial Revolution, [3], raised concerns about the ability of accounting and financial reports to provide reliable information for decision-making, [4]. This concern intensified with corporate collapses and financial scandals in companies like Enron, Worldcom, Harkin, and others, [2], coupled with the 2008 financial crisis, [4]. It became apparent that accountants could manipulate data in financial statements for managerial purposes, [5], using creative accounting techniques in unacceptable ways, [1].

Manipulating financial statements for a favorable accounting impression has a long history, as noted by, [6]. Various terms like fraudulent accounting, deceptive accounting, cosmetic accounting, and creative accounting, [7], have been used to describe the process of manipulating financial statements and misleading financial statement users. The term "creative accounting" has gained prominence in recent years, [6], and is viewed by some professionals as the ability to innovate new accounting methods to achieve specific goals for certain parties at the expense of others, [8]. This involves taking advantage of the multitude of alternatives in accounting policies and measurement and disclosure methods, [5], and exploiting gaps in laws and accounting standards, [9]. However, others see it as an art of fraud despite its lack of ethics, [3]. Although some creative accounting methods are deemed acceptable, they distort financial data and mislead financial statement users [8]. Consequently, pressure mounted on external auditors to fulfill their role in auditing financial statements and providing a neutral technical opinion on their fairness.

Given this responsibility, auditors must exercise professional care to uncover errors and violations substantially affecting the accuracy and fairness of financial statement data, [10]. Detecting accounting fraud requires auditors to be vigilant and adopt relevant audit procedures, [11]. While external auditors provide a high degree of assurance regarding the fairness of financial statements, it is not absolute due to inherent limitations in auditing, [12]. Audit risks, such as inherent risks, control risks, and detection risks, are essential determinants of audit quality, [4]. While auditors cannot fully control inherent and control risks, their role is to assess them accurately, minimizing the risk of detection to the greatest extent possible, [14].

Consequently, auditors must implement adequate procedures to reduce audit risks and enhance the chances of detecting errors, fraud, and abuse in

financial statements, [15]. Understanding risk factors is crucial for directing attention to potential errors that could significantly impact financial statements, enabling a more effective audit, [12]. Planning the audit based on risk factors and considering risk areas during each audit procedure aids in identifying and assessing audit risks. Identifying these risks is foundational to the audit process since auditors cannot verify 100% of all company operations, [16]. Therefore, auditors must identify high-risk areas where errors are likely to recur, [15], posing the question: What accounts or categories of operations represent the greatest risk of material misstatement, [16].

One challenge external auditors may face is the risk of litigation due to their failure to detect manipulation and fraud in financial statements, [17]. This risk may stem from creative accounting practices, emphasizing the importance of auditors' assessment of audit risks, [18]. Auditors must diligently identify and assess these risks, implementing appropriate procedures to minimize them to an acceptable level. To enhance auditors' ability to identify and assess audit risks, guidance information on risk assessment has been provided, [11]. International auditing standards, such as ISA 240, address auditors' responsibilities related to detecting fraud and deceptive methods for falsifying and misleading data. ISA 240 builds on the implementation of standards ISA 315 and ISA 330 concerning risks of material misstatement due to fraud, [19]. These standards provide auditors with the flexibility to assess audit risks in line with the audit process objectives, [20].

This study aims to examine the relationship between assessing audit risks and revealing creative accounting methods in accounting estimates from the perspective of Algerian external auditors. Specifically, it investigates whether a thorough assessment of inherent risks and control risks, while managing the risks of detection, contributes to exposing creative accounting methods. This constitutes the primary objective of the study.

The subsequent sections of the research will delve into relevant literature and previous studies, formulate hypotheses, outline the research methodology, present results, engage in a discussion, and conclude the research.

2 Literature Review

2.1 Audit Risks

Audit risks are defined as the risks faced by auditors, represented by their potential failure to detect substantial errors in the financial statements,

[15]. This implies that audit risks manifest in auditors expressing a positive technical opinion through a clean report on the credibility of financial statements that might, in reality, contain significant errors, thereby misleading users of the report, [14]. It should be noted that audit risks may encompass the risks of financial statements containing substantial distortions and the risk of non-detection by the auditor, [15].

Professional organizations and relevant authorities, led by the International Auditing and Assurance Standards Board (IAASB), unanimously agree that audit risks include inherent risks, control risks, and detection risks, [13]. Inherent risks represent general risks, [12], arising from the possibility of a substantial misstatement in a specific item or group of items. When combined, these risks become of relative importance, considering the lack of relevant internal control, [21]. These general risks are likely to impact the audit process and the financial statements, [12]. Factors influencing inherent risks include the nature of the entity's work, the size and nature of its activities and operations, the industry to which the entity belongs, the financial position of the entity, and the operational and organizational pressures the entity faces, [22].

On the other hand, control risks pertain to substantial errors that can occur in relevant assurance and will not be prevented, detected, or corrected in a timely manner by the internal control of the entity, [23]. Control risks arise from the failure of the internal control system of the enterprise to prevent or detect substantial errors, [17]. According to the International Federation of Accountants, the risk of detection is the failure of the procedures undertaken by the auditor to reduce audit risks to a low level in detecting errors that may be substantial either individually or in combination with other errors, [18].

2.2 Assessment of Audit Risks (Inherent Risks - Control Risks - Detection Risks)

To avoid the risks of professional penalties for auditing and compensation, auditors strive to assess audit risks and allocate sufficient time to identify them, [24]. The audit risk assessment process represents a critical step in achieving and defining audit objectives. Consequently, interests vary to develop the best methods in this field at both theoretical and practical levels. Numerous qualitative and quantitative methods have been devised to estimate the individual components of risks to obtain a result that better reflects reality, [25].

For assessing audit risks, a universal and generally accepted mathematical model was developed to measure both inherent risks and control risks along with detection risks, [15]. Acceptable audit risks are calculated according to the following model, [26]:

where:

IR: Inherent Risk

CR: Control Risks

DR: Detection Risks

According to the above model, auditors need to determine materiality to assess acceptable audit risk, inherent risk, and control risk. Detection risks are determined by solving the following equation, [4]:

$$DR = \text{Acceptable Audit Risk} / (IR + CR)$$

Acceptable audit risk is defined as a measure of the auditor's willingness to accept that the financial statements might contain material misstatements after the audit report has been issued, [24].

Inherent risks and control risks are related to the activities of the entity under audit, while the risks of detection are related to the work of the auditor, [20]. Therefore, the inherent risks and control risks cannot be controlled by the auditor because he is not the one causing them. Instead, it is his responsibility to estimate the degree of those risks, [13]. The auditor's activities are sufficient to allow him to identify and assess the inherent risks, [14]. The process of assessing inherent risks is carried out by the auditor based on his judgment, [15], taking into account a group of factors such as the nature of the client's work, the results of previous audits, complex or non-routine operations, [27], account balances that contain personal estimates, and the presence of indicators of financial fraud, [18].

The risk of financial fraud is an inherent risk, intended to misrepresent the truth or conceal a material fact to urge others to act in a way that harms them, [28]. Financial fraud involves international methods of deception, and due to the low rates of basic occurrence, auditors have little experience in actual fraud cases. This requires them to conduct a separate assessment of the risks of fraudulent financial reports, [29]. The International Auditing and Assurance Standards Board (IAASB) emphasizes the auditor's responsibility to discover fundamental errors related to fraud because the fundamental risks resulting from fraud are greater than the fundamental risks resulting from unintentional errors, [30].

The auditor's assessment of control risks depends on his study of the internal control system and identifying its strengths and weaknesses, [22]. Assessing control risks and judging the effectiveness of controls requires the auditor to obtain a sufficient understanding of the control systems in the entity under audit, [27]. The lower the assessment of control risks, the auditor must obtain more evidence to say that the accounting systems and internal controls are properly designed and function effectively, [24].

As for the risks of detection, they are evaluated by estimating the inherent risks and control risks, [31], through the aforementioned equation. There is also an inverse relationship between each of the inherent risks and control risks on the one hand and the risks of detection on the other hand. The greater the inherent risk and the risk of control, the lower the risk of detection accepted by the external auditor and vice versa. The auditor can control detection risks through proper planning of the audit process, determining the correct nature and duration of the work, and determining and evaluating the performance of audit procedures, [26]. The detection risk assessment process is affected by the auditor's selection of an inappropriate audit process, an error in implementation, a misunderstanding of audit results, or the adoption of random sampling, [23].

Accordingly, the auditor must implement risk assessment procedures to provide an appropriate identification and assessment of the risks of substantial misstatement and fraud, based on the attitude of professional skepticism. This means that the auditor conducts a critical assessment of the evidence he obtained, [30], so that audit risks are linked to the skills of professional skepticism. Some studies have concluded that the auditor must have a degree of professional skepticism above average to make appropriate decisions regarding identifying and assessing audit risks, [32].

2.3 Creative Accounting Methods in Accounting Estimates

The International Standard on Auditing No. 400 defines creative accounting risks as "the risks resulting from the failure of audit procedures performed by the auditor to detect creative accounting practices in an account balance or a type of transaction. This may be a distortion in itself or if it is added to other creative accounting practices in other account balances or other types of transactions", [8].

Creative accounting means the management's use of various creative accounting techniques to manipulate the results presented in the financial statement, which is consistent with the applicable

accounting standards and other regulations, [1]. It is used to hide the real performance of companies to achieve a beneficial result for the company or some of its employees, [3]. These practices in creative accounting in the financial statements have been called the art of falsifying the balance sheet, [11]. In most cases, corporate management is responsible for the manipulation of financial reports, as their instructions are followed by the employees responsible for preparing these reports, [9].

To present their business in the best possible way, companies use various methods to manipulate financial statements. Among the most common methods are overestimation of income, [33], through early recognition of revenue while the sale process is still in doubt, [34], recording part of sales in the past or subsequent period, [35], recognizing fictitious revenues, [34], capitalizing revenue expenditures without meeting the conditions for capitalization, [2], in addition to exploiting voluntary methods of depreciation, [7], using a depreciation rate for intangible assets that is less than the known rates and making unjustified changes in depreciation methods, [2], manipulating market prices for traded investments, [34], manipulating accounts receivable [9], manipulating inventory valuation prices and including obsolete goods in inventory statements, [5], recording operating expenses and considering them investment or financing expenses or vice versa, recording capital development costs and considering them as investment cash outflows, [36], and other methods that lead to changing financial accounting digits from what it is to what the administration wants, [33]. Previous studies have defined the nature of audit risks and explored the implications of their assessment in reducing audit risks, [15], [12]. Methods for identifying and evaluating these risks were also discussed by, [26]. The study, [3], addressed the role of the external auditor in reducing the effects of creative accounting in Iraqi companies, while, [11], focused on the same aspect applied to Libyan companies. The study, [8], delved into understanding the relationship between creative accounting risks and audit risks, investigating how audit risks contribute to increasing creative accounting risks.

In contrast, the current study seeks to determine whether the assessment of audit risks by external auditors in their three dimensions—namely, inherent risks, control risks, and detection risks—contributes to limiting creative accounting methods. This unique focus distinguishes the study from previous research. Additionally, the current study employed a field study method, involving the distribution of a

questionnaire to a random sample of Algerian external auditors.

2.4 Study Model and Hypotheses Building

To curtail creative accounting practices in accounting estimates, a comprehensive understanding of the various techniques, preventive methods, and external auditors' pivotal role is essential, [7]. Numerous studies underscore the external auditor's significance in identifying unfair estimates and preventing manipulations, [9]. External auditors achieve this by diligently seeking sufficient and appropriate evidence to detect substantial misstatements and verify their existence, [37].

Assessing auditors' commitment to professional responsibilities and their ability to detect fraud risks, concluded that while external auditors are not legally obligated to detect fraud, they must exercise professional care during financial statement reviews to uncover fraud, [38]. The primary responsibility for preventing and detecting fraud and errors lies with the management of audited entities. Nevertheless, auditors must maintain vigilance, identifying weaknesses in internal control, inconsistencies in financial counting methods, or any unusual economic operations that may signal fraud. In such cases, auditors should assess the need for further inquiries and consider informing relevant authorities, [30]. This role is corroborated by another study, [39], elucidating the role of auditing in curbing creative accounting methods in Islamic banks, where the reliability of financial outcomes remains a concern for users of the financial system.

Study, [40], aimed to investigate the auditor's responsibility for detecting fraud and error and its impact on audit quality within the framework of international auditing standards. The study distributed 62 questionnaires to auditors working in audit offices in Jordan. The findings indicated that the surveyed auditors agreed on the high responsibility of external auditors in detecting fraud. Moreover, the study highlighted that the auditor's role in detecting fraud and error significantly contributes to the overall quality of the audit, accounting for 59.9%.

In study, [18], the impact of the auditor's assessment of audit risks on audit quality in Syria was examined using a risk assessment model. The study revealed a significant positive effect of assessing detection risks on audit quality. However, the effect was not significant concerning the assessment of inherent risks and control risks.

Regarding studies focused on risk assessment, several emphasized the adoption of a risk model, particularly when delineating audit areas. These

models help auditors enhance the correlation between risk assessments at the account level, evaluation, performance, and audit tests, [41]. In this study, [23], corroborated this notion, concluding that audit risk models play a crucial role in reducing the fraudulent level of financial reporting by detecting misrepresentations in auditing practice. The study underscored that experience and knowledge alone are insufficient when evaluating audit risks. Instead, programs should be developed to interpret and represent audit risks based on probability theory, ensuring a fair and accurate assessment of risks, [30]. The measurement of inherent risks involves a quantitative assessment of the risk degree within the financial statements. Control risks, on the other hand, are measured through the outcomes of internal control tests. Both types of risks rely on the auditor's judgment and experience, as well as statistical and mathematical methods. Detection risks are evaluated using a mathematical model of risk in auditing, which necessitates determining an acceptable level of risk to reach the permissible level of detection risks. Consequently, the appropriate size of audit samples for testing purposes is determined, [41]. Al-Sabbagh's study, [27], aimed to assess the effect of quantitatively measuring audit risk on improving the accuracy of audit risk assessment, using data from audits conducted by Tadmur and PricewaterhouseCoopers in Syria. The study concluded that quantitative measurement of audit risks contributes to enhancing the accuracy of audit risk assessment and rationalizing the auditor's professional judgment.

Previous studies have predominantly focused on highlighting the role of external auditors in detecting fraud, and errors, and reducing creative accounting practices. Some studies have also underscored the importance of evaluating audit risks and adhering to the risk assessment model to mitigate the subjectivity that auditors may exhibit when assessing risks, [30]. This assessment forms the basis for determining the audit scope and conducting essential tests to identify fraud, abuse, and errors.

In light of these findings and to achieve the study's objective, the following hypotheses were formulated: There is a statistically significant positive relationship between assessing audit risks (inherent risks, control risks, detection risks) and revealing creative accounting methods in accounting estimates from the point of view of Algerian external auditors.

There are statistically significant differences in the Algerian external auditors' perception of audit risks and creative accounting methods in accounting

estimates based on the demographic characteristics of the study sample.

Consequently, the study developed the following model to guide its investigation (Figure 1):

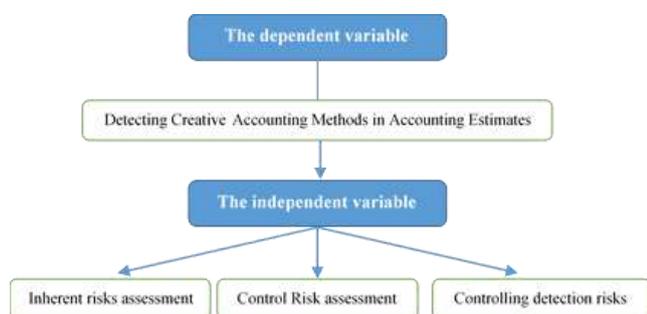


Fig. 1: Study Model

3 Study Methodology

In this study, we addressed the theoretical framework of audit risk and creative accounting methods and demonstrated the methodology of the field study. Subsequently, we conducted a descriptive analysis of the study variables and tested its hypotheses. This process enabled us to reach several results and make recommendations.

3.1 The Study Community

The study population includes all external auditors practicing the profession in Algeria, including assistant auditors, chief auditors, and supervisors of the audit team.

3.2 The Study Sample

Table 1. Statistics Related to Electronic Questionnaire

Description	Frequency	Percentage %
Answers expressed in the electronic questionnaire	300	100%
Accepted answers	300	100%
Canceled answers	00	00%

Source: Prepared by the researchers based on the results of the electronic questionnaire

Table 1 shows that there were 300 electronic responses, all of which were considered valid for the study, representing 100% of the total responses.

3.3 The Statistical Methods Used

We employed a set of statistical methods provided by the SPSS25 program for a thorough and objective analysis of the questionnaire's outputs. Among these methods, Cronbach's alpha coefficient was used to ensure the stability of the study tool and the consistency of the obtained results. The Pearson correlation coefficient was employed to determine the

extent to which the score of each statement is related to the total score of the questionnaire and to measure the degree of correlation between the dimensions of the independent variable (assessing inherent risks, assessing control risks, and controlling detection risks) and the dependent variable (revealing creative accounting methods). Additionally, we adopted the coefficient of determination to study the quality and effectiveness of representing the proposed multiple regression equation for the relationship between assessing audit risk in its three dimensions and revealing creative accounting methods. Moreover, the Fisher F coefficient was utilized to examine the variance of the study population and to ascertain the equality of population means. For testing hypotheses, we employed the t-test.

3.4 Measuring the Reliability of the Study Tool

3.4.1 Using Cronbach's Alpha Method

The reliability of the study questionnaire was assessed using Cronbach's alpha coefficient, as presented in Table 2:

Table 2. Reliability Test for Variables using Cronbach's Alpha Coefficient

Axes	Stability Coefficient α	Observation
Inherent risks assessment	0.866	Excellent
Risk assessment Control	0.831	Excellent
Detection risk control	0.920	Excellent
Detection of creative accounting methods in accounting estimates	0.926	Excellent
The form as a whole	0.951	Excellent

Source: Prepared by researchers based on the output of the spss25 program

In the above table, it is noted that the reliability coefficients of the study variables ranged from 0.831 to 0.926, while the overall reliability coefficient was 0.951. This indicates the stability of the study tool. Malhotra confirmed that the conditions for the reliability of the study tool are met if the reliability coefficient alpha Cronbach is greater than or equal to 0.60. The reliability can also be tested again to ensure the validity of the questionnaire using the root of Cronbach's alpha coefficient. Thus, the value of the reliability coefficient is confined between zero and one, and the closer it is to one, the questionnaire is characterized by honesty. In this case, Cronbach's alpha root is equal to 0.975, which is close to one, so it can be said that the questionnaire is characterized by honesty. We conclude that the study tool is valid and consistent in all its paragraphs and is ready to be applied to the study sample.

3.4.2 Consistency through Split-half Method

Using the split-half method, the Pearson correlation coefficient was computed between the scores of odd-ranked questions and the averages of even-ranked questions for each domain of the questionnaire. The correlation coefficients were then adjusted using the Spearman-Brown coefficient for correction, as per the following equation:

Stability coefficient = $2R/1+R$, where R is the Correlation coefficient.

Table 3. Reliability Test Using Split-half Method

Axes	Correlation Coefficient R	Stability Coefficient	Level of Significance
Inherent risks assessment	0.660	0.795	0.000
Risk assessment control	0.601	0.751	0.000
Detection risk control	0.849	0.919	0.000
Detection of creative accounting methods in accounting estimates	0.849	0.918	0.000
The form as a whole	0.738	0.849	0.000

Source: Prepared by researchers based on the output of the spss25 program

Table 3 above highlights reliability coefficients ranging between 0.951 and 0.919, with an overall reliability coefficient for all paragraphs at 0.849. This signifies a commendable reliability coefficient, indicating the stability of the study tool according to the split-half method.

3.5 Integrity: Internal Consistency

To ensure the validity of the questionnaire, we computed the Pearson correlation coefficient to determine the correlation between each statement in the questionnaire and the total score of the respective axis, as illustrated in the following tables:

3.5.1 Integrity of the Internal Consistency of the Statements for the First Axis: Assessing Inherent Risks

From Table 4, it is evident that the correlation coefficients for each phrase within the first axis, 'Inherent Risks Assessment,' are all statistically significant at the 0.05 significance level. The

significance level for each paragraph is less than 0.05. The correlation coefficient for significant Statements ranges between 0.560 and 0.819, indicating that the statements of the first axis exhibit honesty and internal consistency.

Table 4. Pearson Correlation Coefficients for Statements of the First Axis

Wording	Degree of correlation	Significance level
The auditor evaluates the experience of the company's management and its knowledge of change management.	0.712	0.000
The auditor identifies the nature of the company's activity.	0.582	0.000
The auditor evaluates the factors affecting the sector to which the company belongs.	0.752	0.000
The auditor evaluates the seasonality of the company's activity.	0.725	0.000
The auditor evaluates whether the financial statements contain substantial misstatements.	0.785	0.000
The auditor evaluates the basic operations of the company.	0.617	0.000
The auditor evaluates the complex operations of the company that need an expert.	0.560	0.000
The auditor evaluates the possibility of loss of assets.	0.819	0.000
The auditor evaluates personal judgments for transactions that require personal judgment.	0.728	0.000

Source: Prepared by researchers based on the output of spss 25
* Significant at the significance level of 0.05 or less

3.5.2 Integrity of the Internal Consistency of the Statements for the Second Axis: Control Risks Assessment

It is clear from Table 5 that the correlation coefficients for each of the Statements of the second axis "Control risk assessment" are all statistically significant at the level of significance of 0.05, as the level of significance for each paragraph is less than 0.05. The correlation coefficient for the significant Statements was confined between 0.483 and 0.793, and this means that the statements of the second axis are honest and internally consistent.

Table 5. Pearson Correlation Coefficients for the Statements of the Second Axis

Wording	Degree of correlation	Significance level
The auditor studies the effectiveness of the company's accounting system.	0.596	0.000
The auditor evaluates the effectiveness of internal control procedures in detecting fraud and abuse.	0.537	0.000
The auditor evaluates the effectiveness of the company's internal control procedures.	0.483	0.000
The auditor identifies errors that result from the absence of effective control procedures.	0.708	0.000
The auditor measures compliance with laws and regulations.	0.697	0.000
The auditor ensures the distribution of authority and responsibilities of the audited entity.	0.755	0.000
The auditor discusses the performance of the control function with employees.	0.793	0.000
The auditor examines the documents and reports to verify the existence of control performed by the employees entrusted with the control.	0.745	0.000
The auditor determines the level of control risk.	0.711	0.000

Source: Prepared by researchers based on the output of spss 25
*Significant at the significance level of 0.05 or less

3.5.3 Integrity of the Internal Consistency of the Statements of the Third Axis: Detection Risks Control

It is evident from Table 6 that the correlation coefficients for each phrase within the third axis, 'Detection Risk Control,' are all statistically significant at the 0.05 significance level, with the significance level for each paragraph being less than 0.05. The correlation coefficient for significant Statements ranges between 0.626 and 0.864, signifying that the statements of the third axis are honest and internally consistent.

Table 6. Pearson correlation coefficients for the terms of the third axis

Wording	Degree of correlation	significance level
Good audit planning.	0.804	0.000
Availability of experience in members of the audit team.	0.743	0.000
Choosing appropriate audit procedures to detect misstatements	0.718	0.000
Proper implementation of audit procedures.	0.751	0.000
Giving enough time to the audit process.	0.864	0.000
Accurately define the scope of the audit.	0.841	0.000
Good selection of statistical samples to which audit procedures are applied.	0.852	0.000
Determine the appropriate amount of tests for effective auditing.	0.837	0.000
Correct interpretation of audit results.	0.626	0.000

Source: Prepared by researchers based on the output of spss 25
* Significant at a significance level of 0.05 or less

3.5.4 Integrity of the Internal Consistency of the Statements for the Fourth Axis: Revealing Creative Accounting Methods in Accounting Estimates

It is evident from the Table 7 below that the correlation coefficients for each phrase within the fourth axis, 'Detection of Creative Accounting Methods in Accounting Estimates,' are all statistically significant at the 0.05 significance level. The significance level for each phrase is less than 0.05. The correlation coefficient for significant Statements ranges between 0.373 and 0.917, indicating that the statements of the fourth axis are honest and internally consistent.

Table 7. Pearson Correlation Coefficients for the Statements of the Fourth Axis

Wording	Degree of correlation	significance levelS
The auditor takes care to check the conditions for capitalization of expenses.	0.790	0.000
The auditor detects over- or under-valuation of inventory.	0.373	0.000
The auditor detects an overestimation or underestimation of the useful life of an asset.	0.765	0.000
The auditor detects an overestimation of future profits corresponding to revenue expenses such as advertising expenses and research and development expenses.	0.871	0.000
The auditor detects an overestimation or underestimation of doubtful debt provisions.	0.881	0.000
The auditor detects the effect on the depreciation value by changing the used depreciation method.	0.917	0.000
The auditor detects overvaluation of intangible asset items.	0.831	0.000
The auditor is keen to ascertain the management's justification for changing the evaluation methods for inventory or consumption...etc.	0.824	0.000
The auditor takes care to ensure the reasonableness of measurement and disclosure of fair value estimates.	0.808	0.000

Source: Prepared by researchers based on the output of spss 25
*Significant at the significance level of 0.05 or less

3.6 Analyze the Results of the Questionnaire

The obtained results, processed from the data included in the retrieved forms, will be discussed, utilizing the five-point Likert scale.

3.6.1 Presenting the Results for the First Axis: Inherent Risks Assessment

Table 8 below indicates that the overall average for the Statements related to inherent risk assessment in the first axis was calculated as 4.21, with a standard deviation of 0.507. This low standard deviation suggests minimal dispersion of values from their arithmetic average, signifying a very high level of acceptance.

Furthermore, the results reveal that the statement "the auditor recognizes the nature of the company's activity" received exceptionally high approval. The responses from the study sample

leaned towards 'Accepted' and 'Highly Accepted' for the remaining statements as well. This suggests a high commitment among external auditors to assess inherent risks.

Table 8. Results of the First Axis

No	Wording	The arithmetic average	Standard deviation	Verification degree
1	The auditor evaluates the experience of the company's management and its knowledge of change management.	4,20	0,8230	Very high
2	The auditor identifies the nature of the company's activity.	4,41	0,5800	High
3	The auditor evaluates the factors affecting the sector to which the company belongs.	4,31	0,7680	Very high
4	The auditor evaluates the seasonality of the company's activity.	4,25	0,6110	Very high
5	The auditor evaluates whether the financial statements contain material misstatements.	4,38	0,7190	Very high
6	The auditor evaluates the basic operations of the company.	4,13	0,6300	High
7	The auditor evaluates the complex operations of the company that need an expert.	4,00	0,7430	High
8	The auditor evaluates the possibility of loss of assets.	4,25	0,7800	Very high
9	The auditor evaluates personal judgments for transactions that require personal judgment.	4,00	0,8600	High
The total arithmetic average		4,21	0,507	Very high

Source: Prepared by researchers based on the results of SPSS output

Table 9 reveals that the overall average of the Statements related to control risk assessment in the second axis was calculated at 4.28, with a standard deviation of 0.479. This low standard deviation indicates minimal dispersion of values from their arithmetic average, placing it at a very high level of acceptance.

Furthermore, the results indicate that the statement "the auditor studies the effectiveness of the company's accounting system" received very high acceptance. Responses from the study sample leaned towards 'Accepted' and 'Highly Accepted' for the remaining statements as well. This suggests a high commitment among external auditors to assess control risks.

3.6.2 Presentation of the Results of the Second Axis: Control Risks Assessment

Table 9. Results of the Second Axis

No	Wording	The arithmetic average	Standard deviation	Verification degree
1	The auditor studies the effectiveness of the company's accounting system.	4,70	0,5790	Very high
2	The auditor evaluates the effectiveness of internal control procedures in detecting fraud and abuse.	4,35	0,4590	Very high
3	The auditor evaluates the effectiveness of the company's internal control procedures.	4,17	0,7140	High
4	The auditor identifies errors that result from the absence of effective control procedures.	4,32	0,6880	Very high
5	The auditor measures compliance with laws and regulations.	3,92	0,6360	High
6	The auditor ensures the distribution of authority and responsibilities of the audited entity.	3,97	0,7570	High
7	The auditor discusses the performance of the control function with the employees.	4,45	1,069	Very high
8	The auditor examines the documents and reports to verify the existence of control performed by the employees entrusted with the control.	4,29	0,5440	Very high
9	The auditor determines the level of control risks.	4,32	0,9180	Very high
The total arithmetic average		4,28	0,479	Very high

Source: Prepared by researchers based on the results of SPSS output

Table 10 indicates that the overall average for the Statements related to **detection risk control** in the third axis was calculated at 4.45, with a standard deviation of 0.513. This low standard deviation suggests minimal dispersion of values from their arithmetic average, placing it at a very high level of acceptance.

Moreover, the results highlight that the phrase "the availability of experience in the members of the audit team" received very high acceptance. Responses from the study sample leaned towards

'Highly Accepted' for the remaining statements as well. This implies that external auditors diligently apply professional care to control detection risks.

3.6.3 Presentation of the Results of the Third Axis: Detection Risks Control

Table 10. Results of the Third Axis

No	Wording	The arithmetic average	Standard deviation	Verification degree
1	Good audit planning.	4,29	0,5300	Very high
2	Availability of experience in members of the audit team.	4,63	0,6580	Very high
3	Choosing appropriate audit procedures to detect misstatements	4,43	0,6540	Very high
4	Proper implementation of audit procedures.	4,40	0,5780	Very high
5	Giving enough time to the audit process.	4,40	0,7890	Very high
6	Accurately define the scope of the audit.	4,45	0,6620	Very high
7	Good selection of statistical samples to which audit procedures are applied.	4,52	0,6960	Very high
8	Determine the appropriate amount of tests for effective auditing.	4,50	0,7230	Very high
9	Correct interpretation of audit results.	4,40	0,5790	Very high
The total arithmetic average		4,45	0,513	Very high

Source: Prepared by researchers based on the results of SPSS output

3.6.4 Presentation of the Results of the Fourth Axis: Detecting Creative Accounting Methods in Accounting Estimates

Table 11 below illustrates that the overall average for expressions related to **the detection of creative accounting methods in accounting estimates**, within the third axis, was calculated at 4.16, with a standard deviation of 0.565. This low standard deviation indicates minimal dispersion of values from their arithmetic average, placing it at a very high level of acceptance.

Furthermore, the results highlight that the phrase "the auditor is keen to ensure the reasonableness of measurement and disclosure of fair value estimates" received very high acceptance. Responses from the study sample leaned towards 'Highly Accepted' for the remaining statements as well. This signifies that detecting creative accounting methods is a priority in the work of

external auditors, who diligently verify the reasonableness of measurements and disclosures subject to the accountant's discretion.

Table 11. Results of the Fourth Axis

No	Wording	Verification degree	Standard deviation	The arithmetic average
1	The auditor takes care to check the conditions for capitalization of expenses.	Very High	,5490	4,20
2	The auditor detects over- or under-valuation of inventory.	High	,6510	4,11
3	The auditor detects an overestimation or underestimation of the useful life of an asset.	High	,8190	4,19
4	The auditor detects an overestimation of future profits corresponding to revenue expenses such as advertising expenses and research and development expenses.	Very High	,7680	4,23
5	The auditor detects an overestimation or underestimation of doubtful debt provisions.	Very High	,7930	4,20
6	The auditor detects the effect on the depreciation value by changing the used depreciation method.	High	,6610	3,97
7	The auditor detects overvaluation of intangible asset items.	High	,7940	4,13
8	The auditor is keen to ascertain the management's justification for changing the evaluation methods for inventory or consumption...etc.	Very High	,6400	4,23
9	The auditor takes care to ensure the reasonableness of measurement and disclosure of fair value estimates.	Very High	0.598	4.65
The total arithmetic average		Very High	0.565	4.16

Source: Prepared by researchers based on the results of SPSS output

3.7 Testing the Model and Hypotheses

To illustrate the role of audit risk assessment in revealing creative accounting methods, the following multiple linear regression model will be estimated and tested:

3.7.1 Testing the Model

$$Y = f(X^i) = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \epsilon_i$$

Y = Estimated value of the detection of creative accounting methods in accounting estimates

X = Audit risk assessment

0β = Level of detection of creative accounting techniques in accounting estimates when audit risk is not assessed

X1: Inherent Risk Assessment

X2: Control Risk Assessment

X3: Detection risk assessment

ϵ_i : standard error

➤ Correlation Matrix Analysis

Table 12. Correlation Matrix between All Independent Variables

Independent variables		X1	X2	X3
x1 Inherent risks assessment	Pearson correlation coefficient	1	0,656**	0,492**
	Significance level		0,000	0,000
	Sample	300	300	300
x2 Control risk assessment	Pearson correlation coefficient	0,656**	1	0,512**
	Significance level	0,000		0,000
	Sample	300	300	300
x3 Detection risk assessment	Pearson correlation coefficient	0,492**	0,512**	1
	Significance level	0,000	0,000	
	Sample	300	300	300

Source: prepared by the researcher based on the outputs of the 25 spss program

Observations from Table 12 above reveal that there is no strong relationship between the independent variables (Inherent Risk Assessment, Control Risk Assessment, and Detection Risk Control). This lack of a strong relationship suggests no overlapping correlation between them, indicating that these independent variables do not share a common impact on the dependent variable, which is creative accounting methods.

Given the absence of a linear overlapping relationship, further investigation is needed to understand the combined impact of these independent variables on the detection of creative accounting methods in accounting estimates. This will be explored using the multiple linear regression method, which will elucidate the relationship between the independent variables and the dependent variable.

Table 13. Testing the First Hypothesis

	Significance level	Degrees of freedom	Fisher F	Determination coefficient R ²	Correlation coefficient R
	0.000	297	166.481	0.628	0.792
	Significance level	T	Coefficients		
A			B		0.278
X1 Inherent risk assessment	0.000	10.608	0.573		
X2 Control risk assessment	0.000	4.215	0.244		
X3 Detection risk assessment	0.000	4.681	0.222		

Source: prepared by the researcher based on the outputs of the 25 spss program

Analysis of Table 13 above reveals a robust relationship between the independent variables and the dependent variable, with a linear Pearson correlation coefficient (R) of 0.792. This suggests that as the evaluation of audit risks increases, there is a corresponding increase in the disclosure of creative accounting methods in accounting estimates. The coefficient of determination (R²) is 0.628, indicating that the independent variable explains 62.8% of the variance in the dependent variable. This R² value signifies an acceptable effectiveness of the proposed model, implying that audit risk assessment influences the detection of creative accounting methods in accounting estimates by 62.8%. Consequently, there are other factors, accounting for 37.2% of the variance, influencing the disclosure of creative accounting methods in accounting estimates.

Additionally, the calculated Fisher value is 166.481, exceeding the tabular value of Fisher at a degree of freedom of 297. This indicates that the model is statistically significant. The significance level (Sig = 0.000), being less than 0.05, underscores the high levels of significance, affirming the overall validity and reliability of the model.

The data in the table also highlights that all independent variables, including inherent risk assessment, detection risk assessment, and control risk assessment, are statistically significant (p < 0.05). The multiple linear regression model equation can be estimated in the following form:

$$Y = 0.278 + 0.573X1 + 0.244X2 + 0.222X3$$

As the regression coefficient is positive, it implies that in the absence of independent variables, the level of disclosure of creative accounting methods in accounting estimates is

estimated to be 0.278. However, when assessing inherent risks increases by one unit, it leads to a corresponding increase in the level of disclosure by 0.573 units. Similarly, assessing control risks with a value of one unit results in an increase in the level of disclosure by 0.244 units, and assessing detection risks with a value of one unit leads to an increase in the level of disclosure by 0.222 units.

3.7.2 Testing the First Hypothesis

Hypotheses about the relationship between two variables in the study are tested using multiple linear regression and one-way analysis of variance.

H₀: There is no positive, statistically significant relationship between audit risk assessment (inherent risks, control risks, detection risks) and the detection of creative accounting methods in accounting estimates from the Algerian external auditors' point of view.

H₁: There is a positive, statistically significant relationship between audit risk assessment (inherent risks, control risks, detection risks) and the detection of creative accounting methods in accounting estimates from the Algerian external auditors' point of view.

If the significance level (Sig. or P-value) is greater than or equal to the significance level (0.05 ≥ α), then the null hypothesis cannot be rejected. If the significance level is less than the significance level (0.05 < α), then the null hypothesis is rejected, and the alternative hypothesis is accepted.

Examining Table 13, we observe that the probability value for each dimension of the independent variable (audit risk assessment) is equal to (SIG = 0.000), which is less than (0.05). Additionally, the calculated T value for each dimension of the independent variable surpasses the tabular T value at the degree of freedom 297. Consequently, we reject the null hypothesis and accept the alternative hypothesis, indicating a significant positive relationship between audit risk assessment (inherent risks, control risks, detection risks) and the detection of creative accounting methods in accounting estimates from the perspective of Algerian external auditors.

There exists a positive relationship, varying in degrees, between assessing audit risks and detecting creative accounting methods. In terms of contribution to revealing creative accounting methods, assessing inherent risks takes the lead. This is attributed to its evaluation of the extent to which financial statements contain fundamental errors, mistakes, or manipulations in personal estimates made by accountants. Following closely is the assessment of control risks, wherein the evaluation of the effectiveness of internal control procedures contributes to limiting creative accounting methods

by discovering errors and manipulations. Finally, the assessment of detection risks follows, as appropriate evaluation of inherent risks and control risks logically reduces the risks of detection. This conforms to a universal mathematical model that measures both inherent risk and control risk alongside detection risk.

3.7.3 Testing the Second Hypothesis

H₀: There are no statistically significant differences in the Algerian external auditors' perception of audit risks and creative accounting methods in accounting estimates according to the demographic characteristics of the study sample.

H₁: There are statistically significant differences in the Algerian external auditors' perception of audit risks and creative accounting methods in accounting estimates according to the demographic characteristics of the study sample.

If the significance level (Sig. or P-value) is greater than or equal to the significance level ($0.05 \geq \alpha$), then the null hypothesis cannot be rejected. If the significance level is less than the significance level ($0.05 < \alpha$), then the null hypothesis is rejected, and the alternative hypothesis is accepted.

Table 14. Testing the Second Hypothesis

Personal variables	Fisher F	Significance level
Gender	27.594	0.000
Qualification	203.825	0.000
Age group	98.960	0.000
Experience	17.009	0.000
Position	39.365	0.000

Source: Prepared by researchers based on SPSS output

Analysis of Table 14 above reveals that the calculated Fisher value for the personality variables surpasses the Fisher tabular value at the degree of freedom 299. Additionally, the level of significance for all variables is equal to 0.000, which is less than the significance level of 0.05. This leads to the acceptance of the alternative hypothesis, signifying that there are statistically significant differences in the Algerian external auditors' perspectives regarding audit risks and creative accounting methods in accounting estimates based on the demographic characteristics of the study sample.

4 Conclusion

This study complements previous research, such as the Albeksh study, [11], which emphasized the crucial role of external auditors in mitigating the risks associated with creative accounting and manipulation of accounting estimates. Albeksh

concluded that external auditors should exert sufficient effort, applying meticulous methods and procedures, and acting with reasonable care to effectively uncover instances of creative accounting. Similarly, the Ghamri study, [8], highlighted that external auditors possess a comprehensive understanding of the risks associated with creative accounting. The study emphasized that technical and professional factors significantly contribute to determining the prevalence of creative accounting practices.

In alignment with these findings, the present study establishes a robust relationship between audit risk assessment (inherent risk assessment, control risk assessment, and control of detection risks) and the revelation of creative accounting methods. The evaluation of audit risks, affecting the detection of creative accounting methods in accounting estimates by 62.8%, underscores the importance of external auditors exercising necessary professional care in assessing audit risks and adhering to international auditing standards. This study reinforces the need for external auditors to remain vigilant in their roles, contributing to the ongoing efforts to combat creative accounting practices.

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Contribution of Individual Authors to the Creation of a Scientific Article (Ghostwriting Policy)

The authors equally contributed in the present research, at all stages from the formulation of the problem to the final findings and solution.

Sources of Funding for Research Presented in a Scientific Article or Scientific Article Itself

No funding was received for conducting this study.

Conflict of Interest

The authors have no conflicts of interest to declare.

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