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The Role of External auditor Commitment to the Audit Profession ethics in Reducing creative Accounting practices

دور التزام المدقق الخارجي بأخلاقيات مهنة التدقيق في التقليل من ممارسات المحاسبة الإبداعية

Safia IKHLEF [1,*], Dr. Mohamed TORCHI [2]

[1] Hassiba Benbouali University of Chlef, Laboratory of Financial and Banking Systems, and Economic Policies Under Global Changes, ALGERIA.

[2] Hassiba Benbouali University of Chlef, Laboratory of Financial and Banking Systems, and Economic Policies Under Global Changes, ALGERIA.

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Abstract

This study aims to highlight the role of external auditors adoption of auditing standards and auditing ethics to reveal creative accounting practices, reduce their effects in order to increase the credibility of financial statements, as the external auditor is the responsible for expressing an impartial opinion about the credibility of financial statements in its expression of the company's true financial position. as the quality of accounting information is a basic requirement for all financial statements users, where this information contributes to assisting decision makers to make rational decisions.

The importance of the study is due to the importance of external auditors adoption of auditing standards and auditing profession ethics, in order to detect creative accounting practices, minimize their negative effects, improve the quality of the information included in the financial statements.

الكلمات المفتاحية:

التدقيق،

المدقق الخارجي،

أخلاقيات مهنة التدقيق،

ممارسات المحاسبة، الإبداعية.

ملخص

تهدف هذه الدراسة إلى تسليط الضوء على دور التزام المدقق الخارجي بأخلاقيات مهنة التدقيق في الكشف عن ممارسات المحاسبة الإبداعية والتقليل من آثارها من أجل الرفع من مصداقية القوائم المالية، وذلك باعتبار أن المعلومات المحاسبية ذات الجودة تعد مطلب أساسي لكافة مستخدمي القوائم المالية لما تسهم به هذه المعلومات من مساعدة متخذي القرارات على اتخاذ قرارات رشيدة. فالمدقق الخارجي يعتبر مسؤولا عن إبداء رأي فني محايد عن مصداقية وعدالة القوائم المالية وتعبيرها عن المركز المالي الحقيقي للشركة.

و تعود أهمية الدراسة إلى أهمية تبني المدقق الخارجي للمعايير والقواعد الأخلاقية لمهنة التدقيق، وهذا يساهم في الكشف عن ممارسات المحاسبة الإبداعية والتقليل من آثارها السلبية، وتحسين جودة المعلومات المدرجة في القوائم المالية.

* Corresponding author at: Hassiba Benbouali University of Chlef- Algeria
Email : s.ikhlef@univ-chlef.dz

1. Introduction

The concept of creative accounting has become the focus and attention of auditors and accountants during the last years, especially after the collapse of Enron Company, which led to the collapse of the world's largest auditing firm (Arthur Andersen) because of its proven involvement in the financial manipulations at Enron Company, and the spread of stumbling companies phenomenon in all countries, these collapses was not due to the insufficient prevailing international accounting standards or the auditing standards, but the ethics of the profession itself.

Creative accounting practices are considered as the main ethical problems, which can be considered immoral behavior because of the serious irregularities adopted by accountants in their profession, to achieve specific goals and objectives that benefit a particular category within and outside the company, that would cause damage to the company in the future, therefore creative accounting practices must be reduced in order to obtain reliable financial statements capable of gaining investor confidence and satisfaction.

According to the audit standards, the auditor is responsible to provide reasonable assurance that the financial lists as a single unit is generally free of any material misstatement, fraud, manipulation or any creative accounting practices.

The external auditor's commitment with audit profession ethics, will inevitably lead to promote the audit profession, which will contribute to reducing the creative accounting practice on the financial statements. Therefore, the integrity, objectivity and independence of the external auditor during the audit process are effective in disclosing creative accounting practices and minimizing their negative effects.

- The problematic : The problematic of this research is :

How the external auditor commitment to the audit profession ethics can contribute to minimize creative accounting practices?

-The sub-questions :

Through the main problematic, we ask the following sub-questions:

- What is the external audit function?

- What are the ethical rules of external auditing profession?

- What is the creative accounting?

- How the external auditor adoption to auditing profession ethics can reduce creative accounting practices?

-Research importance

The importance of the study stems from the importance of the subject of audit profession ethics, and the importance of the External Auditor's adoption to auditing profession ethics in reducing creative accounting practices.

- Research objectives: This study aims to:

- Emphasize the importance of external audit function;

- Recognize the importance of adopting the auditing profession ethics;

-Presentation of concepts related to creative accounting practices; and

- Highlight the role of the External Auditor in adopting the auditing profession ethics to minimize creative accounting practices.

- Research methodology

In order to answer the problem of the study, we used the deductive approach and its descriptive tools in order to visualize the nature of the external audit function and present the various concepts related to external auditing and creative accounting .Emphasize the role of the external auditor's adoption of the auditing profession ethics in reducing creative accounting practices.

- Research Axes

• Part one: External Audit Function

• Part two: The Ethical Rules of External Audit Profession

• Part three: The Concept of Creative Accounting

• Part four: The External Auditor Adoption to Auditing Profession Ethics in order to Minimize Creative Accounting Practices

2.Literature Review

2.1.External Audit function

The main objective of the external audit function is to provide an opinion that the financial lists as a single unit is generally free of any material misstatement or fraud or manipulation, and reflect the real financial situation of the company.

- External Audit Definition and Importance

The term of audit is derived from the Latin word meaning a hearing. Auditing originated over 2000 years ago when, firstly used in Egypt, and subsequently in Greece, Rome and elsewhere, citizens entrusted with the collection and disbursement of public funds were required to present themselves publicly, before a responsible official (an auditor), to give an oral account of their handling of those funds. **(Brenda, Jon, & David, 2003, p. 03)**

The external audit is a review of the financial statements of an organization by independent legal authorized auditors. The main objective of the external audit is to provide an opinion on the financial statements. **(Josheski & Jovanova, 2012, p. 02)**

The auditor is defined as a listener: one who reviews the statements. Increased trade during the 19th century required greater funding, provided by many investors. That is how the practice of joint ownership of enterprises and establishing companies with limited liability begins. **(Josheski & Jovanova, 2012, p. 02)**

An external audit, defined as a company audit which is performed by a party which is not employed by business to be audited, are very commonly performed. **(Jim, 2013)**

An external audit program encompasses engaging an independent auditor to perform a full-scope financial statement audit, a balance-sheet-only audit, an attestation of internal controls over financial reporting, or other agreed-upon external audit procedures. Outsourced or co-sourced internal audit activities are not considered as a part of an external audit program. An effective external audit function often provides the board of directors and management with: **(Comptroller's, 2016, pp. 39-40)**

■ Reasonable assurance about the effectiveness of internal controls over financial reporting, the accuracy and timeliness in recording transactions, the accuracy and completeness of financial and regulatory reports.

■ An independent and objective view of a company's activities, including processes relative to financial reporting.

■ Information useful to directors and management in maintaining a company's risk management processes.

- External Auditor responsibilities

The external auditor's responsibility is determined on the basis of the contract between him and the institution (the client). Once the contract is signed, the auditor becomes responsible for performing his work carefully and professionally. In the case of any negligence and failure the external auditor would be held accountable. The main responsibilities of the external auditor are as follows: **(Josheski & Jovanova, 2012, p. 02)**

■ Provide an opinion whether the financial statements objectively present the financial condition of the institution on a certain date, the results its operation and the changes of its financial condition in accordance with certain accounting standards or regulations;

■ The external audit provides an independent assessment of the overall condition of the institution at some point;

■ Gives confidence in the institution's solvency through accurate financial information to shareholders, as well as for the other users.

2.2. The Ethical Rules of External Audit Profession

The existence of the ethical conduct is deemed essential for the auditing profession to gain a trust in the service providers, who possess integrity and objectivity in addition to confidence in the financial statements provided.

- The Definition of Ethics:

The fall of Enron Company and its Auditors, Arthur Anderson Company, was not due to the insufficient prevailing international accounting standards or the auditing standards, but the ethics of the profession itself. **(Zahir, 2005, p. 97)**

Also Ethics defined as the discipline dealing with what is good and bad and with moral duty and obligation principles of conduct governing an individual or a group. **(Amos, Uniamikogbo, & Atu, 2017, p. 04)**

- National Code of Ethics for External Auditors

The existence of the ethical conduct is deemed essential for the society building and solidarity, as well as for the various work areas including auditing profession. The provision of ethical conduct is essential need to win the trust in the service providers, who possess integrity and objectivity in addition to confidence in the financial statements provided. **(Hasan, Abed Al Rahman, & Othman, 2014, p. 249)**

The national Code of Ethics for External Auditors is divided into three parts: Part A establishing the fundamental principles of professional ethics for professional accountants and provides a conceptual framework that professional accountants shall apply to: **(IESBA, 2016, p. 09)**

▪ Identify threats to commitment with the fundamental principles;

▪ Evaluate the significance of the threats identified; and

▪ Apply safeguards, when necessary, to eliminate the threats or reduce them to an acceptable level.

Parts B and C describes how the conceptual framework applies in certain situations. They provide examples of safeguards that may be appropriate to address threats to compliance with the fundamental principles, they also describe situations where safeguards are not available to address the threats, and consequently, the circumstance or relationship creating the threats shall be avoided. Part B applies to professional accountants in public practices. Part C applies to professional accountants in business. Professional accountants in public practice may also find part C relevant to their particular circumstances. **(IESBA, 2016, p. 09)**

An external auditor is required to comply with the following fundamental principles: **(Amos, Uniamikogbo, & Atu, 2017, pp. 06-07)**

▪ **Integrity:** the fundamental principles require that an external auditor should be with straightforward and honest in all professional, business and financial relationships. Integrity implies not merely honestly but fair dealing and truthfulness.

▪ **Objectivity:** the principle of objectivity imposes an obligation on all professional accountants not to compromise their professional or business judgment because of bias, conflict of interest or the undue influence of others to override professional or business judgments.

▪ **Professional competence and due care :** a professional accountant has a continuing duty to maintain professional knowledge and skill at the level required to ensure that a client or employer receives competent professional service based on current developments in practice, legislation and techniques. A professional Accountant should act diligently and in accordance with applicable technical and professional standards when providing professional services.

▪ **Confidentiality:** a professional accountant should respect the confidentiality of information acquired as a result of professional and business relationships and should not disclose any such information to third parties without proper and specific authority, unless there is a legal or professional right or duty to disclose. Confidential information acquired as a result of professional and business relationships should not be used for the personal advantage of the professional accountant or third parties.

▪ **Professional behavior:** the principle of professional behavior imposes an obligation on professional accountants to comply with relevant laws and regulations, and avoid any action that may bring discredit to the profession.

-Objectives of Professional Conduct Principles

The rules of professional conduct aim to achieve many targets: **(Hasan, Abed Al Rahman, & Othman, 2014, p. 250)**

▪ Raising the accounting and auditing profession and maintain its position;

▪ The development of cooperation among the accountants and auditors in addition to take care of their interests;

■ Promotion of confidence among those who are concerned in auditors and accountants services, such as clients and other various groups;

■ Enforcement of legal terms to provide the efficiency principle, and academic and practical qualifications of the auditor and his independence at work.

2.3.Creative Accounting

The concept of creative accounting has become the focus and attention of auditors and accountants during the last years, especially after the collapse of Enron Company.

-Definition of Creative Accounting:

Creative accounting has first become popular as a term among financial and economics journalists in United Kingdom media. City editor of London Evening Standard was the one who first brought the "creative accounting" topic to the public notice by his seminal book. By this book, he made the public become aware of the fact that the flexibility in the accounts could be used for creative accounting. **(Turker & Dilek, 2013, p. 03)**

Creative accounting is the transformation of financial accounting figures from what they actually are to what prepares desire by taking advantage of the existing rules and/or ignoring some or all of them. **(Oriol, John, & Jack, 1998, p. 03)**

Creative accounting is known as the process of transforming financial accounting numbers to the figures desired by the preparers from what they actually represent by taking advantage of the existing rules, while ignoring other accounting rules. **(Huruna & Emmanuel, 2017, p. 03)**

Creative Accounting refers to the use of accounting knowledge to influence the reported figures, while remaining within the jurisdiction of accounting rules and laws, so that instead of showing the actual performance or position of the company. **(Brijesh, 2013, p. 181)**

The creative accounting is a process whereby accountants use their knowledge of accounting rules to manipulate the figures reported in the accounts of a business. **(Ahmed, 2017, p. 284)**

-Types of Creative Accounting

The following description below is the types of creative accounting practice in use currently: **(Huruna & Emmanuel, 2017, pp. 05-06)**

■ Amortization of written off development expenditure over the life of asset of a project: In order to produce desired results, a company can amortize written off development expenditure of related asset of a project, just to transfer the cost to next few years.

■ Sales and lease back transactions: In a transaction, where third party is involved such as bank, the chances of creative accounting are more.

■ Choice in timing of transactions: Companies are free to record the sales or revenues in a manner to show profits of investment which was costing too low at historic price.

■ Transfer pricing methods in multinational companies: Tax advantages and tax differentiation in two different countries gives advantage to the companies to shift their profits in low tax regime countries.

- Reasons For Creative Accounting

Authors exploits the financial data ,who engage in creative accounting of some accounting policies and legal loopholes, in order to provide the impression "misleading" for profit that serves different purposes and objectives, there are many methods and practices that are used in the beautifying images of income. **(Nahed, 2013, p. 03)**

Discussions of creative accounting have focused mainly on the impact decision of investors in the stock market.

Reasons for the directors seek to manipulate the accounts are as follows: **(Oriol, John, & Jack, 1998, pp. 07-08)**

■ Improve Income : this is achieved by making unnecessarily high provisions for liabilities and against asset values in good years so that these provisions can be reduced, thereby improving reported profits, in bad years;

■ Manipulate profit to tie in to the forecasts: A large part of the profit is deferred to future years to cover potential upgrade and customer support costs. This policy means that future earnings are easy to predict;

■ Company directors may keep an income-boosting accounting policy change in hand to distract attention from unwelcome news;

■ Maintain or boost the share price both by reducing the apparent levels of borrowing, so making the company appear subject to less risk, and by creating the appearance of a good profit trend. This helps the company to raise capital from new share issues;

■ Delay the release of information for the market, thereby enhancing director's opportunity to benefit from inside knowledge.

2.4. The role of the external auditor in reducing creative accounting practices

The external auditor's adoption of auditing standards and auditing ethics will enhance the auditing profession, helping to reveal creative accounting practices, reduce their negative effects, and improve the quality of the information included in the financial statements.

- Detecting Creative Accounting is the responsibility of external auditor

An audit conducted in accordance with International Standards on Auditing (ISAs) is designed to provide reasonable assurance that the financial statements taken as a whole are free from material misstatements. Although, the ultimate responsibility for the prevention and detection of fraud and error rests with those charged with governance, auditors can still be held liable in the event that financial statements are misstated. **(Yusarina & Zuraidah, 2012, p. 07)**

However, when we take into account that auditors have to work within limitations, it would be extremely impossible for them to find all the misstatements in a financial report. The limitations faced by auditors do not release them from the responsibility of uncovering material misstatements that would adversely affect the interests or decisions of the users of a financial statement. So if we view creative accounting as a practice that may lead to actual misrepresentation and falsification in the financial statements, it is clear that auditors should equip themselves with the appropriate principles, techniques, and tools to detect such practices. **(Yusarina & Zuraidah, 2012, p. 07)**

However, it must be noted to important matter that the audit does not provide a guarantee of full discovery all practices of creative accounting, because it is not simply perfect operation, where it is no possibility of non-discovery of some of the practices of creative accounting, and this is even under the best possible performance that required checker`s procedures by (Professional Auditing Standards), where if any checker tries to discover all practices of creative accounting, the cost of the audit will be significant and unacceptable, so it should focus efforts in areas where there is a significant risk of distortions or manipulation. **(Nahed, 2013, p. 07)**

ISA 200 contains objectives, requirements and application and other explanatory material that is designed to support the auditor in obtaining reasonable assurance detecting both material errors and fraud in financial statements, and this obviously has relevance to creative accounting. In conducting an audit of financial statements, the overall objectives of the auditors are: **(IAASB, 2015, pp. 80-81)**

■ To obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, thereby enabling the auditor to express an opinion on whether the financial statements are prepared, in all material respects, in accordance with an applicable financial reporting framework; and

■ To report on the financial statements, and communicate as required by the ISAs, in accordance with the auditor's findings.

In accomplishing these objectives, ISA 200 requires that the auditor exercise professional judgment and maintain professional skepticism throughout the planning and performing of the audit.

The ability of the Auditors to detect the practices of creative accounting is affected by the different rules of the audit ethics: **(Mohammed & Mohammed, 2013, pp. 131-132)**

■ The auditors' independency affects in practice auditors' ability to detect the practices of creative accounting;

■ Integrity and Objectivity, as auditors have more integrity and they are more objective as their ability to detect the creative accounting practices increases;

■ Contingent fees, rights of advertising, organization form and name. These four rules of auditors' ethics affect their ability to detect the practices of creative accounting more than their independency, integrity and objectivity.

- Enhance the external auditor performance to reduce creative accounting practices

There are several accounting mechanisms and conditions that help to enhance the performance of the auditor to reduce creative accounting practices. The most important mechanisms conditions are: **(Nahed, 2013, pp. 07-08)**

■ The availability of qualified human resources and trained them , where the availability of such competencies warranty to the best work completion that assigned to the audit office;

■ The audit profession needs people who have special specifications, so they have awareness of professional culture and sufficient cognition in various economic activities and developments in the business environment;

■ The audit offices or accounting bureaus must assess the possibility of relying on what they offer company management that is checking the data and information;

■ The task of the auditor is not easy, especially there are complexity of corporate activities, the continuing evolution in the methods of production, marketing and finance, where they are no longer limited traditional methods, but they became subjects such as imaging techniques of financial lists and disclosures required different accounting standards and obligations.

- External auditor steps to reduce creative accounting practices

The external auditor should follow these steps to discover and reduce creative accounting practices:

First: the use of academic qualifications and professional experience

Generally accepted auditing standards (GAAS) comprises a list of 10 standards, divided into three sections: general Standards, Standards of field work and reporting standards. The first section contains the following: **(Alicia, 2019)**

■ The auditor must have adequate technical training and proficiency to perform the audit.

■ The auditor must maintain independence in mental attitude in all matters relating to the audit.

■ The auditor must exercise due professional care in the performance of the audit and the preparation of the auditor's report.

While the standard of U.S. Audit Standard No 99 States some instructions that enable the auditor to free his responsibility towards methods and procedures of creative accounting that associated with the fraud, the important implications of this standard could be summarized as follows: **(Hamad, 2014, p. 10)**

■ Description of the fraud characteristics;

■ Discussion among the members of the audit team concerning the fundamental risks of substantial deviation resulted from the fraud;

■ Getting the required information in order to specify the risks of substantial deviation resulted from the fraud;

■ Specifying the risks that lead to substantial deviation because of the fraud;

■ Evaluation of the specified risk after the consideration of the internal control system of the facility;

■ Responding to the results of evaluation;

■ Evaluating the results of the audit test;

■ Informing the administration, the auditing committee and the other parties by the fraud; and

■ Authentication of the audit study about the fraud.

Second: commitment with the international auditing standards

Auditing standards are general guidelines to aid auditors in fulfilling their professional responsibilities in the audit of historical financial statements. They include consideration of professional qualities such as competence and independence, reporting requirements, and evidence. **(Alvin, Randal, & Mark, 2014, p. 32)**

ISA 240 has set some considerations which the auditor should consider in relation to the methods of creative accounting when auditing financial statements, the most important of these considerations are the following: **(IAASB, 2015, pp. 162-172)**

■ An auditor conducting an audit in accordance with ISAs is responsible for obtaining reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error;

■ The auditor shall maintain professional skepticism throughout the audit, recognizing the possibility that a material misstatement due to fraud could exist, notwithstanding the auditor's past experience of the honesty and integrity of the entity's management and those charged with governance;

■ The auditor shall make inquiries of management regarding:

• Management's assessment of the risk that financial statements may be materially misstated due to fraud;

• Management's process for identifying and responding to the risks of fraud in the entity;

• Management's communication, if any, to employees regarding its views on business practices and ethical behavior.

■ The auditor shall obtain an understanding of how those charged with governance exercise oversight of management's processes for identifying and responding to the risks of fraud in the entity and the internal control that management has established to mitigate these risks;

■ The auditor shall evaluate whether unusual or unexpected relationships that have been identified in performing analytical procedures;

■ The auditor shall determine overall responses to address the assessed risks of material misstatement due to fraud at the financial statement level;

■ The auditor shall evaluate whether analytical procedures that are performed near the end of the audit, when forming an overall conclusion as to whether the financial statements are consistent with the auditor's understanding of the entity, indicate a previously unrecognized risk of material misstatement due to fraud;

■ If, as a result of a misstatement resulting from or suspected fraud, the auditor encounters exceptional circumstances that bring into question the auditor's ability to continue performing the audit, the auditor shall:

• Consider whether it is appropriate to withdraw from the engagement; and

• If the auditor withdraws; discuss with the appropriate level of management and those charged with governance the auditor's withdraws from the engagement and the reasons, and determine whether there is a professional or legal requirement to report to the person or persons who made the audit appointment or, in some cases, to regulatory authorities, the auditor's withdrawal from the engagement and the reasons for the withdrawal.

Third: Planning the audit process

International Standards on Auditing (ISA) 300, "Planning," states "The auditor should plan the audit work so that the audit will be performed in an effective manner". **(Rick, Roger, Arnold, & Philip, 2005, p. 198)**

There are three main reasons why the auditor should properly plan engagements: **(Alvin, Randal, & Mark, 2014, p. 208)**

■ To enable the auditor to obtain sufficient appropriate evidence for the circumstances;

■ To help audit keep costs reasonable; and

■ To avoid misunderstandings with the client.

The planning procedures are: **(Rick, Roger, Arnold, & Philip, 2005, p. 194)**

■ Perform audit procedures to understand the entity and its environment, including the entity's internal control;

■ Assess the risks of material misstatements of the financial statements;

■ Determine materiality; and

■ Prepare the planning memorandum and audit program containing the auditor's response to the identified risks.

Forth: Application of control tests and basic tests of operations

For any given audit, there are many ways in which an auditor can accumulate evidence to meet the overall audit objective of providing an opinion on the financial statements. The plan should result in an effective audit approach at a reasonable cost. The auditor performs procedures to assess the risk that material misstatements in the financial statements may be present. Three key aspects are introduced here: **(Alvin, Randal, & Mark, 2014, pp. 163-164)**

■ Obtain an understanding of the entity and its environment to adequately assess the risk of misstatements in the financial statements and to interpret information obtained throughout the audit, the auditor must have a thorough understanding of the client's business and related environment, including knowledge of strategies and processes. The auditor should study the client's business model, perform analytical procedures and make comparisons to competitors.

■ Understand internal control and assess control risk the risk of misstatement in the financial statements is reduced if the client has effective controls over computer operations and transaction processing.

■ Assess risk of material misstatement the auditor uses the understanding of the client's industry and business strategies, as well as the effectiveness of controls, to assess the risk of misstatements in the financial statements. This assessment will then impact the audit plan and the nature, timing, and extent of audit procedures. The auditor performs the following tests:

• Tests of controls: auditors must first test the effectiveness of the controls.

• Substantive tests of transactions: Auditors also evaluate the client's recording of transactions by verifying the monetary amounts of transactions.

• Analytical procedures: consist of evaluations of financial information through analysis of plausible relationships among financial and nonfinancial data

• Tests of details of balances: are specific procedures intended to test for monetary misstatements in the balances in the financial statements.

After the auditor has completed all procedures for each audit objective and for each financial statement account and related disclosures, it is necessary to combine the information obtained to reach an overall conclusion as to whether the financial statements are fairly presented.

- External auditor Procedures to reduce creative accounting practices

The following are the most important procedures carried by the auditor to reduce the effects of management use of creative accounting methods to protect the rights of the parties that have interest in the company:

■ Procedures applied by the auditor to reduce creative accounting practices on the income statement

The administration aims from using creative accounting methods that it apply on the elements of the income statement to improve profit by showing sham profits (not real) through exaggerating sells or reducing the expenses or both in order to improve the financial rates that take in its account the sells figures and their cost as well as the profit net as profit rates and activity efficiency. **(Hamad, 2014, pp. 10-11)**

The following are the most important antagonistic procedures that done by the auditor in order to reduce the effect of the creative accounting activities on the income statement: **(Linda, 2009, pp. 64-66)**

• Sells: checking of sells bills especially of the deals with parties that related to the company as the sub companies, and checking the fidelity conditions including payment condition, discount and the efficiency of doubtful debts provisions.

• Cost of sold goods: verify that the sales transactions are real and not a sham.

• Operating expenses: Check the terms of capitalization

• Business outcome of non-continuing activities: estimating the effect of the production line closure on the outcome of business and taking it into account.

• Special items and extraordinary items: exclude the profit of those items from operating profit.

■ **Procedures applied by the external auditor to reduce creative accounting practices on the statement of financial position**

administration aims of the creative accounting methods on the elements of financial position is to improve the financial position of the company and that by inflating asset values or reducing the values of liabilities or both in order to improve the presentation of ratios that derived from them, such as ratios of liquidity or profitability, etc. **(Hamad, 2014, p. 12)**

Here are the top the anti procedures that done by the auditor to reduce their effect of creative accounting on the statement of financial position. **(Batul, 2013, pp. 198-199)**

• Cash: excludes cash recorded when calculating liquidity.

• Current investments: check the validity of exchange rates used.

• Stock: check the inventory records and verify the actual presence of items in the warehouse.

• Long-term investments: check the change by using the external auditor's report, and implications in the income statement of and financial position statement.

• Long-term assets: check the consumption ratios, and adjustment of depreciation expenses.

• Intangible assets: check the correctness of the followed principles In the evaluation and modification of the value.

• Current liabilities: verify the proof of premiums within current liabilities, and recalculation of liquidity ratios.

• Long-term commitments: ensure that the Company obtains a long-term loan before the end of the year to repay a short-term loan.

• Shareholders' equity: adjustment of profit for the current year and associated rates, and the dividends percentage.

■ **Procedures applied by the auditor to reduce creative accounting practices on the statement of statement of changes in stockholders':**

The external auditor performs the following actions:**(Hamid, 2013, pp. 73-74)**

• monitoring and tracking changes in equity items from the beginning of the financial period to the end of the financial period;

• Comparison of changes in equity items in the current year with previous years;

• Checking the earned capital values, Procedures for reduction or increase in those values, and its impact on the financial position of the company;

• Calculation of financial ratios relating to shareholders' equity, And compare them with last year's ratios; and

• Ensure the accuracy of the total final capital values.

■ **Procedures applied by the auditor to reduce creative accounting practices on the statement of Cash Flows**:

The external auditor performs the following actions: **(Hamid, 2013, pp. 74-75)**

Operational Activities:

• verification of the customers accounts balances;

• Check the source of real cash;

• Verify the classification of income arising from operating and non-operating activities;

• Comparison of receivables with cash; and

• Ensure that the payment of taxes is not deferred.

Investment Activities:

• Verify that the classification of investment activities is not manipulated

• verify the accuracy of the values of investment activities; and

• Ensure that fixed assets are classified as investment activities.

Financing activities:

• Ensure that funding activities are properly classified; and

• Validate the classification of shares owned by the company in its financing activities in the list.

3. CONCLUSION

Through this study, the following results were reached:

- The main objective of the external audit is to provide an opinion that the financial lists as a single unit is generally free of any material misstatement or fraud or manipulation or any creative accounting practices;

- The ethical conduct is essential for the auditing profession to gain trust in auditors, who possess integrity and objectivity in addition to confidence the financial statements provided;

- Creative accounting is an unethical process of transforming the financial accounting figures to the forms desired;

- It is impossible for auditors to find all the misstatements. but limitations faced by auditors do not release them from the responsibility of uncovering material misstatements that would affect the decisions of the financial statements users;

- The use of academic qualifications and professional experience enhance the role of external auditors in minimizing creative accounting practices;

- External auditors adoption of international auditing standards help in fulfilling their professional responsibilities (competence and independence)in audit process;

- The external auditor should plan the audit process, so it will be performed in an effective manner which lead to detect creative accounting practices;

- The external auditor's application of control and basic tests of operations lead to collect evidence, providing a reliability opinion on the financial statements;

- The external auditor adoption of auditing ethics, lead to enhance the audit profession, reduces creative accounting practice on the financial statements.

Conflict of Interest

The authors declare that they have no conflict of interest.

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