



## Understanding the Effect of Professional Ethics of Auditor on the Discovery of Creative Accounting Practices among the Exchange Trusted Auditors in Iran

**Ruholah Jamshidpur**

PhD student in accounting, Kermanshah Branch, Islamic Azad University, Kermanshah, Iran.

[R.jamshidpur@gmail.com](mailto:R.jamshidpur@gmail.com)

**Mehrdad Ghanbari**

Assistant Professor of Accounting Department, Kermanshah Branch, Islamic Azad University, Kermanshah, Iran.

(corresponding Author)

[Ghanbari@iauksh.ac.ir](mailto:Ghanbari@iauksh.ac.ir)

**Babak Jamshidinavid**

Assistant Professor of Accounting Department, Kermanshah Branch, Islamic Azad University, Kermanshah, Iran.

[jamshidinavid@iauksh.ac.ir](mailto:jamshidinavid@iauksh.ac.ir)

**Reza Hashemi**

Associate Professor, Department of Statistics, Faculty of Science, Razi University, Kermanshah, Iran.

[r.hashemi@razi.ac.ir](mailto:r.hashemi@razi.ac.ir)

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### ABSTRACT

The main objective of research is to identify the impact of the auditor's professional ethics on the discovery of creative accounting methods in Iran. This is a descriptive-correlation research and conducted in 2018. The data was collected by 160 people who answered the questionnaire. The results of distribution of questionnaire were quantitatively obtained in the SPSS environment and analyzed to confirm or reject the research hypotheses. The finding indicate that professional ethics of auditor has had an impact on the discovery of creative accounting practices. In particular, it can be stated that all aspects of the auditor's professional ethics have an important effect on discovering contradictory issues of ethics, and if there is a particular feature of ethics that alone does not have much importance for the discovery of creative accounting practices, it will be important in adding with other factors. In this research, the factors considered included independence, honesty and objectivity, the determination of conditioned fee, advertising rights, the right of commissions, the use of form and form of the organization, and the use of the name of the organization, significant factors in the discovery of creative accounting methods is recognized. In general, it can be stated that ethical aspects in general or individually have a significant effect on the application of creative accounting practices, and it is suggested that organizations should investigate them externally or internally and focus their attention on all aspects of ethics and method of professional behavior. This research is useful for improving financial reporting.

**Keywords:** Professional ethics of auditor, creative accounting, creative accounting methods, exchange trusted auditors.

## 1. Introduction

The discussion of financial reporting is considered to be a strong source of accountability and the main element for companies, because by providing a complete set of audited financial statements, it plays a very important role in the relationship between the company and shareholders, increasing the value of the company and reducing information asymmetry. . The credibility and transparency of the company's financial statements depends on the effectiveness of the monitoring mechanisms and this has led researchers to investigate the issues of corporate governance. Auditor's ethics is one of the effective components of correct accounting. Financial scandals in the last two decades show that managers sometimes mislead shareholders about the company's economic performance by preparing financial statements that do not show the value of the company in a timely manner. Creative accounting occurs when managers either use their reporting authority or their influence and influence on operational, investment and financing decisions in order to present a seemingly appropriate report (Shahbazi Takabi et al, 2024; Hoseinalinezhad et al, 2024; Alkebsee et al, 2022; Oussii and Klibi, 2023).

The central issue in accounting research is that to what extent managers have reported profit change reported in their interest. In recent years, the global economic system has experienced a significant level of fraud, manipulation of financial statements and immoral behavior in the history of large companies. Following the scandals of fraud in big companies such as Enron, WorldCom, Xerox, and recent fraud charges, such as the Lehman brothers, AIG and Freddie Mac, investors are generally concerned about fraud, and in particular increasing fraudulent financial reporting. During this period, concerns about fraudulent financial reporting increased about the credibility of financial reporting process in the United States and indeed throughout the world (Ach, 2022).

Studies have identified the audited environmental control when assessment of fraud of management is considered. firms with a healthy board of directors (without fraud) face with a significant higher percentage of capitalists of external organization than fraudulent companies. The study, however, finds that the presence of an audit committee cannot have a significant impact on the possibility of fraud in the financial statements. Therefore, the necessity of

examining predictive models of fraud, manipulation and financial frustration is very tangible. Users of accounting information are suffering from a variety of creative accounting practices. These users need the accuracy, objectivity, integrity and credible accounting information for investment and credit decisions(Ibid).

Therefore, they need information that reflects economic events during the accounting period that really occurred. In addition, they also need information about all the economic events. When accounting information reports an issue with some creative accounting practices, this information will reduce the ability of users to make good and useful decisions. Over the past two decades, some investors, shareholders, and creditors have lost a large amount of their funds because their decision was based on information that their subject by creative accounting practices was converted in other forms. As a result, a strong need emerged to limit these methods and find the right solution for this problem. The auditors added more credit to financial statements and financial data. They can play an active role in reducing the effects of that problem (the emergence of creative accounting practices). These auditors are eligible for recognition of creative accounting practices, as they are assumed to have good knowledge of accounting and auditing professions. The question is not about the competence of auditors, but about their ethics. Some interested people believe that the ethics of auditors is more important than their qualifications. They believe that when auditors seek their own ethical rules, they will be able to play a more important role in distinguishing between different methods of creative accounting practices and will be able to adequately add a solution to this negative action (Bahari sejahrood et al, 2022; Bashiri khesal & Hosseini, 2023; kiani et al, 2024). Auditors are supposed to have the most appropriate conditions for auditing activity and have sufficient knowledge about accounting principles and audit standards, but when they do not pursue their ethics related to their profession, they will not be able to create general interest for the audit profession and will not be able to provide a proper solution to the creative accounting problem. Because evidence suggests that the credit crunch is created as a result of increasing risk of immoral behavior and fraud (Marks, 2009), we see that examining the role of auditors' ethics in discovering creative accounting practices is an important issue. Therefore, the role of audit ethics in

identifying and eliminating creative accounting practices is more important than the competence of auditors, where many people believe that when auditors have the required qualifications and competencies, they can identify and eliminate these practices. Therefore, auditors should have an active and effective role in order to further recognize and limit their creative accounting practices (Hoseinalinezhad et al, 2024; Oussii and Klibi, 2023; Lukman and Irisha, 2020; Dahdouh, 2006).

The objectives of this study are to:

- Add more literature on the role of audit ethics in identifying and eliminating creative accounting practices.
- Identification of the role of auditors' independence, honesty and objectivity of auditors, conditional audit fees, right to advertise, determining the right of commission, form of organization and name in the recognition of creative accounting practices.

This study differs from other studies. While related studies have examined the role of auditors in discovering creative accounting practices, the present study focuses on the ethical aspects of the audit profession and its role in identifying creative accounting practices. In addition, some previous studies focused on the importance of auditors' competency and have been away from ethical issues, and not investigated a role that audit ethics can play in limiting creative accounting practices.

## **2. Subject literature and previous research**

The financial information contained in the financial statements for investors, creditors and other users of these statements are important. This information is considered as the main source of data for users' investment, validation and other decisions. In order to benefit from decision goals, accounting information should be identified with some qualitative features. Some of these features are primitive, such as relevancy and reliability, while the rest are secondary, such as the ability to compare and procedure stability. Since the management is responsible for reporting financial statements, it may use some creative accounting practices. Consumers of accounting information will need more reliable information to make good investment and credit. Creative accounting practices

reduce the expected benefits of financial information and may convert this information from useful information to ineligible information for user decision making. Therefore, these users may have ineffective decision because their decisions depend on manipulated accounting information. As a result, users will not be able to access their investment, credit, and other goals. The auditors are the provider of financial statements with more trust, honest and credible, since this right is dependent on them ensuring that the valid information of financial statements is prepared in accordance with general accepted accounting principles and these forms representing actual events occurred during the accounting period (Alkebesee et al, 2022; Oussii and Klibi, 2023).

Auditors for whom professional ethics are important will more carefully examine financial reports to discover creative accounting practices. Ethics in any profession is presented to improve the activities of that profession and increase productivity, which is of double importance in accreditation activities such as auditing (Alkebesee et al, 2022; Oussii and Klibi, 2023). These variables are described below:

### **2-1) Creative Accounting**

Creative accounting is not a new phenomenon. Creative accounting practices have begun since the Industrial Revolution and continued to this day, but these practices have increased since its inception in the 1980s to the last century. As a result of creative accounting practices, large companies have been defeated and closed around the world. Several terms have been created to express the effect of management on the number of items in the financial statements. The terms are manipulating accounting, fraudulent reporting, profit smoothing, earnings management, and creative accounting. At first glance, the superficial sense of the term "creative accounting" seems to be a new type of accounting, but mainly reflected by financial and professional analysts in financial markets, indicating that accounting includes creativity is in the analysis, manipulation and deception of investors and accounting, and users of financial information (Amat et al, 1999). In fact, there is no scientific readiness for such a type of accounting, since it originally appears outside the university's accounting. several definitions have been stated for

creative accounting by the researchers, which can be explained by the following definitions:

- Creative accounting means a method for manipulating accounts, and this is used to hide the true performance of companies in order to obtain useful results for the company or for some employees, and they are not followed by excessive accounting standards and acceptable methods but they are used with flexibility and choice in these standards and methods. (Bamboo dictionary)
- Creative accounting is an excuse for companies, in order to exploit the gaps created in accounting methods and alternatives that is for enhancing the company's image in the view of beneficiaries, even if to be at actual costs.

Creative accounting is modern processes or inventions, and complex activities that accountants use their knowledge in accounting rules and rules related to the figures recorded in the accounting of companies or the manipulation of these figures to achieve specific goals. accounting manipulation and fraud are two similar terms indicating management's intention to interfere in the measurement and disclosure of accounting transactions and financial statement items, even if the standards of accounting have not allowed these practices to be applied. Amat et al (1999) also states that the profit manipulation of selected methods is a study of factors of operation, supply and investment. In addition, he states that such a choice of accounting methods and policies is permitted by accounting standards, so these choices should be disclosed to users. Belkaoui (2004) states that the creative accounting is the process of transforming digits and accounting numbers from its actual value into an arbitrary amount by management, while smoothing the profit is smoothing from the declared profit by management to reduce changes in profits from one period to another. Therefore, the profit seems to be natural.

Amat et al (1999) have defined creative accounting as "a process by which accountants use accounting rules to manipulate reports in accounts of a business unit using their knowledge." Naser (1993) defines creative accounting in a variety of ways. He has defined the term as "the deformation of financial accounting figures from what they actually are to what they would like to be, using existing laws and / or ignoring some or all of them."

Clearly, there are some common elements in these three definitions. First, all writers find from the above definitions that creative accounting practices are undesirable; whatever there is motive or reasons for these practices. Second, creative accounting is perceived as a deformation from the actual declared information into unreal information. Based on these definitions, we find that creative accounting is a process in which management effort is to convert actual financial information into inaccurate information in order to meet the goals and satisfaction of management. The question is why and how management can do creative accounting.

Financial statements are a summary of all events that occurred in a particular company during an accounting period. It is assumed that these forms are to be prepared based on GAAP. GAAP determines the list, items, orders, shape, measurement methods, and recognition time. Company executives are responsible for preparing and providing the contents of these forms through the identification of accounting practices and procedures that accountants can use to prepare these forms for companies. Managers of some companies have used what is called "creative accounting".

Sometimes, management may use a high degree of flexibility in accounting standards, such as choosing between existing depreciation methods to determine the annual cost of depreciation in order to reduce the total cost, and consequently increase income. Choosing among the available methods for inventory evaluation sometimes seems to be appropriate by some managers to increase inventory, as inventories that are overvalued lead to higher rate of income. profit smoothing is a recurring choice of accounting metrics or estimates in a significant manner in order to avoid fluctuations in income from one period to another, and managers can use accounting figures with the following limitations:

- Without future commitments will appear in the future.
- Management practices are not in violation of GAAP.
- This effect should lead to physical deviation in the income derived from a period to another.
- This effect should not involve actual transactions with foreign entities; only apply re-categorizing balance of accounts within the company.

- The effect of methods and tools that are used individually or through communication with other methods during the accounting period.

A method by which creative accounting methods can be investigated by them is categorized into four groups (Amat et al, 1999):

- 1) Choose from a variety of available accounting methods.
- 2) Existence of estimates, judgments, and forecasts in financial statements.
- 3) An artificial transaction that could lead to the manipulation of the amounts stated in the balance sheet or the transfer of profit between accounting periods.
- 4) Real transactions that can be terminated to express the feelings of interest in the accounts.

The question is why management may apply creative accounting? In fact, there are several reasons that management may state to promote the use of creative accounting, some of which are (Amat et al, 1999):

**1) Smoothing the profit.** Management may prefer to declare a steady growth trend in profits, and an attempt to escape from the announcement of profit from period to period.

**2) Satisfactory prediction.** Management can occasionally use creative accounting practices to link their profits to the prediction of financial analysts and other interested individuals.

**3) Lack of attention to bad news.** Management may use creative accounting practices to keep changing the policy of increasing available income.

**4) The impact of stock market prices.** Management may use creative accounting methods to maintain the current market price of its stock through good apparent profits or by reducing the level of borrowing.

**5) Increase the knowledge advantages in inside.**

## 2-2) Audit Ethics:

Some ethical patterns must be followed when each profession is carried out, depending on the nature, or type of profession. When some lawyers do not follow their professional ethics in a particular profession, that profession loses its importance to society in general. Audit is an important profession for many communities. The audit profession provides various services, including assurance, certification, examination of historical financial statements, and other certification services. In other words, auditors create more confidence for users from financial

statements, with the information contained in the financial statements based on GAAP, and have a sufficient degree of objectivity and loyalty.

Professional ethics for the audit profession provides the public standards of ideal behavior and specific behavioral rules. It consists of four parts: (1) principles, (2) behavioral rules, (3) interpretation of the behavioral rules, and (4) ruling ethics (Bahari sejahrood et al, 2022; Bashiri khesal & Hosseini, 2023; kiani et al, 2024).

"Principles" refer to the practice of professional conduct for the audit profession, philosophically ideal standards of ethical conduct. These principles are inapplicable and are as follows:

**1) Responsibility.** Auditors are compelled to make professional and ethical judgments when they carry out their responsibilities.

**2) Public interest.** Auditors should practice their activities to be in line with serving the public interest, which is a respect for the public interest and commitment to the profession.

**3) Honesty.** Auditors must do all their professional responsibilities at the highest possible sense of integrity.

**4) Professional care.** Auditors must comply with the technical and ethical standards of the profession to improve the competence and quality of their services.

**5) The scope and nature of the services.** In practice, auditors must consider the principles of professional conduct, while they determine the scope and nature of the services required to provide them.

Behavioral rules are the minimum standards of ethical behavior that are expressed as specific rules. All these laws are binding. The auditor should be independent in practice, and should not disclose any confidential customer information without his consent, with a few exceptions in special circumstances. In addition, an auditor should not, in practice, do any professional services for conditional fee if he also conducts an audit, review, drafting of financial statements, or reviewing predicted financial statements. Additionally, an auditor in practice is prohibited from advertising or other forms of request in an incorrect, misleading or deceptive manner, by force, extremism, or abusive behavior.

Among the applicable rules by auditors in practice are that auditors are prohibited from receiving or paying commission or referral of fee for each customer, if the auditor performs an audit, review or a

specific compilation of financial statements, or a review of the projected financial statements. The last necessary law in professional ethics is that the auditor may perform his profession in a form that is authorized by the organization and is not authorized to do business under the name of a misleading company. Therefore, factors such as independence, objectivity and honesty, conditional fee, advertising rights, the right of commissions and the use of the organization's form and name as professional ethics of the auditor are considered here.

Interpretation of the law of conduct has been issued by the Professional Ethics Section at the American Institute of Accountants (AICPA). These interpretations are necessary, but existing of these interpretations must be justified, although it is difficult to exclude these interpretations, but it is not impossible. The need for these interpretations occurs when there are frequent questions from lawyers about a particular subject. Ethical sentences have been published for explanations and answers to questions about the behavioral rules. These comments and responses have been sent by AICPA to lawyers and other people interested in ethical requirements. Descriptions and responses were issued by the Executive Committee of the Professional Ethics Section. Regarding the auditor's ethics, and as a result of the failure of large companies such as Enron, Parmalat, and WorldCom, public confidence has been weakened in relation to the role of auditors and audit firms, because the auditors of these companies are responsible for this failure. Additionally, many users and other enthusiasts believe that auditors are responsible because they have neglected from professional ethics, despite having great merit.

### **2-3) Previous studies**

Given the role of the auditor's ethics in identifying creative accounting practices, the failures that have taken place over the past 20 years have highlighted the gap between public expectations and the reality of auditors' role. The general perception is that the auditor should act as a control tool in reckless management practices, especially in the case of Enron. In addition, public perception is that auditors have failed in this responsibility, since they threaten their independence in the management of Enron. The audit profession should acknowledge these types of

findings, or indeed, to restore confidence in both their capital and professional markets.

The most important challenge that auditors have faced with these days is to identify how ethical behavior needs to be restored. This should be fundamental to rebuilding public confidence in the audit profession. Even if the issue of creative accounting has been sufficiently considered by the countries of the North and Far East, this issue has not been considered by many Middle Eastern countries. The appearance of the recent international financial crisis, which emerged during the second half of 2008, should encourage academics, researchers and other interested parties to examine the role of auditor ethics in crisis, especially because some Middle Eastern Countries severely affected by the crisis.

Bansal (2023) showed that the more the structural characteristics such as the number of institutional investors, the more the accounting profit is manipulated. Oussii and Klibi (2023) showed that the duality of the CEO's duties affects accounting and family ownership plays a mediating role on this relationship. Davis and García-Cestona (2023) showed that there is a significant relationship between institutional ownership and accounting. Alkebeese et al. (2022) showed that there is a significant relationship between the audit committee's fee and accounting and ownership concentration has an effect on this relationship. Ach (2022) showed that the gender diversity of the board of directors has an effect on accounting fraud. Anwar (2022) shows that professional ethics has ability to detect the practices of creative accounting. Lukman and Irisha (2020) indicate that creative accounting techniques have no significant influence directly but have significant through a mediating variable toward the reliability of financial statements, meanwhile, the role of the statutory auditor and ethical standards have a positive significant influence on the reliability of financial reporting. Salehi (2017) show that the auditor's commitment to integrity and honesty, the auditor's independence and professional impartiality, the auditor's commitment to professional behavior in the auditing profession, the auditor's commitment to confidentiality and the auditor's professional performance have a positive and significant effect on the quality of the audit. Momani and Ibrahim (2013) finds that auditor's independency, integrity, objectivity, contingent fees, advertising rights, commission

determination, organization form, and name on auditors' ability affect auditors' ability to detect the practices of creative accounting. Moldovan et al (2010) examined the role of creative accounting as an accounting manipulation approach in contrast to the fair presentation, and professional accounting ethics. In this study, the authors reviewed the views of the various authors on two contradictory issues of professional cheating and ethics with creative accounting. In addition, they presented an inverse causal relationship between creative accounting and the principle of fair presentation. Studying the writings of other writers related to the creative account has been investigated to find or recommend some solutions to this problem, which is a threat to fair presentation. The proposed solution in this regard is related to the accounting rules and accounting professional ethics. These solutions are described with their practicality and can be practically exploited by the company and other interested users. Vladu and Mattis (2010) have conducted a study on the relationship between corporate governance and creative accounting. The author states that corporate governance is considered by the relationship between the management of the business unit and the board of directors, shareholders, lenders and shareholders, including employees, customers, suppliers and the community in which it is active. This study provides an interesting insight about the relationship with examining previous developed ideas in the process of understanding, enhancing, and redefining this dependency. By doing this study, the author wanted to refer to the strength of the role of analysts of literature as an interpreter. Matar and Alhalabi (2009) examined a role that auditors can play in limiting creative accounting and its effect on the reliability of accounting information. The purpose of this study is to identify the methods used in creative accounting practices and their effects on the reliability of accounting information, as well as to determine the manager's incentive to do this method. Another important goal of this study is to determine the role that auditors play in discovering and limiting the creative accounting practices that have been taken place by Jordanian equity holders. This study shows that the methods described in the application of creative accounting have affected the reliability of accounting information. Additionally, this study found that various management practices are for applying

creative accounting, but the auditors take a process and do the tests required to identify these practices. Dahdouh (2006) conducted a study on the subject of creative accounting and the role of auditors in this regard. The purpose of this study is to determine the problem of fraud in financial statements, and to identify effective factors and failure detection in several large companies around the world. The study focuses on the role of auditors in discovering fraudulent practices in Jordan. He finds that several factors associated with auditors and other factors associated with the company can help to identify fraud in the financial statements. The most important conclusion from this study is that the ability of auditors to detect fraud in financial statements is influenced by the various factors associated with the release of these companies. Cormier and Lapointe-Antunes (2006) reviewed the auditor's assessment and corporate fraud detection. The main objective of this study was to examine and assess the ability of auditors to detect fraud in accounting data in Canada in an environment free from accounting standards that accountants was not required to obtain details and test fraud detection. In addition, it examines a role that auditors can play in detecting fraud and the ways in which they can play in reducing such cases. This study shows that auditors are more interested in dealing with risk factors of fraud that are involved with fraud on the audit process. The estimation of risk factors of fraud by auditors is done through focusing on initial analysis, where they are more capable for detecting fraud. They are also determined to set up analysis procedures to detect fraud in each audit phase. Rabin (2005) studied the factors of behavior of auditors in relation to creative accounting. In more detail, the author of this study examined whether there is a relationship between the auditors' attitude to creative accounting and their ethical judgment. In addition, the author also examined the relationship between auditors' attitude and their assessment from the quality of financial reporting and their understanding from the factors affecting the preparation of financial statements using aggressive accounting techniques. This study shows that there is a meaningful relationship between the auditor's assessment of the relevance and reliability of reported information and their attitude to creative accounting. In addition, this study obtained some of the factors that have influenced suppliers' perception

for understanding auditors from creative accounting in other countries.

### 3- Research hypothesis

Based on literature review and previous studies, the following hypothesis has been expanded:

- **The professional ethics of the auditor has a significant effect on the discovery of creative accounting practices.**

### 4. Methodology

The statistical population consisted of 210 people employed in the "Exchange Trusted Class A" Audit Institutions throughout Iran. In this research, simple random sampling method was used. Also, the sample size was determined 160 people using the number of responses received from the members of the statistical population. The questionnaire consists of four sections developed that in the first part, it is designed to collect relevant demographic information about respondents. The questions were answered based on a 5-point Likert scale from strongly agree (5) to strongly disagree (1). The characteristics of the respondents were as described in the following table:

**Table 1: demographic information about respondents**

characteristic	type	Abundance	percentage
age	Less than 35 years	47	29/3
	Between 35 and 45	51	31/9
	More than 45 years	62	38/8
gender	man	144	90
	female	16	10
Level of Education	Bachelor's degree	83	51/9
	Master's degree	72	45
	P.H.D	5	3/1
job post	manager	51	31/9
	supervisor	64	40
	Auditor	45	28/1

The descriptive statistics of the responses were as follows:

The ability of auditors to identify creative accounting practices was measured through the second part, consisting of 25 cases. Since independence is an important ethical issue for auditors, the third part consists of 16 cases, all of which were used to measure the independence of auditors. Integrity and objectivity

are also two important ethical laws. Therefore, the fourth part was developed to measure these two important ethical requirements of auditors. Additional ethical issues were placed on auditors working in section five. These are additional issues of conditional fee, advertising rights, commission designation, and the use of organization form and name.

**Table 2: descriptive statistics**

Variables	average	deviation	max	min
Measuring creative accounting	3.75	0.869	5	1
Measuring independence of auditors	3.21	0.752	5	1
Measuring integrity and objectivity of auditors	3.45	0.782	5	1
Measuring other ethical aspects of auditors	3.59	0.753	5	1

Subsequently, a group of academics and auditors with long experience were evaluated for comments, notes or recommendations to assess the validity of the questionnaire after initial development and before distributing it to respondents. All of the presented notes and comments by the group of academics and auditors were considered with regard to the variables in the final questionnaire. Using statistical package of social studies (SPSS), different statistical methods have been used in analyzing data and testing hypotheses. Descriptive statistics were used to describe the population data of respondents. Based on the regression method, the model of this study is as follows:

$$CAD_{ij} = \alpha + \beta_0 IND_{i,j} + \beta_1 OBJ_{i,j} + \beta_2 FEE_{i,j} + \beta_3 ADV_{i,j} + \beta_4 COM_{i,j} + \beta_5 FORM_{i,j} + \beta_6 NAM_{i,j} + \epsilon_{i,j} \quad (1)$$

In this model, CAD reflects the ability to recognize creative accounting, IND independence, OBJ integrity and objectivity, FEE conditional fee, ADV advertising, COM right commission, FORM, form of structure, NAM institution name,  $\beta_0, \beta_1, \beta_2, \beta_3, \beta_4, \beta_5, \beta_6$  are regression coefficients and  $e$  regression error.

#### 4-1) Cronbach's alpha

The Cronbach's alpha coefficient was calculated by using the variance of the test, using SPS software. In Table 1, Cronbach's alpha coefficients for the research variables are presented. As can be seen, considering that for humanities research, alpha coefficient higher than 0.7 is acceptable, therefore, if the research alpha coefficient is higher than 0.7, then the reliability of the

questionnaire can be evaluated appropriately. Usually, the range of the confidence coefficient of the alpha of Cronbach is from zero (0) with the meaning of instability to positive (1) with the meaning of full reliability, and the higher the value obtained is closer to one number, the reliability of the question is more. In this research, the confidence coefficient of the whole number is 0.914.

**Table 3: Cronbach's alpha coefficient**

Variables	The number of questions	Cronbach's alpha coefficient
Measuring creative accounting	25	0.928
Measuring independence of auditors	17	0.768
Measuring integrity and objectivity of auditors	11	0.919
Measuring other ethical aspects of auditors	12	0.911
Total questions of questionnaire	65	0.914

**4-2) Kolmogorov-Smirnov test**

This test is nonparametric and is used to evaluate the coherence (fitness) of the rank variables in two samples (either independent or non-independent) or fitness of the distribution of a sample with a distribution that is assumed for society (One sample Smirnov) This test is used in cases where the variables are ranked and the distribution of the rank variable can be determined in the population. This test is performed by comparing the distribution of the relative frequencies observed in sample  $S_n(x)$  with the distribution of the relative frequencies of population  $f(x)$ .

$$D = |\max f(x) - S_n(x)|$$

H<sub>0</sub>: data is normal (data is from normal population)

H<sub>1</sub>: data is not normal (data is not from normal population)

Therefore, Kolmogorov-Smirnov test examines the normalization of the level of disclosure (dependent variable) in this research. In the existing hypotheses, the value of the level of significance is less than 0.05, so that the normality of the hypotheses is created and

none of H<sub>0</sub> is rejected, the Arcsin conversion is used, so the data are normal. Parametric tests can be used.

**Table 4: One-Sample Kolmogorov-Smirnov Test**

N		Arcsin
Normal Parameters <sup>a,b</sup>	Mean	0.5142
	Std. Deviation	0.08403
Most Extreme Differences	Absolute	0.108
	Positive	0.108
	Negative	-0.108
Kolmogorov-Smirnov Z		1.348
Asymp. Sig. (2-tailed)		0.053

**4-3) Multiple regression analysis and hypothesis test logic**

Sometimes two or more variables have a major impact on the dependent variable. In this situation, multiple regressions are used to predict the dependent variable. The parameters that we estimate in regression are based on the observations of a sample. In multiple regressions, we want to estimate a population regression with k independent variable in this case:

$$y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \dots + \beta_k X_k$$

The parameters  $\beta_1, \dots, \beta_k = 0,1$ , are called regression coefficients. This model is a page in the K-dimensional space from the regression variables  $X_j$ . The parameter  $\beta_j$  represents the expected variation of the response variable for a unit of change in  $X_j$ , when all other remaining regression variables ( $i \neq j$ ) are kept constant. Therefore, the parameters  $\beta_1, \dots, \beta_k = 1,2$ , are called partial regression coefficients. To determine the weights and coefficients of the variables, stepwise method has been used. In the analysis table of variance, the regression line represents the degree of variations of the dependent variable, which is explained through independent variables. The Residual line also indicates the degree of variations of dependent variable that is explained by other factors (random and accidental). The table of regression model coefficients is presented in column B for regression and constant values respectively. The rest of the columns in this table include: The standard error of the column coefficients B, Beta (the standardized value of the coefficients that indicates the degree of change in the variable dependent variable for the standard deviation in the independent variable). The

concept of Significance, which shows as Sig is the error rate in the H0 rejection. In general, it can be said:

if:  $\text{sig} < \alpha \Rightarrow H_0$  rejection

if:  $\text{sig} > \alpha \Rightarrow H_0$  non-rejection

The rejection of H0 means that there is a meaningful relationship between the variables and the non-rejection of H0 means the non-relationship between variables.

Regarding the results, it is specified that except for the company's independence and name, the other variables have a significant correlation with the creative accounting variable at the error level of 0.01 and this suggests the existence of correlation between all the variables mentioned. The correlation between creative accounting with independence and company name is not meaningful, but creative accounting has meaningful correlation with the rest of the variables. The correlation between creative accounting with the integrity and objectivity is meaningful and negative, which shows that increasing integrity and objectivity in the companies cause a significant decrease in creative accounting. This situation also exists for the correlation between creative accounting and corporate structure. It has a negative and significant correlation, which shows that the structure of institutions as much as is larger, and it also has stronger controls and less creativity in the accounting of those institutions. For the rest of the variables, if they are individually analyzed, only conditional fee, advertising rights and commission right have a strong and meaningful correlation, and the rest do not have a positive or strong impact, but this strong and meaningful correlation means that as much as these variables (conditional fee, advertising rights, commission rights) are larger, there will be a significant increase in accounting creativity in the same way. It should be noted that these correlations are calculated between the two variables and without regard to the rest of the variables.

#### 4-3-1) Correlation test

Due to the fact that in the research hypothesis test, regression test is performed, the precondition for doing regression is correlation, which is used to measure the correlation of Pearson test;

##### Analysis of the main hypothesis:

**H0:** The ethical aspects of the audit profession do not have a significant effect on the ability to discover creative accounting practices.

**H1:** The ethical aspects of the audit profession have a significant effect on the ability to discover creative accounting practices.

**Judgment:** Watson-Durbin static value according to (40-50) in the third stage (final model) is 1.759, and this indicates lack of correlation between the error sentences.

As can be seen in the table above, the corrected R2 (adjusted coefficient) in the final model shows how much of the variance (variance) of the variable Y (dependent) is explained by the (independent) variables X. In this study, this value is 0.923 which is a high amount.

**Judgment:** According to Fig. 4-51, in the final step, the correlation coefficient is equal to 0.962. This number represents a 5% error level between the two variables. The coefficient of determination calculated in the final step is 0.923, which indicates the number is very strong, i.e. about 92% of the variations of the dependent variable are expressed by the independent and control variables. The table below shows the regression variance analysis. In this table, in the final model, the F regression model is 374.513 and its significance is 0.000. Therefore, its regression model is strong and meaningful. Now, we consider the continuation of outputs for investigating the importance of each of the variables in the regression model.

The values of the regression coefficients are presented in the following table:

**Table 5: Correlation test**

	Creative accounting	Independence	Honesty and objectivity	Conditional fee	Advertising right	Commission right	Organizational shape and form	Name of organization
Creative accounting of Pearson Correlation	1	0.089	-0.279**	0.878**	0.862**	0.823**	-0.477**	0.068
(Sig)		0.265	0.000	0.000	0.000	0.000	0.000	0.391
Number	160	160	160	160	160	160	160	160

Table 6: Watson-Durbin static

Model	Number of observations	Watson-Durbin
3	160	1.759

Table 7: Model summary table

Model Summary <sup>f</sup>					
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	0.910 <sup>a</sup>	0.827	0.826	0.24400	
2	0.945 <sup>b</sup>	0.892	0.891	0.19323	
3	0.955 <sup>c</sup>	0.912	0.911	0.17494	
4	0.961 <sup>d</sup>	0.923	0.921	0.16458	
5	0.962 <sup>e</sup>	0.925	0.923	0.16248	1.759
a. Predictors: (Constant), FEE					
b. Predictors: (Constant), FEE, FORM					
c. Predictors: (Constant), FEE, FORM, NAM					
d. Predictors: (Constant), FEE, FORM, NAM, ADV					
e. Predictors: (Constant), FEE, FORM, NAM, ADV, IND					
f. Dependent Variable: CAD					

Table 8: Statistical table of variance analysis

ANOVA <sup>a</sup>						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	44.192	1	44.192	742.296	0.000 <sup>b</sup>
	Residual	9.228	155	0.060		
	Total	53.419	156			
2	Regression	47.669	2	23.835	638.359	0.000 <sup>c</sup>
	Residual	5.750	154	0.037		
	Total	53.419	156			
3	Regression	48.737	3	16.246	530.805	0.000 <sup>d</sup>
	Residual	4.683	153	0.031		
	Total	53.419	156			
4	Regression	49.302	4	12.325	455.019	0.000 <sup>e</sup>
	Residual	4.117	152	0.027		
	Total	53.419	156			
5	Regression	49.433	5	9.887	374.513	0.000 <sup>f</sup>
	Residual	3.986	151	0.026		
	Total	53.419	156			
a. Dependent Variable: CAD						
b. Predictors: (Constant), FEE						
c. Predictors: (Constant), FEE, FORM						
d. Predictors: (Constant), FEE, FORM, NAM						
e. Predictors: (Constant), FEE, FORM, NAM, ADV						
f. Predictors: (Constant), FEE, FORM, NAM, ADV, IND						

Table 9: Regression equation coefficients Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	95.0% Confidence Interval for B		Correlations			Collinearity Statistics	
		B	Std. Error	Beta			Lower Bound	Upper Bound	Zero-order	Partial	Part	Tolerance	VIF
1	(Constant)	0.718	0.119		6.026	0.000	0.483	0.954					
	FEE	0.732	0.027	0.910	27.245	0.000	0.679	0.785	0.910	0.910	0.910	1.000	1.000
2	(Constant)	1.611	0.132		12.189	0.000	1.350	1.872					
	FEE	0.668	0.022	0.831	30.032	0.000	0.624	0.712	0.910	0.924	0.794	0.913	1.095
	FORM	-0.142	0.015	-0.267	-9.651	0.000	-0.171	-0.113	-0.512	-0.614	0.255	0.913	1.095
3	(Constant)	0.390	0.239		1.635	0.104	-0.081	0.862					
	FEE	0.650	0.020	0.808	31.891	0.000	0.610	0.690	0.910	0.932	0.763	0.892	1.121

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	95.0% Confidence Interval for B		Correlations			Collinearity Statistics	
		B	Std. Error	Beta			Lower Bound	Upper Bound	Zero-order	Partial	Part	Tolerance	VIF
	FORM	-0.172	0.014	-0.324	-12.071	0.000	-0.201	-0.144	-0.512	-0.698	-0.289	0.795	1.258
	NAM	0.292	0.050	0.152	5.905	0.000	0.195	0.390	0.075	0.431	0.141	0.869	1.150
	(Constant)	0.357	0.225		1.588	0.114	-0.087	0.801					
4	FEE	0.488	0.040	0.606	12.076	0.000	0.408	0.567	0.910	0.700	0.272	0.201	4.971
	FORM	-0.163	0.014	-0.306	-11.961	0.000	-0.190	-0.136	-0.512	-0.696	-0.269	0.776	1.289
	NAM	0.237	0.048	0.123	4.933	0.000	0.142	0.332	0.075	0.371	0.111	0.815	1.228
5	ADV	0.220	0.048	0.234	4.568	0.000	0.125	0.315	0.879	0.347	0.103	0.193	5.173
	(Constant)	0.253	0.227		1.114	0.267	-0.196	0.701					
	FEE	0.467	0.041	0.580	11.403	0.000	0.386	0.548	0.910	0.680	0.253	0.191	5.243
	FORM	-0.162	0.013	-0.305	-12.070	0.000	-0.189	-0.136	-0.512	-0.701	-0.268	0.775	1.290
	NAM	0.126	0.069	0.066	1.839	0.068	-0.009	0.262	0.075	0.148	0.041	0.389	2.573
	ADV	0.245	0.049	0.261	5.022	0.000	0.149	0.342	0.879	0.378	0.112	0.183	5.477
	IND	0.140	0.063	0.075	2.229	0.027	0.016	0.264	0.092	0.178	0.050	0.440	2.273

a. Dependent Variable: CAD

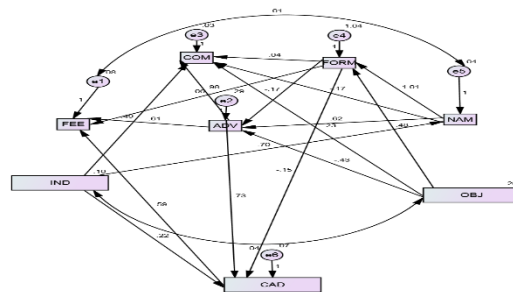
Regarding the graph (4-53) in the final model of column B, the constant value and independent variable coefficient in the regression equation are presented, and the regression of model (4-9) is fitted as follows:

$$CAD_{ij} = 0.253 + 0.467 FEE_{ij} - 0.162 FORM_{ij} + 0.126 NAM_{ij} + 0.245 ADV_{ij} + 0.140 IND_{ij} + \epsilon_{ij}$$

**Judgment:** According to the model, there is a relatively strong correlation between the aspects of professional ethics of auditor and creative accounting in the audit firms, because their significance level is equal to 0.000, which is less than 0.05, But in this regard, three factors of conditional fee and organizational form and the right to advertise have a relatively higher impact and significance at an error level of 0.01. As you can see, the most influential factor to strengthen the use of creative accounting is FEE, because in the models mentioned, it is always entered in the model as the first model and is maintained to the end and has the most coefficient of influence on the regression line equation. On the other hand, the structure of the company has a negative coefficient of influence on the regression equation, which suggests that the larger the structure of the units, the fewer tendencies for creative accounting practices. As discussed earlier, one of the problems of regression is that some of the variables in complex relationships are not considered, and this may affect our model and analysis, so here to eliminate this problem, we use factor analysis. One of the strongest and most

appropriate methods for analyzing in behavioral and social sciences research is multivariate analysis, because the nature of such issues is multivariable and cannot be analyzed them by bivariate method (which an independent variable with a dependedt variable is considered only at a time). The multivariate analysis is referred to a series of analysis methods that their main characteristics are simultaneous analysis, independent variables and dependent variables.

Analysis of covariance structures or causal modeling or structural equation modeling is one of the main methods for analyzing complex data structures, which means analyzing various variables that in a theory-based structure shows impacts of variables on each other. This method is a complex mathematical and statistical combination of factor analysis, multivariate regression, and path analysis that is gathered in a complex system to analyze complex phenomena.



Number of variables in your model:	14
Number of observed variables:	8
Number of unobserved variables:	6
Number of exogenous variables:	8
Number of endogenous variables:	6
Number of distinct sample moments:	36
Number of distinct parameters to be estimated:	27
Degrees of freedom (36 - 27):	9

**Estimates (Group number 1 - Default model)**

**Scalar Estimates (Group number 1 - Default model)**

**Maximum Likelihood Estimates**

**Regression Weights: (Group number 1 - Default model)**

			Estimate	S.E.	C.R.	P
NAM	<---	IND	0.696	0.051	13.530	***
FORM	<---	NAM	1.009	0.278	3.630	***
FORM	<---	OBJ	0.485	0.183	2.642	0.008
ADV	<---	FORM	-0.174	0.042	-4.151	***
ADV	<---	OBJ	-0.434	0.099	-4.384	***
ADV	<---	NAM	0.622	0.153	4.079	***
CAD	<---	FORM	-0.146	0.020	-7.283	***
CAD	<---	IND	0.221	0.068	3.229	0.001
CAD	<---	ADV	0.733	0.035	21.201	***
COM	<---	NAM	-0.167	0.069	-2.415	0.016
FEE	<---	CAD	0.586	0.084	6.966	***
COM	<---	OBJ	-0.228	0.034	-6.760	***
COM	<---	IND	0.493	0.065	7.604	***
COM	<---	ADV	0.978	0.025	38.822	***
FEE	<---	ADV	0.613	0.074	8.301	***
COM	<---	FORM	0.041	0.014	2.916	0.004
FEE	<---	FORM	0.061	0.024	2.528	0.011

**Standardized Regression Weights: (Group number 1 - Default model)**

			Estimate
NAM	<---	IND	0.723
FORM	<---	NAM	0.273
FORM	<---	OBJ	0.199
ADV	<---	FORM	-0.309
ADV	<---	OBJ	-0.316
ADV	<---	NAM	0.299
CAD	<---	FORM	-0.275
CAD	<---	IND	0.117
CAD	<---	ADV	0.775
COM	<---	NAM	-0.075
FEE	<---	CAD	0.474
COM	<---	OBJ	-0.155
COM	<---	IND	0.229
COM	<---	ADV	0.909
FEE	<---	ADV	0.524

			Estimate
COM	<---	FORM	0.067
FEE	<---	FORM	0.093

**Covariances: (Group number 1 - Default model)**

			Estimate	S.E.	C.R.	P
IND	<-->	OBJ	0.037	0.011	3.281	0.001
e1	<-->	e5	-0.014	0.005	-2.811	0.005

**Correlations: (Group number 1 - Default model)**

			Estimate
IND	<-->	OBJ	0.270
e1	<-->	e5	-0.238

**Variances: (Group number 1 - Default model)**

	Estimate	S.E.	C.R.	P
IND	0.095	0.011	8.916	***
OBJ	0.203	0.023	8.916	***
e5	0.042	0.005	8.916	***
e4	1.043	0.117	8.916	***
e2	0.290	0.033	8.916	***
e6	0.065	0.007	8.916	***
e1	0.082	0.009	8.874	***
e3	0.029	0.003	8.916	***

In the above statistics, C.R expresses T and P statistics and also represents the significance level, as it is clear that there is a significant relationship between the majority of parameters applied and creative accounting.

**Model Fit Summary – CMIN**

Model	NPAR	CMIN	DF	P	CMIN/DF
Default model	27	6.496	9	0.689	0.722
Saturated model	36	0.000	0		

Given that in the above model, the CMIN / DF is 0.722 and less than 3, so it shows the super fitness of the model.

Model	RMR	GFI	AGFI	PGFI
Default model	0.004	0.990	0.961	0.248
Saturated model	0.000	1.000		
Independence model	0.175	0.383	0.206	0.298

Judgment; According to the above statistical model, in this model, the values of the fitting goodness (GFI)

and improved fitting goodness (AGFI) are higher than 0.9, which indicates a good fit of the model.

**Baseline Comparisons**

Model	NFI Delta1	RFI rho1	IFI Delta2	TLI rho2
Default model	0.995	0.983	1.002	1.007
Saturated model	1.000		1.000	
Independence model	0.000	0.000	0.000	0.000

**Judgment:** According to the statistical graph, the NFI's value is approximately one (greater than 0.9), and the TLI and CFI are also number one, so the normalized model is excellent.

Model	RMSEA	LO 90	HI 90	PCLOSE
Default model	0.000	0.000	0.070	0.874
Independence model	0.514	0.489	0.539	0.000

Judgment: Given the fact that the RMSEA's value is less than 0.03, so fitness is considered excellent.

Model	AIC	BCC	BIC	CAIC
Default model	60.496	63.736	143.526	170.526
Saturated model	72.000	76.320	182.706	218.706
Independence model	1218.320	1219.280	1242.921	1250.921

Akaike (AIC) criterion (AIC) This criterion gives a better fit if it is smaller. Its size is not standardized and is not interpreted for a certain model. But for the two models that are estimated from a set of data, the smaller AIC model is preferred. As seen in the previous image, the Saturated Model is a model that all variables are connected and the independence model is a model that has no relation to it. As can be seen, the default model is better than the independent model, and even the saturated model (smaller AIC)

Model	ECVI	LO 90	HI 90	MECVI
Default model	0.380	0.396	0.440	0.401
Saturated model	0.453	0.453	0.453	0.480
Independence model	7.662	6.972	8.399	7.668

Model	HOELTER 0.05	HOELTER 0.01
Default model	415	531
Independence model	6	7

Holter Index: This index is only calculated when it is statistically significant. Hoeller recommends at least 200 volumes in the sample volume. The values of less than 75 imply a weak fit of the model.

**Table 10: Final analysis of the final research model**

Kind of model	Criterion of fitting model	Acceptable limit	Result	Decision
Absolute Indices (Model Fitness)	Chi-Square (CMIN)		6.496	-
	Degree of freedom (df)		9	-
	Significance level (P)	0.05 less than	0.689	-
	Chi-square ratio to degree of freedom (CMIN / df)	Between 1 to 5	0.722	Desired
Relative indicators	Root Average Estimated Error Squares (RMSEA)	0.10 to down	0.000	Strong and desired
	Fit Fitness Index (GFI)	0.90 to up	1.000	Strong and desired
	Modified Fit Improvement Index (AGFI)	0.90 to up	0.961	Weak
	Modified Fitness Index (NFI)	Near to one	0.995	Weak
	Tooker-Lewis Index (TLI)	0.90 to up	1.007	Strong and desired
	Growth Factor Index (IFI)	0.90 to up	1.002	Strong and desired
	Comparative Fitness Index (CFI)	0.90 to up	1.000	Strong and desired
	Relative fit index (RFI)	0.60 to up	0.983	Strong and desired
	Thrifty comparative fit index (PCFI)	0.60 to up	0.321	Weak
	Normative Fitness Index (PNFI)	0.60 to up	0.321	Weak

**Conclusion**

According to the statistical test, because the value of significance level in the t-test is 0.000, this value is smaller than the significance level of 0.05, and in other words, as the t-statistic is equal to (19.700) and larger

than the value (1.96), the zero hypothesis (H0) is rejected at the 0.01 error level and it can be concluded that; The ethical aspects of the audit profession have a significant impact on the ability to discover creative accounting practices. The t-test statistic illustrates that

the average acquisition of the sample is 3.9120, which is reported higher than the average limit from the average population (3) with a difference of at least 0.8206 and 1.0034, and the two sides of this distance is positive which indicates that the more average impact of the professional ethical aspects of accounting on creative accounting from the average with confidence 95%.

Therefore, one of the most prominent features of accounting profession is to accept responsibility for maintaining public interest. Therefore, the responsibility of professional accountant is not limited solely to the satisfaction of the owner or the employer. Professional accountant in maintaining public interest should act professionally. If the laws or regulations prevent the professional accountant to comply with part of professional conduct, then the accountant must comply with other sections of professional conduct. Therefore, it is recommended that, in accordance with the rules of professional conduct tried to determine a framework for;

- a) Identifying the dangers affecting in violation of fundamental principles;
- b) Assessing the significance of identified risks; and
- c) Using safety measures, if necessary, to remove or reduce those risks to an acceptable level.

In summary The data obtained from the distribution of the questionnaire were analyzed using t-test to prove or reject the research hypotheses. The findings showed that competence and competence, honesty and objectivity and independence of the auditor have a significant negative effect on creative accounting. While the results show the positive impact of contingent fees, advertising fees and commission fees on creative accounting. Empirical evidence indicates that the name of the auditor's institution does not have a significant effect on creative accounting. The results show that the principles of ethics and professional behavior create obstacles to the creative work of auditors so that the evaluation of financial statements is not reported in accordance with the employer's request. The results of this research were largely consistent with the research of Anwar (2022); Bansal (2023); Salehi (2017); Momani and Ibrahim (2013). It should be noted that professional accountant in using this theoretical framework should use professional judgment, and in order to minimize the effects of

creative accounting misconduct, professional accountant should use fundamental principals include integrity (honest and explicit) objectivity (inappropriate) Professional Competence and Due Care and confidentiality, professional behavior, and refrain from doing actions that discredit the profession, which includes risks; self-interest threat, self- review threat, advocacy threat, familiarity threat, intimidation threat (the risk that a professional accountant due to the actual pressures of others or fear of pressure expected included inappropriate influence on the professional accountant, to be avoided realistic action). It is also suggested to consider the following steps in order to reduce negative creative accounting:

Update audit working papers to incorporate the content within "What's changed for auditors."

Document all meetings with management, those charged with governance and others within the entity.

Create a checklist of examples of circumstances that indicate the possibility of creative accounting.

Document discussions with the Engagement Team incorporating exchange of ideas about creative accounting risk factors.

Determine whether the engagement team requires specialized skills or knowledge to perform risk assessment procedures.

Perform audit procedures to test the appropriateness of manual or automated journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements, including consolidation adjustments in the preparation of group financial statements. Make inquiries of individuals with different levels of responsibility. Select journal entries and other adjustments made at the end of a reporting period and post-closing entries. Consider the reliability of information to be used as audit evidence ensuring tampering of documents is not evident.

Automated tools and techniques may enable more extensive testing of electronic transactions and account files.

Obtain written representations from management that they acknowledge their responsibility for the design, implementation and maintenance of internal controls to prevent and detect fraud and that they believe they have appropriately fulfilled those responsibilities.

The limitation of this research was that different results may be obtained in other communities. Another limitation related to questionnaire research is that

respondents may give different answers in different situations. Future researchers are suggested to identify the factors affecting creative accounting in Iran's capital market.

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