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ARTICLE

The Role of External Auditing in Limiting the Practice of Creative Accounting: An Analytical Study of the Opinions of a Sample of Academics and Professionals (Accountants and Auditors) at the University of Kirkuk

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Abstract

The study aims to examine the role of external auditing in limiting the practice of creative accounting in financial statements (income statement, balance sheet, cash flow statement, and statement of changes in equity) at the University of Kirkuk. The necessary data to achieve the research objectives were collected and analyzed through a questionnaire designed and distributed to the research sample, consisting of academics and professionals working at the university. The study employed a descriptive-analytical approach, and the data were processed using SPSS software. The research concluded several findings, the most significant of which is the presence of a statistically significant positive effect of external auditing in reducing the practice of creative accounting in financial statements. The study also found that creative accounting practices exist in financial statements at varying levels, with the highest occurrence in the income statement and the lowest in the cash flow statement. The researcher recommends enhancing the role of external auditing by applying international auditing standards and developing internal control systems to be more efficient and capable of detecting improper practices in the preparation of financial statements.

Keywords: External Auditing, Creative Accounting, Financial Statements

Introduction

The concept of creative accounting has increasingly been used by economic entities through manipulating financial statements, inflating profits, reducing losses, achieving personal gains, or misleading users of financial statements [1]. Such practices undermine the trust and credibility of financial statements. Consequently, creative accounting has recently attracted significant attention from auditors and accountants, particularly following the challenges faced by companies during economic recessions and the collapse of companies such as Enron and others. Auditing firms were held responsible for these collapses and were accused of manipulating accounting information and presenting it in a way that did not reflect the actual financial reality [2], [3].

Therefore, it has become essential to rely on external auditing as a crucial profession to meet the needs of users of accounting information. This necessity is especially evident given the substantial development companies have undergone across various sectors, where they now interact with multiple stakeholders, both internal and external [4], [5]. Such interactions require companies to adopt a new function that communicates developments and relevant information to all concerned parties effectively.

Methodology

Chapter One

Research Methodology

1. **Research Problem**
   The use of creative accounting in companies has significantly increased, leading to the presentation of misleading or inaccurate information with the aim of enhancing the financial image for users of such information or for tax evasion purposes. External auditing is considered one of the fundamental pillars that can be employed to limit these practices. Based on the foregoing, the research problem can be formulated through the following question: *Does external auditing limit the practice of creative accounting in the financial statements of the University of Kirkuk?*

2. **Significance of the Research**
   The importance of this study stems from the impact of external auditing on users' confidence in accounting information and the enhancement of the accuracy and reliability of data in financial statements by detecting fraudulent activities within them. Additionally, the topic of creative accounting is significant as it represents a real problem, given that company management may use various methods to present a position that serves its objectives, even at the expense of other stakeholders.

3. **Research Objectives**
   The current study aims to:
   a. Identify the motives behind creative accounting.
   b. Identify the methods used in practicing creative accounting.
   c. Identify the procedures employed by external auditors to limit the practice of creative accounting and propose appropriate solutions.

4. **Research Hypotheses**
   a. The main hypotheses on which this study is based can be formulated as follows:
   Primary Hypothesis 1: *There is a statistically significant correlation between external auditing and the practice of creative accounting in financial statements*, both at the overall and sub-levels.
   b. Primary Hypothesis 2: *There is a statistically significant effect of external auditing on the practice of creative accounting in financial statements*, both at the overall and sub-levels.

5. **Research Population and Sample**
   The research population consists of the University of Kirkuk and its affiliated colleges. The research sample includes academics and professionals, specifically accountants and auditors working in the accounting and auditing departments at the university's headquarters and affiliated colleges. Data were collected through a questionnaire designed and distributed to the study sample.

6. **Research Conceptual Model**
   Here, a diagram or description of the hypothetical research model illustrating the relationship between external auditing and creative accounting would typically be included, see Figure 1.

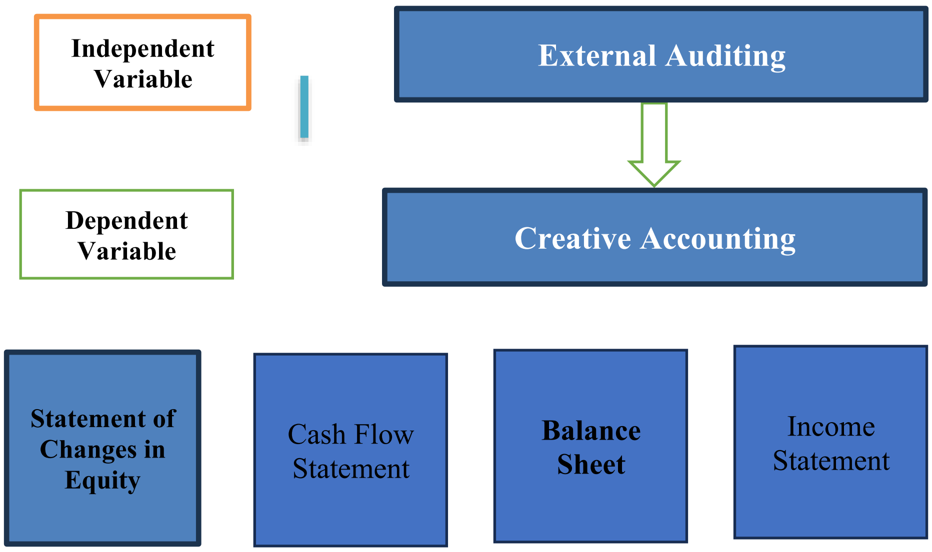

Figure 1. Hypothetical Research Model

Source: Prepared by the researcher

7. **Previous Studies**
   a. **Study by Khalil and Hamad** titled *"The Governance Role of External Auditors in Limiting the Practice of Creative Accounting"*:
   This study aimed to identify the governance role of external auditors in limiting the practice of creative accounting and reducing its extent in financial statements. A questionnaire was distributed to the heads and members of audit teams in external audit offices. The study concluded that the governance role of external auditors contributes to the auditing process through professional competence, integrity, objectivity, and continuous professional training, thereby limiting the practice of creative accounting [6].

b. **Study by Mohamed and Ahmed** titled *"The Role of External Auditing in Limiting Earnings Management"*:
This study aimed to determine the effect of external auditing in limiting earnings management as an independent control mechanism to detect fraud and misstatement in financial statements. The study concluded that external auditing plays a significant role in enhancing transparency in financial statements and reducing the likelihood of manipulation in financial reporting [7], [8].

c. **Study by Nasrat and Khalifa** titled *"The Role of External Auditor's Commitment to Professional Ethics in Limiting the Practice of Creative Accounting"*:
This study aimed to examine the role of adherence to professional auditing ethics in limiting the practice of creative accounting [9]. A questionnaire was distributed to a sample of academics and professionals in the field of accounting and auditing. The study found that the external auditor's commitment to professional ethics enables the detection and limitation of creative accounting practices [10].

d. **Study by Abdullah** titled *"The Extent to Which Accounting Information is Affected by Creative Accounting Methods"*:
This study, conducted at a carpet and furniture company for the period 2018–2022, aimed to determine the extent to which accounting information in financial statements is affected by creative accounting practices. The study concluded that creative accounting practices were present in the company, leading to misleading financial statement users and reduced confidence in these statements [11], [12]. The study recommended applying regular auditing procedures to ensure transparent financial reporting.

e. **Analysis of Previous Studies and the Contribution of the Current Research:**
Analysis of the previous studies indicates differing results regarding the effect of external auditing on creative accounting in companies and the private sector. Moreover, to the researcher's knowledge, no study has addressed this topic in public universities. Given the non-profit nature of the educational environment, creative accounting may be practiced for various purposes, including improving the financial image or obtaining funding. Therefore, the relationship between external auditing and creative accounting in academic institutions remains insufficiently explored due to the limited research specifically addressing this area [13].

Chapter Two: Theoretical Framework

1. External Auditing

External auditing procedures have evolved from traditional methods to modern approaches through advancements issued by professional associations. The external auditing profession serves as a fundamental mechanism to verify accounting data in companies, benefiting all relevant stakeholders. An external auditor, who has no financial interest in the company, performs auditing tasks with the primary purpose of providing an impartial opinion on the fairness of the company's financial statements [14].

Abdel Hafez and Amer define external auditing as the process of examining internal control systems, supporting documents, and accounts, as well as systematically reviewing the project's books to reach an objective professional opinion on the financial position at the end of the financial period and the accuracy of the results, whether profit or loss.

Rubino et al. consider external auditing as a discipline that encompasses a set of concepts, standards, procedures, and techniques to conduct a systematic and critical evaluation of the internal control system and the information recorded in financial records [15]. The purpose is to provide an unbiased professional assessment of the effectiveness of financial statements in reflecting the company's profit or loss and its financial position at the end of the fiscal year.

An auditor should obtain additional data independently rather than relying solely on external sources. Such data enable the auditor to analyze the company's information under audit, compare it with other data, or attempt to identify relationships among them to determine which data require greater attention to ensure accuracy [16].

Based on the foregoing, external auditing can be defined as an organized examination conducted by an independent person outside the economic entity to verify the accuracy of the financial information disclosed in the company's financial statements and to provide an impartial opinion on them, enabling stakeholders to make informed decisions [17].

2. Objectives of External Auditing

The objectives of external auditing can be summarized as follows:

- **a.** To verify the accuracy and correctness of the accounting data recorded in the company's books and records.
- **b.** To provide an impartial professional opinion on the financial statements and ensure their compliance with accounting principles.

3. Importance of External Auditing

External auditing is a means rather than an end, and its importance is reflected in the benefits it provides to stakeholders related to the audited company. The significance of external auditing for company owners and external parties can be illustrated as follows:

1. **For Company Owners:**
   - a. Detecting fraud, errors, and manipulation by the company's employees, creating a psychological deterrent to prevent future misconduct.
   - b. Identifying weaknesses in the company's internal control system.
   - c. ssisting management in making appropriate corrective decisions.
   - d. Accurately estimating the company's value in case of a sale, increasing the buyer's confidence in the audited financial position.
   - e. Facilitating the settlement of accounts within the company.

2. **For External Parties:**
   - a. Assisting the tax authority by linking taxation to the company's financial results.
   - b. Facilitating informed decision-making for multiple stakeholders, including investors, creditors, and government agencies, as these parties often rely on the auditor's report in their decisions.

4. Steps for Conducting External Auditing

To achieve the objectives of external auditing efficiently and effectively, the auditor should follow a series of sequential steps that complement each other [18], [19]:

- **a.** Collect general information about the company under audit.
- **b.** Examine and evaluate the internal control system.
- **c.** Inspect accounts and financial statements.

5. Creative Accounting

Creative accounting is considered a set of procedures undertaken by company management that affect the disclosed results of operations. While these procedures may not provide economic benefits to the company, they can lead to significant long-term harm [20].

Al-Tamimi, Faleh, and Al-Saadi define creative accounting as a set of techniques developed by accountants based on their practical experience in accounting, such that the amounts reported in financial statements reflect the interests of one party over others.

Roychowdhury defines real creative accounting as *"managerial actions that deviate from normal business practices, carried out primarily to achieve specific profits."*

Mamedova defines real creative accounting as *"purposeful actions by management to alter reported profits in a specific direction, for example by changing the timing of an investment, which may have negative future consequences."*

The common aspects of these definitions indicate that creative accounting is a form of manipulation and deception in accounting. Creative accounting practices alter accounting values into artificial ones, within the framework of the flexibility allowed by accepted accounting principles and standards. Therefore, such practices are considered legal, and practitioners of creative accounting usually possess high professional accounting skills that enable them to manipulate values according to their objectives.

6. Forms of Creative Accounting

Creative accounting has been referred to by several terms, which can be presented as follows:

- **a. Pragmatic Accounting:** Deliberately choosing and applying certain accounting methods to achieve desired objectives, such as generating high profits, regardless of whether these practices comply with accounting principles.
- **b. Income Smoothing:** Shifting income between periods, transferring income from years with good earnings to years with poor earnings, often through the use of provisions.
- **c. Earnings Management:** Manipulating income to achieve specific targets predetermined by company management.
- **d. Financial Report Manipulation:** Providing incorrect information deliberately or omitting certain amounts, with the purpose of misleading users of financial reports.
- **e. Creative Accounting:** Using practices that deviate from conventional accounting methods, manipulating revenues and expenses to achieve desired results.

7. Motivations for Using Creative Accounting

Several motivations drive the use of creative accounting practices. One of the main motivations is to present the company's financial position in a more favorable light than reality. The multiple alternatives in measurement, estimation, and disclosure allowed by accounting standards have expanded the scope of creative accounting practices. These factors have encouraged managers to maximize profitability or justify undeserved management bonuses. Additionally, conflicts of interest among stakeholders may be a primary reason for practicing creative accounting: management aims to reduce taxes and increase managerial bonuses, employees seek higher compensations, while external parties, such as tax authorities, desire higher tax collections.

The motivations for management to engage in creative accounting can be summarized as follows:

- **a.** Tax evasion.
- **b.** Achieving personal gains.
- **c.** Meeting requirements to maintain market share.
- **d.** Obtaining or maintaining financing.

8. Practice of Creative Accounting in the Income Statement

Creative accounting represents a form of manipulation in financial statements, including the income statement, which can lead to a distorted perception among users of these statements by manipulating or influencing the reported net income. The main forms of manipulation in the income statement are as follows:

- **a. Use of Specific Accounting Policies:** Flexibility in selecting and applying certain accounting policies allows manipulation or alteration of the methods used to classify income elements.
- **b. Accelerated Revenue Recognition:** Recognizing revenue before it is fully earned, such as recording sales revenue before goods are shipped or before the buyer has fully approved the purchase. Revenue may also be recognized while related services have not yet been delivered but will be provided in the future. Some companies may increase revenue by recording additional amounts above the actual value through agreements with other companies providing complementary goods or services.
- **c. Recording Phantom or Fictitious Revenue:** Examples include treating borrowed funds as revenue, recording purchase returns as revenue to increase reported income in a specific financial year, or classifying gains from the sale of fixed assets as operating revenue to inflate reported income for that period.
- **d. One-Time Revenue Increases:** Increasing profits through one-off transactions, such as selling assets at a high price (e.g., land or buildings) compared to their recorded purchase cost, which may offset weak ongoing revenue.
- **e. Deferral of Current Revenues to Future Periods:** During mergers or acquisitions, companies may agree on specific terms that create opportunities to defer or allocate revenue strategically, giving the merged entities the ability to manipulate income during the transition period.
- **f. Deferral of Future Expenses to the Current Period:** Companies may record expenses related to future periods in the current financial period. Management often employs this method when the company has already achieved its expected targets for the current period, thus improving reported net income.

9. Practice of Creative Accounting in the Balance Sheet

The balance sheet is one of the most important financial statements, as it reflects the true and accurate financial position of a company at the end of the financial period. Creative accounting practices in the balance sheet include the following:

- **a. Cash:** Manipulation occurs by not disclosing certain cash items or by manipulating exchange rates used to convert foreign currency holdings.
- **b. Inventory:** Manipulation can involve including obsolete goods in inventory lists, altering inventory valuation, or changing inventory pricing methods.
- **c. Accounts Receivable:** Manipulation may involve not disclosing bad debts to reduce the allowance for doubtful accounts.
- **d. Fixed Assets:** Manipulation occurs by not adhering to the historical cost principle in recording asset values, revaluing assets to inflate their worth, or altering depreciation calculation methods.
- **e. Intangible Assets:** Manipulation involves overvaluing intangible assets or recognizing them in violation of accounting standards, such as unjustified changes in amortization or recognizing unpurchased goodwill.
- **f. Current Liabilities:** Companies may omit current portions of long-term loans to improve liquidity ratios, or manipulate by repaying short-term loans using long-term loans.
- **g. Long-Term Liabilities:** Some companies manipulate this item by obtaining long-term loans before announcing the balance sheet and using them to repay short-term loans or redeem callable bonds before maturity.
- **h. Shareholders' Equity:** Creative accounting may involve adding profits from previous periods to the current period's net income instead of including them in retained earnings.

10. Practice of Creative Accounting in the Cash Flow Statement

The main objective of preparing the cash flow statement is to provide relevant information about cash inflows and outflows during a specific period. Creative accounting practices in this statement include the following:

- **a. Misclassification of Cash Flows:** Classifying operating cash flows as investing cash flows or vice versa. Such practices do not affect the total cash flow.
- **b. Recording Cash Flows from Gains or Losses Incorrectly:** Cash flows related to gains or losses from the sale of fixed assets are recorded as operating cash flows, even though they are investing activities.
- **c. Capital Expenditure Manipulation:** Recording capital development costs as investing outflows while excluding them from operating outflows, which inflates reported operating cash inflows.
- **d. Interest Payment Misclassification:** Recording interest on non-investment-related loans as investing expenses to exclude them from operating or main activities, creating a misleading positive image of the company's operational performance.

11. Methods of Creative Accounting in the Statement of Changes in Equity

The practice of creative accounting in the statement of changes in equity can be illustrated as follows:

- **a.** Management does not adhere to the historical cost principle when valuing company assets; instead, assets are revalued, and the surplus is reported in the income statement rather than in the equity statement.

- **b.** Official changes in capital are made, either increases or decreases, through prior losses or foreign currency balances.
- **c.** Management fails to reduce equity resulting from declines in asset values.
- **d.** Cash distributions are made without corresponding actual profits, leading to a reduction in equity.
- **e.** Losses arising from foreign exchange transactions are processed in shareholders' equity instead of the income statement.

12. The Role of the External Auditor in Limiting Creative Accounting in Financial Statements

The external auditor must undertake a series of procedures to limit accountants' use of creative accounting, protecting the rights of stakeholders and ensuring that financial statements reflect the true position of the entity at the end of the financial period. Key procedures include:

a. **Procedures for the Income Statement:**

1) Verify sales invoices for transactions with related parties to ensure they are real and not fictitious.
2) Match shipping documents with payment documents received from agents.
3) Ensure the adequacy of allowances for doubtful accounts.

b. **Procedures for the Balance Sheet:**

1) Exclude restricted cash when calculating liquidity and verify exchange rates, correcting errors if found.
2) Request accounts receivable statements and verify the allowance percentage relative to total receivables.
3) Examine inventory lists and verify the physical existence of inventory items.
4) Check the justification for investment reclassifications and validate valuation methods.
5) Ensure adherence to the historical cost principle and correct depreciation rates.
6) Verify the methods used for intangible asset valuation and adjust values according to proper standards.
7) Confirm the recording of long-term loan installments under current liabilities for liquidity calculations.
8) Ensure no long-term loans were obtained at period-end to repay short-term liabilities.
9) Verify that profits from previous years are not added to the current year's net income and adjust if necessary.

c. **Procedures for the Cash Flow Statement:**

1) Verify expense classifications to ensure operating expenses are not misclassified as financing or investing activities.
2) Check inventory valuation and pricing after confirming its physical existence.
3) Ensure cash received from external loans is not classified as operating cash flow.
4) Verify exchange rates and correct errors if present.
5) Ensure consistency in applying accounting policies when preparing financial statements.

d. **Procedures for the Statement of Changes in Equity:**

1) Conduct analytical procedures to detect manipulation from adding prior period gains to the current period's net income instead of retained earnings.
2) Detect manipulations in handling foreign currency gains of subsidiaries in the income statement instead of equity.

3) Ensure losses from asset value declines are recognized so that assets are recorded at no more than their recoverable amounts.

Practical Aspect

1. Research Methodology

The researcher adopted the descriptive-analytical method, as it suits the nature and objectives of the study. This method aims to describe the phenomenon under investigation (the role of external auditing in limiting the practice of creative accounting), collect related data, and then analyze it to derive statistically significant results.

a. Research Population and Sample

The research population consisted of the University of Kirkuk and its affiliated colleges. A purposive sample of 60 individuals was selected from this population, based on their knowledge and experience regarding the study topic. The sample included academics and professionals, specifically accountants and auditors working in the accounting and auditing departments at the university.

b. Data Collection Tool

The study relied on a questionnaire prepared based on the theoretical framework and previous studies. The questionnaire was divided into two main axes:

1) **Axis 1:** External auditing (10 items).
2) **Axis 2:** Creative accounting in financial statements, divided into four sub-dimensions:
   1. Income Statement (6 items)
   2. Balance Sheet (6 items)
   3. Cash Flow Statement (6 items)
   4. Statement of Changes in Equity (6 items)
   Responses were measured using a five-point Likert scale (1 = Strongly Disagree, 2 = Disagree, 3 = Neutral, 4 = Agree, 5 = Strongly Agree).

c. Statistical Methods Used

After data collection and processing, the data were entered and analyzed using SPSS. The statistical methods included:

1) **Descriptive Statistics:** To calculate means, standard deviations, and the relative importance of each axis.
2) **Pearson's Correlation Coefficient:** To measure the strength and direction of the relationship between external auditing and each dimension of creative accounting.
3) **Simple Linear Regression Analysis:** To test the main and sub-hypotheses and determine statistical significance at $\alpha \leq 0.05$.

Results and Discussion

Demographic Characteristics of the Research Sample

Table 1 shows the relative distribution of the research sample according to demographic variables (age, academic level, and years of service).

Table 1. Demographic Characteristics of the Research Sample

Variables	Categories	Frequency	Percentage (%)
Age	◎ Less than 25 years	9	15.0
	◎ 25 – less than 35 years	21	35.0
	◎ 35 – less than 40 years	12	20.0
	◎ 40 – less than 50 years	12	20.0
	◎ 50 years and above	6	10.0
Academic Level	◎ Diploma	6	10.0
	◎ Bachelor's Degree	27	45.0
	◎ Master's Degree	18	30.0
	◎ Doctorate	9	15.0
Years of Service	◎ Less than 5 years	15	25.0
	◎ 5 – less than 10 years	21	35.0
	◎ 10 – less than 15 years	15	25.0
	◎ 15 years and above	9	15.0

Interpretation of Results:

It is evident from the table 1 that the most represented age group in the sample is **25 – less than 35 years**, accounting for **35.0%**, reflecting the youthful nature of the sample while possessing a reasonable level of practical experience.

Regarding academic level, the majority of the sample hold a **Bachelor's degree** (**45.0%**), followed by **Master's degree holders** (**30.0%**).

Concerning years of service, the most frequent category is **5 – less than 10 years** (**35.0%**), indicating that most of the sample have moderate professional experience, enabling them to assess the research topic objectively.

Descriptive Analysis of the Questionnaire Axes

Table 2. Descriptive Statistics for the Research Axes

Axis	Mean	Standard Deviation	Relative Importance (%)	Rating Level
• External Auditing	4.09	0.58	81.8	High
• Creative Accounting – Income Statement	3.81	0.66	76.2	High
• Creative Accounting – Balance Sheet	3.73	0.65	74.6	High
• Creative Accounting – Cash Flow Statement	3.62	0.69	72.4	Medium
• Creative Accounting –	3.71	0.64	74.2	High

Axis	Mean	Standard Deviation	Relative Importance (%)	Rating Level
Statement of Changes in Equity				
• Creative Accounting – Overall	3.72	0.61	74.4	High

Interpretation of Results:
The table 2 shows that the **External Auditing** axis ranked first with a mean of **4.09** and a relative importance of **81.8%**, indicating that the research sample recognizes the significance of the procedures followed by external auditors.
The **Creative Accounting** axes showed varying estimates: the **Income Statement** dimension recorded the highest mean (**3.81**), while the **Cash Flow Statement** dimension had the lowest mean (**3.62**) and a relative importance of **72.4%**, reflecting that creative accounting practices in cash flows are less common compared to other financial statements.
Overall, all axes fall within the **"High"** rating level, except for the **Cash Flow Statement**, which is rated as **"Medium."**

Correlation Analysis between External Auditing and the Dimensions of Creative Accounting

Table 3. Correlation Coefficients between External Auditing and the Dimensions of Creative Accounting

Dependent Dimension	Correlation Coefficient (r)	p-Value	Significance Level (α = 0.05)
• Creative Accounting – Income Statement	0.612	0.000	Statistically Significant
• Creative Accounting – Balance Sheet	0.598	0.000	Statistically Significant
• Creative Accounting – Cash Flow Statement	0.564	0.000	Statistically Significant
• Creative Accounting – Statement of Changes in Equity	0.583	0.000	Statistically Significant
• Creative Accounting – Overall	0.642	0.000	Statistically Significant

Interpretation of Results:
The results indicate a **positive and statistically significant correlation** between external auditing and all dimensions of creative accounting at the significance level ($\alpha \leq 0.05$). The positive correlation coefficients suggest that as the level and quality of external auditing increase, the practices of creative accounting decrease or are better controlled. The highest correlation was observed with **overall creative accounting** (r = 0.642), reflecting the comprehensive impact of external auditing in limiting these practices across all financial statements. (Figure 3)

Hypothesis Testing

Table 4. Simple Linear Regression Results for Hypothesis Testing

Dependent Dimension	**Regression Coefficient (β)**	**t**	**p-Value**	**R^2**	**Decision at α = 0.05**
• H1-1: Income Statement	0.701	5.638	0.000	0.374	Accepted (Significant)
• H1-2: Balance Sheet	0.672	5.384	0.000	0.358	Accepted (Significant)
• H1-3: Cash Flow Statement	0.653	4.942	0.000	0.318	Accepted (Significant)
• H1-4: Statement of Changes in Equity	0.665	5.224	0.000	0.340	Accepted (Significant)
• (Main H1): Creative Accounting – Overall	0.710	6.018	0.000	0.412	Accepted (Significant)

Interpretation of Results:
The table 4 indicates that all the sub-hypotheses and the main hypothesis are **statistically accepted**, as all **p-values are less than 0.05**, indicating a significant effect of external auditing in limiting the practice of creative accounting in various financial statements. The **coefficient of determination (R^2)** values show that external auditing explains between **31.8% and 41.2%** of the variance in the dimensions of creative accounting, reflecting a moderate to strong effect. The strongest impact was observed on **overall creative accounting (R^2 = 0.412).**

Final Summary of the Practical Aspect:
The statistical analysis of the 60 questionnaires revealed that the level of external auditing among the sample was **high**, reflecting their awareness of the importance of the auditor's supervisory and procedural role in ensuring the credibility of financial statements.

The results also indicated that creative accounting practices still exist to varying degrees across financial statements, being most prominent in the **Income Statement** and least evident in the **Cash Flow Statement.**

Correlation analysis showed **positive and statistically significant relationships** between external auditing and all dimensions of creative accounting, confirming that improving the quality and efficiency of external auditing helps reduce opportunities for accounting manipulation in its various forms.

Simple linear regression tests confirmed that external auditing has a **significant effect** on limiting creative accounting across all financial statements, with an overall **R^2 of 41.2%**, highlighting its substantial role in regulating financial operations and enhancing transparency.

Based on these findings, it can be concluded that the results **support the main and sub-hypotheses** and emphasize the importance of adhering to strict, professionally and ethically grounded external auditing procedures to curb creative accounting practices, thereby ensuring greater reliability of financial information and aiding decision-makers in relying on it confidently.

Conclusions

1. Creative accounting methods are diverse, including legitimate accounting flexibility allowed by accounting principles, as well as manipulation of prices, inflated sales, or timing of fixed asset sales.
2. External auditing contributes to limiting creative accounting by detecting errors and fraudulent practices potentially undertaken by management.
3. The results showed a **high level of external auditing** within the sample, reflecting the awareness and understanding of accounting and auditing professionals regarding the importance of applying comprehensive and precise auditing procedures.
4. Creative accounting practices still exist to varying degrees across financial statements, being most evident in the **Income Statement** and least in the **Cash Flow Statement**.
5. There is a **positive and statistically significant correlation** between external auditing and all dimensions of creative accounting, indicating that enhancing the quality of external auditing helps reduce creative accounting practices.
6. Simple linear regression results confirmed that external auditing has a **direct and significant effect** on all dimensions of creative accounting, with the strongest effect observed in **overall creative accounting** ($R^2 = 41.2\%$).
7. External auditing enhances the **transparency and credibility** of financial statements by limiting accounting manipulation and increasing users' confidence in these statements.

Recommendations

1. External auditors should maintain **independence and professional skepticism** during the audit to produce financial statements that truthfully reflect the company's situation.
2. Strengthen the role of external auditing by **enhancing professional regulation** of the auditing field and developing auditors' competencies.
3. Activate **forensic accounting** and impose penalties for detected manipulations in financial statements, which would help reduce such practices in the future.
4. Develop **internal control systems** within institutions to better detect creative accounting practices before the financial statements are finalized.
5. Require companies to **publish external audit reports on time and transparently**, ensuring that all stakeholders have access to accurate information.
6. Utilize external audit results to **adjust accounting policies** in line with professional and ethical standards.

7. Encourage **future research** to measure the impact of external auditing in different environments and compare results across sectors for a clearer understanding.

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