Creative Accounting Versus Auditors' Ethics: The Case Of Saudi Arabia

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ABSTRACT

The primary subject matter of this research is to examine the effect of audit ethics on auditors' ability to detect suspicious practices of creative accounting in the context of a developing country, Saudi Arabia. The specific objective is to investigates the effect of auditor's independence, credibility, integrity, and professionalism on auditors' ability to detect the suspicious practices of creative accounting. Descriptive Statistics are used to present quantitative descriptions in a manageable form. The collected data were analyzed with descriptive statistics using SPSS and ordinary least square (OLS) regression. The result revealed that the auditors' ability to detect the practices of creative accounting is affected by the different elements of the audit ethics. In specific, the study finds that auditors' independence, credibility, integrity, and professionalism positively affect the auditor's ability to detect practices of creative accounting. All elements of audit ethics affect, in different strengths, auditors' ability to detect practices of creative accounting in Saudi Arabia. This study concludes that auditors' ability to detect the practices of creative accounting is affected by the entire group of audit ethics in the context of Saudi Arabia.

Keywords: *Creative Accounting; Ethics; Credibility; Professionalism; Independence; Integrity; and Saudi Arabia.*

1. INTRODUCTION

The informational perspective is a key element underpinning the study of the creative accounting phenomenon (Schipper, 1989). A conflict is created by the information asymmetry that exists in complex corporate structures between a privileged management and a more remote body of stakeholders. Managers may choose to exploit their privileged position for private gain, by managing financial reporting disclosures in their own favor. The informational perspective assumes that accounting disclosures have an information content that possesses value to stakeholders in providing useful signals.

According to the Financial Accounting Standards Board (FASB), financial reporting includes not only financial statements but also other means of communicating financial information about an enterprise to its external users. Financial reporting is produced to show the true and fair state of affair of business entities needed by those who make economic informed decisions about business enterprises. Financial reporting provides insight and transparency into a company's financial position and its operations. It's meant to give stakeholders in the company the right information, in the right amount of detail, to make better-informed decisions. Financial statement is the result of the financial accounting process that accumulates, analyzes records, classifies, summarizes, verifies, reports, and interprets the financial data of a business firm, which reflect the financial position, performance and change in financial position of an enterprise (Young et al, 2018).

Good financial reporting gets different parties on the same page with a single version of the truth, and gives credibility to the company and its management. On the other hand, fraudulent or inaccurate financial reporting can torpedo a company's reputation and value. Fraudulent financial reporting is defined as intentional or reckless reporting, whether by act or by omission, that results in materially misleading financial statements. Fraudulent financial reporting can usually be traced to the existence of conditions in either the internal environment of the firm (e.g., inadequate internal control), or in the external environment (e.g., poor industry or overall business conditions). Excessive pressure on management, such as unrealistic profit or other performance goals, can also lead to fraudulent financial reporting. The exercise of this choice can involve a deliberate non-disclosure of information and manipulation of accounting figures, thereby making the business appear to be more profitable (or less profitable for tax purposes) and financially stronger than it is supposed to be. With this practice, users of accounting information are being misled and this constitutes a threat to corporate investment and growth. Creative accounting is the root cause of numerous accounting scandals, and many proposals for accounting reforms are requesting for the removal of such practices.

The subject of creative accounting is normally portrayed maligned and negative act. As soon as creative accounting is mentioned, the image that emerges in the reader's mind is manipulation, dishonesty and deception. Creative Accounting refers to the use of accounting knowledge to influence the reported figures, while remaining within the jurisdiction of accounting rules and laws, so that instead of showing the actual performance or position of the company, they reflect what the management wants to tell the stakeholders. Shah et al. (2011) defined creative accounting as purposeful intervention in the external financial reporting process with the intent of obtaining some exclusive gain". Naser (1993) defined creative accounting as the transformation of financial accounting figures from what they actually are to what preparer desires by taking advantage of the existing rules and/or ignoring some or all of them". He argued that every company in the country is fiddling its profits. Every set of published accounts is based on books which have been gently cooked or completely roasted. Griffiths (1995) argued that creative accounting represents the means by which management manipulate accounting figures to achieve a deviation in an accounts of a financial statement, which are nothing other than approximations, which have their bases in the transactions and events of the year under review and the original starting point.

Creative accounting is just a tool which is much like a double-edged sword. If used correctly, it can be of great benefit to the user; but if it is mishandled or goes into the hands of the wrong person, it can cause much harm. Creative accounting, however, in most of the literature referred to as the use of accounting knowledge to influence the reported figures, while remaining within the jurisdiction of accounting rules and laws, so that instead of showing the actual performance of the company, they reflect what the management deficiency (Ashok, 2015; Algodah et al., 2015). The practice of creative accounting has the power to distort the underlying financial performance of a firm, making more difficult for an investor or financial analyst to assess the performance of the firm and to compare between different companies.

The legal requirements for a publicly traded company when it comes to financial reporting are ever much more rigorous than for privately held firms, especially after the Sarbanes-Oxley Act. This legislation was passed in the wake of the stunning bankruptcy filing in 2001 by Enron, and subsequent revelations about fraudulent accounting practices within the company. Enron was only the first in a string of high-profile bankruptcies. Serious allegations of accounting fraud followed and extended beyond the bankrupt firms to their accounting firms. The legislature acted quickly to fortify financial reporting requirements and stem the decline in confidence that resulted from the wave of bankruptcies. Without confidence in the financial reports of publicly traded firms, no stock exchange can exist for long.

The incidence of financial fraud is increasing and has been a central feature in a number of financial scandals in recent years (Bunget, 2009). In spite of the fact that the cost of fraud is difficult to estimate because not all fraud is discovered and not all uncovered fraud is reported (Farrell et al., 1999), different endeavors have been made to estimate fraud. For example, it has been estimated that six percent of US companies' revenue in 2002 was lost through fraud committed by employees (Holtfreter, 2004) and of the 491 Australian and New Zealand companies who responded to the KPMG survey in 2004, almost half had experienced a fraud costing them $457 million (KPMG, 2004). Therefore, the entire business community has become more aware of the threat of fraud and the need to be vigilant when searching for instances of fraud following the well-publicized corporate collapses earlier last decade (Coram et al., 2008).

Management authority could lead accountants to exercise a set of accounting techniques to influence financial reports which known as the creative accounting. Naser (1993) defined creative accounting as the process of transforming financial accounting numbers to the figures desired by the preparers from what they actually represent by taking advantage of the existing rules, while ignoring other accounting rules. He argued that creative accounting is the transformation of financial accounting figures from what they actually are, to what preparer's desire by taking advantage of the existing rules. Oriol (1999) stated that creative accounting is a process whereby accountants use their knowledge of accounting rules to manipulate the figures reported in the accounts of a business.

Creative accounting therefore is result of judgments which is used by managers in financial reporting and in maintaining books to manipulate reports for either to mislead investors or stakeholders or to influence economy to give positive response towards financial performance of the company. The usual practice followed under creative accounting is to increase or decrease earnings artificially through choices available in accounting system. Creative accounting practices are different from fraudulent accounting practices and thus are not illegal but immoral in terms of misguiding investors. The practices, which are followed in manipulating the books, are duly authorized by accounting system and thus cannot be considered as violation of any rule or regulations. It is characterized by excessive compliance and the use of novel ways of characterizing income, assets, or liabilities and the intent to influence readers towards the interpretations of desired results.

The Kingdom of Saudi Arabia has had strict anti-bribery legislation in place since 1992 with the promulgation of Royal Decree No. M/36, known as the anti-bribery law. Saudi governmental and private regulators such as the General Auditing Bureau, the National Anti-Corruption Commission (Nazaha), the Saudi Capital Market Authority (CMA), the Saudi Arabia Monetary Agency (SAMA), the Ministry of Commerce and Investment, the Saudi Organization for Certified Public Accountant (SOCPA), and others have increased management's responsibilities for fraud risk management and prevention. Every corporation is susceptible to fraud, but not all fraud can be prevented, nor is it cost-effective to try. The provisions of the anti-bribery law are targeted at acts involving public officials, and Saudi Arabia's continued adherence to Sharia law provides an additional layer of protection to acts that fall outside of this specific sphere. Responsibility for overseeing anti-corruption efforts has been charged to the National Anti-Corruption Commission, also known as Nazaha, since its formation in 2012. Nazaha is responsible for investigating instances of graft in government contracts and ensuring that appropriate action is taken in cases where an offence has occurred.

On the forth of November 2017, the Saudi government declares a Royal Decree authorizing the formation of a new Anti-Corruption Committee ("The Anti-Corruption Committee"), led by the Crown Prince Mohammed bin Salman, with a view to eliminating illicit practices and corruption. The newly formed Committee has been granted enhanced powers to investigate and prosecute instances of corruption at all levels, and is comprised of high-ranking officials from across various government branches including security, finance, and existing anti-corruption bodies. Despite the ability of Nazaha to refer specific corruption cases to the relevant authorities and conduct subsequent follow-ups, the new Committee will benefit from greater powers to investigate and prosecute instances of graft, including the capacity to issue arrest warrants and order interim measures such as asset freezing and issuing travel bans.

Saudi Arabian publicly traded companies are just like other international companies in the rest of the world are subject to fraud risks. International large frauds and crises as mentioned above have led to the downfall of the entire corporations, significant legal costs and noticeable business and investment losses which effect the confidence of investors and stakeholders. The financial crises mainly driven by undetected fraud and the increased corporate governance weaknesses in Saudi corporations has led to the need for multi-dimensional relationship (that is inter-relationship between the audit committee, the external auditor and the management) in corporate governance as to protecting the interest of shareholders and other stakeholders with the common goal of improving oversight function and ensuring good corporate governance (Deloitte et al., 2006). Weak corporate governance companied with financial fraud have led to poor performance and to corporate collapse resulting to huge loss of new investment (Rezae, 2005). The abovementioned corporate structure failure has made academics and investigators realize that there is a great need for ethical, credible, professional, and confident auditors who can identify, expose and prevent corporate governance weaknesses and detect fraudulent financial statements. The possible way to solve this issue is that the public should be educated and be informed of the importance of the existence of more ethical auditors who are able to detect suspicious practices of creative accounting and prevent fraud occurrences. When the public is made known of the concept, then they could actually demand for the service in the company which they invest in.

The agency theory suggests a fundamental problem for absent or distant owners/shareholders who employ professional executives to act on their behalf. The root assumption informing this theory is that the agent is likely to be self-interested and opportunistic, therefore, the executive will serve their own interests rather than those of the owner principal. To counter such problems the shareholders will have to incur 'agency costs'; costs that arise from the necessity of creating incentives that align the interests of the executive with those of the shareholder, costs incurred by the necessity of monitoring executive not to serve their own interests, and the costs incurred for the need for more disclosure since the agency theory literature approved the existence of complementary and a substitutive relationship between governance and disclosure. Due to the high costs attached to discloser, companies might opt for strengthening internal governance mechanisms instead of increasing the level of disclosure (Cheng et al., 2006; Cerbioni et al., 2007). Agency can, therefore, provide a solid framework for the understanding of creative accounting behavior. However, it may provide an incomplete theoretical basis for explaining or predicting management behavior; the ethical dimension of human behavior may provide an important element missing from legalistic and adversarial agency relationships (Horrigan, 1987).

The remainder of the paper is organized as follows. Research problem, research questions, and research hypotheses will follow in this section. The related literature on the effect of audit ethics on auditors’ ability to detect suspicious practices of creative accounting is stated in the next section. Section 3 develops the hypotheses of this research. Section 4 discusses the regression and methodology used in this research. The results are then presented in section number five. Section 6 concludes with a summary and discussion.

1.1. Research Problem

In accordance with the International Standards on Auditing (ISAs), auditing is designed to provide reasonable assurance that the financial statements taken as a whole are free from material misstatements. Although the ultimate responsibility for the prevention and detection of fraud and error rests with those charged with governance, auditors can still be held liable in the event that financial statements are misstated. Kevin (2003) stated that the auditor responsibility is to report on the accounts, to identify whether they have been properly prepared and to provide an opinion on whether they show a true and fair view. Professional auditors add more credibility to financial information and financial statements. Audit ethics could increase the auditors’ ability to detect unlawful practices of creative accounting. These auditors are qualified to detect these practices of creative accounting because they are supposed with independence, credibility, integrity, and professionalism and they have good knowledge regarding accounting and auditing professions. Auditors are expected to concentrate on audit ethics and have knowledge of suitable techniques and tools that enable the effective detection of creative accounting practices.

In this study the author examines the effect of audit ethics on auditors' ability to detect suspicious practices of creative accounting in the context of a rich developing country, Saudi Arabia. The specific objective is to investigates the effect of auditor's independence, credibility, integrity, and professionalism on auditors' ability to detect the suspicious practices of creative accounting. It is emphasized in the literature that creative accounting can be equated with disclosure management, in the sense of a purposeful intervention in the financial reporting process (Schipper, 1989). Better disclosure is associated with improved transparency and a reduction in the information gap between firm and outside investors (Lobo et al., 2001).

The empirical setting of the study is provided by the Saudi Arabia stock market. This market is less developed and plays a minor role than the U.S. and the British markets do. In the Saudi Arabian setting, large controlling shareholders who dominate boards can influence the director's nomination process, as well as the board and the committee's agenda. In this context, agency conflicts between large insider and minority outsider shareholders are hardly mitigated with the only contribution of an internal control mechanism, such as the board of directors. This situation is likely to produce calls for additional external control devices, such as transparent disclosure. Like in other similar agency settings (e.g. Díaz-Méndez and García-Espejo, 2014), recurring calls for richer transparent disclosures came by the Saudi Arabia Stock Exchange Authority and the professional associations in the past years. These features make the Saudi Arabia setting appealing for research about the interplay between creative accounting and auditor's ethics.

1.2. Research Questions

The study is expected to answer the following questions:

(1) What is the effect of auditors' independence on their ability to detect practices of creative accounting in Saudi Arabia.
(2) What is the effect of auditors' credibility on their ability to detect practices of creative accounting in Saudi Arabia.
(3) What is the effect of auditors' integrity on their ability to detect practices of creative accounting in Saudi Arabia.
(4) What is the effect of auditors' professionalism on their ability to detect practices of creative accounting in Saudi Arabia.

1.3. Research Hypotheses

The following hypothesis will be tested:

- H01: Auditors' independence does not affect their ability to detect practices of creative accounting in Saudi Arabia.
- H02: Auditors' credibility does not affect their ability to detect practices of creative accounting in Saudi Arabia.

- H03: Auditors' integrity does not affect their ability to detect practices of creative accounting in Saudi Arabia.
- H04: Auditors' professionalism does not affect their ability to detect practices of creative accounting in Saudi Arabia.

2. LITERATURE REVIEW

Many research studies examine a particular aspect or technique of creative accounting. All tend towards the conclusion that creative accounting using that particular technique does exist. Hussey et al. (1996) stated that creative accounting first became very prevalent in the 1980. Due to loopholes of accounting regulations, companies could produce accounts which flattered their financial performance. It talks about type of creative accounting like capitalizing interest, brand accounting, methods of depreciation, stock valuation, and accounting standards which prevent the major abuses which used to occur and has issued a number of regulations in the form of Financial Reporting Standards. Black et al. (1998) examined non-current asset sales as creative accounting tools using a very large dataset of observations from Australia, New Zealand and the UK. They found that where the relevant accounting standards are permissive (as in the UK up till 1993) managers will exploit the potential for creative accounting via timing of asset sales. Such behaviors are curtailed once the provisions of accounting standards are tightened. However, amongst their conclusions, they observe that there is every reason to believe that firms can shift creative accounting activity among a variety of methods. So, even if certain loopholes in regulation are eliminated, creative accounting behavior is likely to persist.

Watts et al. (1990) represented the positive accounting literature which offers an explanation of accounting practice, suggests the importance of contracting costs, and has led to the discovery of some previously unknown empirical regularities. They attempted to remove some common misconceptions about methodology that surfaced in the debate and wrote about accounting practices and provided, guideline about positive creative accounting. Shah et al. (2011) also concludes that creative accounting is a weapon which is used in a critical situation of a firm and it is not that bad if firm shows some flexibility in its accounting regulations. They argued that it rather depends on the ethical environment of any firm which deals with how and why management is using creative accounting techniques as a weapon.

While the greatest blackness of the literature focused and outlining the dark side of creative accounting practices and argued that mostly setbacks happened because of unethical conduct of creative accounting, e.g., Enron, WorldCom, etc. Gherai et al. (2011) argued that the enterprise stake is at risk when it indulges in practices of creative accounting because these practices give a firm only short-term benefits, at the end, enterprises are bound to be surrounded with scandals. They emphasized the need of a good corporate governance to the financial reporting and concluded that management should research all causes which may provoke practices of creative accounting. Yadav (2013) found that involvement of outside directors could reduce the practices of creative accounting since involvement of professionals in financials decision can build a trust of stakeholders in the enterprise. He also argued that qualified accountants could help companies in the use of creative accounting techniques effectively and corporate governance is a best way to reduce these practices.

Shah (1998) defined creative accounting as the active exploitation of gaps or ambiguities in accounting rules by management in order to portray their own preferred picture of financial performance. He examined the environment of creative accounting in a complex-convertible securities issued by the United Kingdom (UK) listed companies between 1987 and 1990 focusing on the motivations and constraints on such practices, by examining the accounting practices of two UK companies which issued creative financing instruments. He found that creative accounting is influenced by two key motivators: stakeholder contracts and performance indicators. Amat et al. (2003) did a survey on auditors' perceptions of creative accounting in the UK, Spain and New Zealand to investigate the ethical issues raised by creative accounting. It was revealed in their studies that the aggregate impact of creative accounting practices on earnings amounted 20% of total reported earnings. They also found that New Zealand offered an example of a country where a well-designed framework of accounting regulation has curbed creative accounting. Similarly, Baralexis (2004) investigated why, how, to what extent, and in what direction creative accounting was practiced in Greece. Knezevic et al., (2012) examined the causes of creative accounting presence in modern market economy and possible instruments of fight against its further expansion in Serbia.

Naser et al (1992) surveyed senior corporate auditors concerning their experience of creative accounting and concluded that a significant proportion of all categories of companies employ creative accounting techniques to some extent. Küçükkocaoğlu et al. (2005) tried to explain the historical evolution of the accrual-based methods where they provide some evidence of creative accounting practices and extend to some other alternative methods in detecting manipulative practices in financial reporting and they found that the proposed Artificial Neural Network Model outperforms the traditional statistical techniques used in earnings manipulation practices. Saleh et al. (2023) investigated the factors that influence creative appliances in Jordanian hotels, as well as sustainable practices and their financial impact and they found that the hotel's financial accounts are approved by auditors because data and financial statements are manipulated in accordance with accounting rules and standards.

Stolowy et al. (2004) provided a comprehensive review of the literature and proposed a conceptual framework for accounts manipulation which is based on the possibility of wealth transfer between the different stake-holders, and in practice, the target of the manipulation appears generally to be the earnings per share and the debt/equity ratio. They reviewed the literature on the various techniques of accounts manipulation: earnings management, income smoothing, big bath accounting, creative accounting, and window-dressing and revealed that all the above techniques have common elements, but there are also important differences between them. There is no appropriate way to remove such malpractices from the reality, however, promoting ethical mindset among professionals could have such practices minimized. Literature shows that accounting manipulations is mainly caused by agency cost (Barac, 2020, Jensen, 2008). Owners believe in sustainability and long-term profitability whereas managers seek extra short-term profits. Managers' involvement in manipulating activities could be removed by good control of agency theory and good corporate governance (Nazir et al., 2018) Therefore, it is argued in this research that ethical mindset of independence, credibility, integrity, and professionalism could minimize auditors manipulating activities. Nwagboso (2008) argued that accounting is a profession that rests heavily on the need to exhibit a high sense of accountability and skepticism, therefore all its members should be adherent by a professional code of conduct. The basic principles of ethical standards that accountants should adherent include integrity, objectivity, competence and due care, confidentiality and professional behavior (Aguolu, 2006; Okezie, 2008; Nwagboso, 2008; Nwanyanwu, 2010)

Kassem (2012) aimed in his research to increase external auditors' knowledge about creative accounting and help them spot the difference between creative accounting and financial reporting fraud and found that the ethical practices of creative accounting are there basically to support the external auditors to enhance their efficiency and accuracy in finding any fraud. Afolabi et al. (2013) analyzed the effect of financial reporting on effective management decision making process using ten randomly selected manufacturing firms in Nigeria and concluded that financial reporting does have an effect on managerial and investment decision making. Yadav et al. (2014) showed the concept of creative accounting and its different tools used for doing creative accounting and found different ways that assist in reducing the effect of creative accounting on the statement of financial position, by display quite positive picture of creative accounting practices. Radu (2013) argued that information supplied by the financial statements based on creative accounting presents a large number of characteristics and emphasized that detecting creative accounting influences on financial statements is the role of the financial auditor who can correct these deviations. He clarified that although there is a clear difference between creative accounting and deliberate breaking of the law, bought phenomena appear in times of economic distress and are based on the intent to deceive, consequently, even if the use of creative accounting is not always illegal it shows that managers which are under financial pressure look for solutions without obeying certain ethical standards. Dumitrescu (2014) argued that creative accounting is a deceptive practice because it does not present the real situation and the economic-financial performance of a company. However, it is also regarded as a positive and beneficial technique as it proposes solutions to the financial crisis problems.

As it could be notice from the abovementioned literature that most related researches investigated the role of auditors in detecting the practices of creative accounting, however, the current study defers by focusing on the ethical aspects of the audit profession and its role in detecting creative accounting practices. In addition, some prior researches focused on the importance of auditors' competence and avoided the ethical issues, and do not investigate the role that audit ethics can play in restricting the practices of creative accounting.

Ethics in Saudi Arabia are highly looked upon in all aspects of human deeds because it reflects their true nature. Islamic ethics emphasizes the need of good values to be present in an employee which ensures a smooth flow in any process. Recently, Saudi Arabia government is conducting a huge reform in its private and public sectors to prevent frequential activities and emphasizing that fraud, corruption and money

laundry were becoming the greatest challenge and major hindrance to national development. This study therefore investigates the effect of audit ethics on auditors' ability to detect suspicious practices of creative accounting in the context of a rich developing country, Saudi Arabia.
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Professional auditors provide users of financial statements with more trust, faith, and credibility, because they have the right to depend on credible information and to be sure that the financial statements had been prepared based on the Generally Accepted Accounting Principles (GAAP), and these statements represent the actual events occurred during the accounting period. Saudi corporations should train and continually educate accountants and related professions in different ways to detect creative accounting practices. The Saudi government also has an important responsibility for shaping an effective regulatory framework that provides for sufficient flexibility to allow the Saudi market to function effectively and to respond to expectations of shareholders and other stakeholders. The way these principles should be adopted is the responsibility of the government and the market participants. Professional Auditors can make significant contributions in the area of creative accounting, corporate governance, fraud prevention and investigation, creating positive work environment, establishing effective lines of communication and vigilant oversight.

3. METHEDOLOGY

The objective of the present research is to answer the research questions and to examine the effect of audit ethics on auditors' ability to detect suspicious practices of creative accounting in Saudi Arabia. The specific objective is to investigates the effect of auditor's independence, credibility, integrity, and professionalism on auditors' ability to detect the suspicious practices of creative accounting. The population of this study is all listed of licensed auditing firms in practice listed in the Saudi Organization of Certified Public Accountants (SOCPA) website in 2023. A random sample of 100 licensed auditors in practice was selected among the entire population that includes 325 licensed auditors.

Inferential statistics of the hypotheses were carried out with the aid of SPSS statistical software, using coefficient of correlation which is a good measure of relationship between two variables which provides clear indication about the strength of the relationship and its direction. Regression analysis predicts the value of a variable based on the value of the other variables and explains the impact or effect of changes in the values of the variables. In an attempt to examine the effect of audit ethics (auditor's independence, credibility, integrity, and professionalism) on the auditors' ability to detect suspicious practices of creative accounting in Saudi Arabia, the study adopts the following model:

$$AADCA = \alpha + \beta 1\ AIN + \beta 2\ ACR + \beta 3\ AIT + \beta 4\ APR + \mu$$

Where;

AADCA = Auditors Ability to Detect Creative Accounting

AIN = Auditor's Independence

ACR = Auditor's Credibility

AIT = Auditor's Integrity

APR = Auditor's Professionalism

The survey is a flexible research approach used to investigate a wide range of topics and it will be the research methodology adopted for this study. The choice was predicted on the fact that descriptive survey method is one which looks with intense accuracy at the phenomena of the moment and then describes precisely what the researcher sees (Saunders et al, 2003). Surveys often employ the questionnaire as a tool for data collection and the use of questionnaires is the most widely used data collection technique in a survey and, in this study. A six-sectional questionnaire have been developed and pre-tested. The questionnaire was written in two languages: Arabic and English. The questionnaire was pre-tested by a group of accounting academicians from the accounting departments in Saudi public universities who taught auditing before its distribution to respondents for more comments, notes, or recommendations, which were all taken in consideration in the development of the final draft of the questionnaire. The first section contains some demographic data (age group, years of experience, professional position, and qualification), second section of the questionnaire consists of 20 questions to measure the auditor's ability to detect the practices of creative accounting, third section contains 15 questions to measure auditor's independency as an important ethical issue for auditors, forth section contains 15 questions to measure auditor's credibility, fifth section contains 15 questions to measure auditor's integrity, and the last section contains 15 questions to measure auditor's professionalism.

The data collected are analyzed using SPSS statistical software and OLS regression analysis. The chi-square test of independence was used to test for differences in responses involving categorical dependent variables for the between subject analysis. The Kruskal-Wallis non-parametric analysis of variance was used to examine differences in responses in the ranked data. Using a five-point Likert scale test, the questionnaire was developed to measure responses of respondents on five scales: Strongly Agree (5), Agree (4), Undecided (3), Disagree (2) and strongly Disagree (1). The values as generated through administration of questionnaire were subjected to empirical investigation. Hypotheses were tested by using coefficient of correlation which is a good measure of relationship between two variables which provides clear indication about the strength of the relationship and its direction. A comparison between the computed and the tabulated t-value has been used in testing the research hypotheses, and then a comparison between the computed and the predetermined coefficient of significance, which equals (0.05) based on (0.95) level of confidence.

Table (1) Responses

	Emailed Auditors	Percentage
Emailed Questionnaires	100	100%
Undeliverable Questionnaires *	4	4%
Complete Questionnaires	54	54%
Incomplete Questionnaires	5	5%
Unreturned Questionnaires	37	37%
Response Rate	54%	

The questionnaire was prepared, pre-tested, revised, and then e-mailed to the respondents. The questions included in the questionnaire were meticulously chosen to ensure the attainment of the research objectives. About 100 online survey copies of the questionnaire were electronically distributed on respondents. The researcher was able to enlist the help of mid-level and senior licensed auditors listed and licensed by the Saudi Organization of Certified Public Accountants (SOCPA), who facilitated the delivery and return of the questionnaires. Data were elicited from our respondents with the aid of the research instrument adopted in this study. The response rate was acceptable at 54 percent given that 54 copies of the questionnaire were completed and emailed back. However, 5 copies of the questionnaire were invalid as they were not properly filled out and 37 copies were not returned or undeliverable (see Table 1). Simple percentages were used to analyze the distribution of responses. While this response rate is lower than might be desired, response rates of this level are not uncommon when certain types of individuals are surveyed (Dillman 1978; Hodge 2003). The author compared late responses with early responses and find no significant differences.

4. RESULTS

This section is concerned with the presentation and analysis of data gathered from the research questionnaire administered on mid-level and and senior Auditors licensed by the Saudi Organization of Certified Public Accountants (SOCPA). The author attempts to empirically examine the effect of audit ethics on auditors' ability to detect suspicious practices of creative accounting in Saudi Arabia. The specific objective is to investigates the effect of auditor's independence, credibility, integrity, and professionalism on auditors' ability to detect the suspicious practices of creative accounting.

4.1. Demographic data analysis

The author has chosen to collect some demographic data in his research because they provide data about participants that are necessary for the determination of whether individuals in are a representative sample of the practicing auditors in Saudi Arabia. Demographic data analysis is usually related to forms of statistical analysis that are primarily based on mathematical and statistical techniques used on data from population censuses as well as population change surveys and systems (Pressat, 1972; Hoem, 2001). Demographic analysis is aimed at finding out the course of individual demographic phenomena in a given territory and in a specific period of time. Table 2 shows the demographic information regarding respondents' group age. It shows that most of the respondents (82%) were middle aged between 30 years old to 49 years old and only 18% are either less than 29 years old or above 59 years old. These results regarding demographic information about respondents' group age add more credibility to the study since most of the respondents again were middle aged with full understanding to the questionnaire which leads to their answers to be more accurate.

Table (2) Demographic Data (Age Group)

Age Group	Frequency	Percentage	Cumulative Percentage
20-29 year old	3	5%	5%
30-39 year old	16	30%	35%
40-49 year old	28	52%	87%
50-59 year old	6	11%	98%
60+ year old	1	2%	100%
Total	54	100%	

Table 3 shows the demographic information regarding respondents' years of experience. Tubbs (1992) showed the more experienced accountant the more they are aware of the mistakes with fewer misunderstandings towards the error that occurred. Even, they are aware of the uncommon mistakes and good at analyzing matters related to the causes of errors. The table shows that only 4 percent of respondents have less than 5 years of auditing experience, and as a result the remaining 96% of participated practicing auditors have more than 5 years of experience which is great. Close to 50 percent of respondents have from 11 to 20 years of experience. This also strengthens the results of the study considering that the majority of the research participants have long auditing experience. Long experienced auditors are more able to understand and answer the items better than those with lower years of experience.

Table (3) Demographic Data (Years of Experience)

Years of Experience	Frequency	Percentage	Cumulative Percentage
Less than 5 years	2	4%	4%
5-10 year	11	20%	24%
11-20 year	26	48%	72%
21-30 year	13	24%	96%
More than 30 years	2	4%	100%
Total	54	100%	

Table 4 shows the demographic information regarding respondents' professional positions. About 20 percent of the participants were auditors, 85 percent were auditors, 13 percent were directors, and 2 percent were partners. These results show that 15 percent of the participants were senior accountants working as leaders to group of accountants and auditors. Senior auditors are always responsible of monitoring and overseeing the auditing process, ensuring there absolutely no discrepancies in the data or figures, assessing the audit for accuracy and compliance, ensuring audits are conducted periodically, using best practices to conduct high quality audits, and using the data collected to propose strategies to improve efficiency and compliance. On the other side, about 80 percent of the participants were either auditors or accountants. The Association of International Certified Professional Accountants (AICPA) clarified that auditors have a responsibility to plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether caused by error or fraud (AICPA, 1972). Auditors, therefore, are usually involved in day to day auditing and conduct most of the deep audit and interpretation. Having 78 percent of the participants as junior auditors could be in the research favor.

Table (4) Demographic Data (Professional Position)

Professional Position	Frequency	Percentage	Cumulative Percentage
Audit Partner	1	2%	2%
Director	7	13%	15%
Auditor	31	58%	73%
Accountant	11	20%	93%
Other	4	7%	100%
Total	54	100%	

Table 5 shows the demographic information regarding respondents' qualification. Chu et al (2022) examine in their research the implications of auditor education for audit quality and audit pricing in the United Kingdom and found that auditors whose degrees have a quantitative orientation are associated with higher accruals quality and higher audit fees than those with more qualitative degrees. Table 5 shows that only 2 percent of respondents have less that a bachelor degree which was unexpected. Although the percentage is too low that represents only one person, but still it is required by the SOCPA that auditors are required to have at least a bachelor degree in order to be licensed to practice auditing formally in Saudi Arabia, however, this person could have selected this option by mistake or he might be an auditor assistant. Above 60 percent of the participants have bachelor degrees and 35 percent have high degrees.

Table (5) Demographic Data (Qualification)

Qualification	Frequency	Percentage	Cumulative Percentage
Less than Bachelor Degree	1	2%	2%
Bachelor Degree	34	63%	65%
Master Degree	18	33%	98%
Ph.D Degree	1	2%	100%
Total	54	100%	

4.2. Hypotheses Testing

Main analysis of this study is done here and the results obtained are in line with the objectives of study. The analysis was carried out in such a way that allowed a smooth flow that enabled implications to be drawn for tertiary institutions and policy making. The method of Ordinary Least Squares (OLS) estimating regression equations is employed (see Table 2). The linear regression method is used to study the linear relationship between the dependent variable (Auditors Ability to Detect Creative Accounting, AADCA) and one or more independent variables (AIN, ACR, AIT, and PSC). The linearity of the relationship between the dependent and independent variables is the assumption of the abovementioned model. The relationship is modeled through a random disturbance term (or, error variable) ε. A single-linear regression method is used to test the first three hypotheses based on t-vale under 95 percent level of confidence, while multiple-linear regression method is used to test the fourth hypothesis based on f-value and under the same level of confidence that used in testing the first three hypotheses. The choice of this technique arises as a result of the following facts: (1) OLS estimates the unknown parameter in a linear regression model; (2) it is subject to some crucial assumption of the error-term which provides the "best" (minimum variance), unbiased linear estimator (blue print) of the parameter estimates of a single equation model; (3) the best linear unbiased estimator of the unknown parameters is obtained by minimizing the residual (error) sum of squares.

Using a five-point Likert scale test, the questionnaire was developed to measure responses of respondents on five scales: Strongly Agree (5), Agree (4), Undecided (3), Disagree (2) and strongly Disagree (1). All questions in the questionnaire were designed to examine the effect of audit ethics (independence, credibility, integrity, and professionalism) on the auditors' ability to detect suspicious practices of creative accounting in Saudi Arabia. Results of the second section of the questionnaire that contained 20 questions as explained in the methodology section of this research which have been developed to measure the auditor's ability to detect the practices of creative accounting were obtained. Analyzed means of all 20 questions were between 3.6 and 4.8 which gives the researcher a clue that participating auditors were confident that the auditor's ability to detect practices of creative accounting was high, while most standard deviations were around 1. The highest mean which equals to 4.8 was to the question number 6 stating that the auditor is able to detect any manipulation in accounting principles, and the lowest mean which equals to 3.6 was to the question number 18 that the company's management may record nonfactual revenues. The highest standard deviation was 1.5829 which relates to the question number 5 that the company management recognized uninsured litigations, and the lowest standard deviation was 0.6927 which relates to the question number 12 that the company's managements may classify some operating cash flows under investments.

Results of the third section of the questionnaire that contained 15 questions as explained in the methodology section of this research which have been developed to measure the auditor's independency reveal that all questions have a reasonable mean and standard deviation, so there are no extremes in these means and standard deviations. The highest mean which equals to 4.7 was to the question number 3 stating that the auditor exercises his duties in a sensitive professional manner, whereas the lowest mean which equals to 3.4 was to the question number 13 that the auditor would not audit a company with personal advantage or interest. The highest standard deviation was 1.3284 which relates to the question number 2 that the auditor would not audit a company that receives other services by the auditing firm, and the lowest standard deviation was 0.5294 which relates to the question number 15 that the auditor would not audit a client that he has material indirect interest with.

Results of the fourth, fifth, and sixth sections of the questionnaire that contained 15 questions each which have been developed to measure the auditor's credibility, integrity, and professionalism reveal that all questions also have a reasonable mean and standard deviation, so there are no extremes in these means and standard deviations. The highest mean for credibility which equals to 4.6 was to the question number 6 stating that the auditor would rely more on information obtained from direct source, whereas the lowest mean which equals to 3.5 was to the question number 14 that the auditor would accept secondary sourced data. The highest mean for integrity which equals to 4.4 was to the question number 12 stating that the auditor would maintains integrity while he is performing his audit duties, whereas the lowest mean which equals to 3.2 was to the question number 3 that the auditor feels free of conflict of interests. Finally, the highest mean for professionalism which equals to 4.5 was to the question number 5 stating that the auditor would perform his professional responsibilities with the highest sense of care, whereas the lowest mean which equals to 3.3 was to the question number 7 that the auditor managements may record nonfactual revenues.

Table (6) Coefficients

Model *	Unstandardized Coefficients		t	Sig.
	B	Std. Error		
(Constant)	2.525283	0.264285	2.185378	0.0193
AIN	4.846654	0.0195326	2.743405	0.0072
ACR	5.464329	0.6395687	3.03529	0.0089
AIT	25.364296	0.129334	79.62854	0.0000
APR	3.735462	0.273846	3.63549	0.0032

(*) Dependent Variable: AIN (Auditor's Independence), ACR (Auditor's Credibility), AIT (Auditor's Integrity), and APR (Auditor's Professionalism).

Data collected for the study was analyzed using single and multiple regression analyses on Statistical Package for Social Sciences (SPSS). Results of the data analyses are shown in Table 6. T-statistics is the measure used to determine the individual statistical significance of the variables in the model. The results show that the coefficient of diversity management had a value of 4.846654 implying that there is positive relationship between auditor's independence and the auditor ability to detect practices of creative accounting in Saudi Arabia. Thus, a one unit increase in auditor's independence is predicted to lead to 4.846654 units increase in the auditor ability to detect practices of creative accounting.

The findings also show that there a positive relationship between auditor's credibility and the auditor ability to detect practices of creative accounting. With a coefficient of regression value of 5.464329 for the relationship between auditor's credibility and the auditor ability to detect practices of creative accounting in Saudi Arabia implying that a one unit increase in auditor's credibility is predicted to lead to a 5.464329 increase auditor's credibility and the auditor ability to detect practices of creative accounting. The findings also show that there a positive relationship between auditor's integrity and the auditor ability to detect practices of creative accounting. With a coefficient of regression value of 25.364296 for the relationship between auditor's integrity and the auditor ability to detect practices of creative accounting implying that a one unit increase in auditor's integrity is predicted to lead to a 25.364296 increase the auditor ability to detect practices of creative accounting in Saudi Arabia. It is also shown that there a positive relationship between auditor's professionalism and the auditor ability to detect practices of creative accounting. With a coefficient of regression value of 3.735462 for the relationship between auditor's professionalism and the auditor ability to detect practices of creative accounting implying that a one unit increase in auditor's professionalism is predicted to lead to a 3.735462 increase the auditor ability to detect practices of creative accounting in Saudi Arabia.

Table 6 shows that the computed t-value for the first dependent variable, auditors' independence, equals to 2.743405 and the computed coefficient of significance equals 0.0072, the computed t-value for the second dependent variable, auditors' credibility, equals to 3.03529 and the computed coefficient of significance equals 0.0089, the computed t-value for the third dependent variable, auditors' integrity, equals to 79.62854 and the computed coefficient of significance equals 0.0000, and the computed t-value for the forth dependent variable, auditors' professionalism, equals to 3.63549 and the computed coefficient of significance equals 0.0032. When the computed t-value is compared with the tabulated t-value, which equals 1.96, it is apparent that the computed t-values for the first, second, third, and forth dependent variables were greater than the tabulated t-values, therefore the null hypotheses are rejected, while the alternative hypotheses are accepted. In other words, the test of these hypotheses means that auditors' independency, credibility, integrity, and professionalism affect the auditors' ability to detect the practices of creative accounting in Saudi Arabia.

The results in general as shown in the equation above are satisfactory. The diagnostic statistics obtained from the estimation exercise are very much impressive. Model summary as shown in Table 7 indicates that the coefficient of correlation (R) for auditors' ability to detect practices of creative accounting and the explanatory variables namely, auditor's independence, credibility, integrity, and professionalism in Saudi Arabian after adjusting for degrees of freedom, the R squared stood at 0.917382, accounting which is about 92% of the total variations in the auditor's ability to detect practices of creative accounting carried out satisfies the sample selected, justifying apparently that the fit to the data to the model was very good.

Table (7) Model Summary

Model	R Square	Adjusted R Square	F-Statistics	Durbin-Waston Stat	Prob. (F-Statistics)
1	0.926526	0.9173654	87.6250	1.736452	0.000000
	Predictors: (Constant), AIN (Auditor's Independence), ACR (Auditor's Credibility), AIT (Auditor's Integrity), and APR (Auditor's Professionalism).				

As shown in Table 7, with an f-value of 87.6250, it could be concluded that the overall model is found to be significant. The F-statistics measures the overall significance of the explanatory parameter. Considering the coefficient of correlation (R), it is clear that there is a strong correlation between the entire rules of audit ethics, and the ability of auditors to detect the practices of creative accounting. In addition, because the coefficient of determination is also high, the author concludes that the audit ethics play an important role in detecting creative accounting practices, and determine a large portion of auditors' ability in the detection of these practices in Saudi Arabia.

The Durbin-Watson statistics was used to test for the presence or otherwise of autocorrelation in our model. If the value of Durbin-Watson is closer or above 2, it means the absence of autocorrelation amongst the explanatory parameter (Nalbantis et al., 1997). Table 7 shows that Durbin-Watson result is (1.736452) which satisfies the above-stated condition, indicating the absence of autocorrelation among the explanatory variables.

5. CONCLUSION

The past two decades have witnessed significant changes in the business environment in Saudi Arabia including globalization, technological advances and now with internationally reported high-profile financial scandals, ways to improve public trust and investor confidence in Saudi companies' financial reports. This research aimed to examine the effect of audit ethics on auditors' ability to detect suspicious practices of creative accounting in the context of a developing country, Saudi Arabia. The specific objective is to investigates the effect of auditor's independence, credibility, integrity, and professionalism on auditors' ability to detect the suspicious practices of creative accounting. Descriptive Statistics are used to present quantitative descriptions in a manageable form. The collected data were analyzed with descriptive statistics using SPSS and ordinary least square (OLS) regression. The result revealed that the auditors' ability to detect the practices of creative accounting is affected by the different elements of the audit ethics. In specific, the study finds that auditors' independence, credibility, integrity, and professionalism positively affect the auditor's ability to detect practices of creative accounting. All elements of audit ethics affect, in different strengths, auditors' ability to detect practices of creative accounting in Saudi Arabia. This study concludes that auditors' ability to detect the practices of creative accounting is affected by the entire group of audit ethics in the context of Saudi Arabia.

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