

# The Impact Of Creative Accounting Practices On The Credibility Of Financial Reports Of Commercial Banks: The Moderating Role Of Audit Committee

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## Abstract

The study aimed to find the impact of creative accounting practices on the credibility of financial reports of commercial banks, and to know the moderating role of audit committee on the relationship between creative accounting and the credibility of financial reports, where the creative accounting practices were measured in each of (financial position statement, income statement, equity statement, cash flow statement). In order to achieve the objectives of this study, a questionnaire was designed and distributed to the study sample observations represented by (financial managers, accountants, audit managers and internal auditors) working for Jordanian commercial banks listed on Amman Stock Exchange. Therefore, 129 observations were adopted and their answers were introduced for statistical analysis based on the SPSS programme.

The results showed that there is an impact of creative accounting practices in each of (financial position statement, income statement, equity statement, cash flow statement) on the credibility of financial reports in commercial banks. Also, the findings indicated that there is an impact of audit committee in moderating the relationship between creative accounting practices and the credibility of financial reports in commercial banks.

The study concluded a set of recommendations, the most of which are: Administration of commercial banks listed on Amman Stock Exchange should follow strict policies to discover creative accounting methods in the financial position statement and develop deterrent laws based on the issuance of penalties and sanctions to those who practice such practices.

**Keywords:** Creative Accounting, Credibility of Financial Reports, Audit Committee, Commercial banks.

## 1. Introduction

Accounting arose because of many financial and economic needs of companies and institutions in various sectors, most importantly the need to have a clear position on what happens economically and financially in companies, where accounting had a privileged place as well as the confidence of the users of accounting and financial data at that time (Voinea, 2013).

While financial reports aim to demonstrate the true and fair state of corporate financial statements in order to assist users of accounting information in making appropriate decisions, as financial reports have evolved through the development of accounting practices and the increased flexibility of international accounting standards in the preparation and presentation

of financial reports such as multiple methods of measurement (Beshiru & Prince, 2014).

In recent years, accounting profession has been criticized for applying certain accounting practices in such a way as to provide unreliable and misleading information to users of this information, which may cause economic and financial losses that may lead to the completely failure of some companies, where creative accounting practices, techniques and methods contributed to the failure of some major companies such as Enron, WorldCom, Parmalat and many others (Norri, 2013).

Audit committees received considerable attention in the 1960s and 1970s, when they played an important role in the accountability and control of managers. Because audit committees were important, the Securities and Exchange Commission required an audit committee for each company, as well as disclosure of its formation and function (Abbasi, 2019). The main function of the audit committees is to monitor the financial performance and financial reports of the company. The audit committees must review and check the accounting policies within the company and verify their proper and required application. The audit committees also influence the company's approach to prepare and disclosure financial reports and control the credibility and reliability of the company's accounting operations and data (Amer, 2016).

This study therefore tested the impact of creative accounting practices on the financial statements (financial position statement, income statement, cash flow statement, statement of change in equity) on the credibility of financial reports. The audit committees also play an important role in influencing creative accounting practices in line with what was pointed out by (Amer,

2016). The study also aimed to find to what extent the audit committees contributed as a moderating variable in influencing the relationship between creative accounting practices on the financial statements and the credibility of financial reports of commercial banks between 2015 and 2019.

### **1.1 Study problem and questions**

The financial statements of commercial banks are a major source for examination the financial situation of banks, where the credibility, objectivity, appropriateness and absence of any manipulation or change of such reports are important factors whose breach may cause real risks to banks. Multiple and available accounting tools can be used to reduce any manipulation or breach of financial reports by following many tools and methods, such as proper measurement and disclosure methods (Akapanuko & Umoren, 2018).

The importance of the validity and integrity of corporate financial reports is demonstrated by their reliance on them to make their own financial decisions, where any defect in these reports leads to wrong financial and management decisions that may affect the interests of these companies, therefore, some accountants may resort to following some of the creative accounting practices to influence the accounting results of the financial reports and, as a result, affect management and financial decisions taken (Akapanuko & Umoren, 2018).

Based on the foregoing, the study problem revolves around trying to answer the following questions:

**First:** Is there an impact of creative accounting practices on the credibility of financial statements of commercial banks? Sub-questions were derived from this question:

- 1- Is there an impact of creative accounting practices on the credibility of the financial position statement of commercial banks?
- 2- Is there an impact of creative accounting practices on the credibility of the income statement of commercial banks?
- 3- Is there an impact of creative accounting practices on the credibility of statement of change in equity of commercial banks?
- 4- Is there an impact of creative accounting practices on the credibility of cash flow statement of commercial banks?

**Second:** Is there an impact of audit committees in contributing to moderating the relationship between creative accounting practices and the credibility of financial reports of commercial banks?

### **1.2 Importance of the study**

The importance of this study stems from the need to address creative accounting practices in all their forms that affect decision makers and users of financial statements in a way that may be detrimental to their interests and objectives. Some corporate administrations use these practices to present the financial statements in order to achieve illegal targets for corporate administrations, which may cause local or global financial crises.

The importance of the research is focused on the following points:

1. Unlike previous studies, this study tested the impact of creative accounting practices on the credibility of financial reports by adopting audit committees as a moderating variable.
2. The beneficiary category of the study included several financial bodies and

all levels of management, such as corporate owners, commercial bank managers, accountants, auditors and financial analysts, as well as researchers in the fields of accounting and finance.

### **1-3 Study Objectives**

This study aims to examine the impact of creative accounting practices on the credibility of financial reports of commercial banks as audit committees is a moderating variable, where this study focuses on the four main accounting statements: financial position statement, income statement, cash flow statement, and statement of change in equity.

From this first main objective, the following sub-objectives come:

- 1- Determine whether there is an impact of creative accounting practices in the financial position statement on the credibility of financial reports of commercial banks.
- 2- Determine whether there is an impact of creative accounting practices in the income statement on the credibility of financial reports of commercial banks.
- 3- Determine whether there is an impact of creative accounting practices in the statement of change in equity on the credibility of financial reports of commercial banks.
- 4- Determine whether there is an impact of creative accounting practices in the cash flow statement on the credibility of financial reports of commercial banks.

This study also aims to determine whether audit committees contribute to moderating the relationship between creative accounting

practices and the credibility of financial reports of commercial banks.

#### **1.4 Study hypotheses**

Based on the problem and questions of the study and in order to achieve its objectives, the main hypotheses were developed in its null form, which the study will examine as follows:

**The first main hypothesis Ho1:** There is no statistically significant impact of creative accounting practices on the credibility of financial reports of commercial banks.

- **The first sub-hypothesis Ho1.1:** There is no statistically significant impact of creative accounting practices in the financial position statement on the credibility of financial reports of commercial banks.
- **The second sub-hypothesis Ho1.2:** There is no statistically significant impact of creative accounting practices in the income statement on the credibility of financial reports of commercial banks.
- **The third sub-hypothesis Ho1.3:** There is no statistically significant impact of creative accounting practices in the equity statement on the credibility of financial reports of commercial banks.
- **The fourth sub-hypothesis Ho1.4:** There is no statistically significant impact of creative accounting practices in cash flow statement on the credibility of financial reports of commercial banks.

**The second main hypothesis Ho2:** There is no impact of audit committees in moderating the relationship between creative accounting practices and the credibility of financial reports of commercial banks.

## **2. Theoretical framework and previous studies**

Many studies have discussed the impact of creative accounting practices on commercial banks that are critical to banks, and many researchers believe that creative accounting practices may reflect the strength, continuity and success of banks, as the control of creative accounting practices in commercial banks with high efficiency and effectiveness has a significant impact on the credibility of financial reports of commercial banks.

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

The beginnings of manipulation and fraud with accounting data and information date back to the beginning of the industrial revolution in the world. Manipulation and fraud were carried out during the conduct and writing of financial accounts, especially cost accounting. This required specialized personnel, taking advantage of the weak independence of accountants in that period and thus manipulating financial statements to meet their needs or the company needs in general. With the diversity of auditing and control methods in the nineteenth century, accounting methods and corporate asset valuation methods varied, this diversity, which had positive effects to show correct book costs in accordance with legal and accounting requirements (Chatifield, 1997).

Creative accounting was defined as the process of changing and falsifying numbers and accounting data from their original numbers to other numbers that meet the objective of the company and its management through disclosure of information, by choosing between accounting policies or ignoring some of these policies and laws (Khattab, 2012).

Creative accounting practices impact on the four main financial statements:

- a. Financial position statement:** creative accounting practices directly affect the financial position list by manipulating and changing its own figures in the accounting statements of assets, liabilities and property rights, such as postponing current period expenses to subsequent periods in order to maximize profit by reducing current period expenses. (Al-Zamili, 2018).
- b. Income Statement:** it presents net profits or losses over a specified period of time and shows the revenues and expenses of companies (Abu Nassar and Hemeidat, 2019). Creative accounting practices directly affect the income statement through methods and techniques that focus on sales, cost of goods sold, and total and net profit (Al-Zamili, 2018).
- c. Statement of Changes in Equity:** Creative accounting practices affect the equity statement by influencing the income statement because the equity statement depends on the net income from the income statement, so any manipulation of the income statement amounts adversely affects the equity statement. (Al-Zamili, 2018).
- d. Cash Flow Statement:** It is noted that creative accounting practices affect the cash flow statement directly and clearly because it shows incorrect cash flows, whether both into and out of companies. Creative accounting practices are mostly on operating cash flows, while investment and financing flows are minimal. (Al-Zamili, 2018).

## 2-2 Credibility of financial reports

The main objective of the financial reports is to convey economic events about the financial performance of the enterprise. Financial reports are considered as a critical issue affecting the decision-making process of various individuals, corporate bodies, investors and policy makers. In this direction, it was found that financial reports assist their users in correcting and following up financial performance and its ability to maximize the wealth of shareholders through the integrity and fairness of the financial statements, which reflects positively on performance and access to new investment opportunities (Faraj and Muhammad, 2018).

The credibility of financial reports means the quality and efficiency of accounting information within financial reports to the full benefit of the users of these reports, and in order to reach such quality and efficiency, it is essential that they be free of all methods of manipulation, fraud and deception and that these reports be prepared in accordance with accounting, legal and control standards to ensure that they are prepared in the best possible manner (Boukhalfa, 2014).

## 2-3 Audit Committees

Audit committees are meant to be a committee formed through the company's board of directors and composed of non-executive members of the company's board of directors. Its primary role is to control and supervise all audits within the company and also to review the accounting policies followed and risk management in the company. (Al-Btoush, 2015).

The audit committees of financial institutions have grown in importance in the past few years and have played a crucial role in the good governance of these institutions. Audit committees have become an essential aspect in determining the efficiency, controls,

professionalism and transparency of companies in the need to increase financial performance. Where audit committees are defined under the audit law, specifically in banks, audit committees are closely defined in the Banking Act. According to the Banking Act, audit committees are one of the Bank's bodies, and the same act sets the minimum requirements for competence and responsibilities enjoyed by audit committees of the banks. To be adequate, audit committees of the bank must be very well organized, and must operate efficiently, effectively and in high performance, and must fulfil their responsibilities. Together, these cases constitute the adequacy of the audit committees.

#### **2-4 Previous Studies**

After reviewing a series of previous Arab and foreign studies relating to the study subject the previous studies that are closer to the subject of the study were summarized as follows:

The study of Abdul Haq and Khaira (2020) aimed at investigating the role of internal auditing in limiting creative accounting methods in economic institutions from the point of view of professionals and experts in the field of accounting and internal auditing by identifying the procedures that the internal auditor is committed to in the financial statements in limiting creative accounting practices. A simple random sample was taken, representing a total of 60 questionnaires on the study sample observations. This study included a number of economic institutions at the level of the wilaya of Tiaret, where the community size reached 144 observations. The study found that creative accounting means exploiting any gap within any accounting system to distort accounting data and mislead users of financial reports to achieve the objectives of

the company owners. The study also found that all categories of the study sample, whether professional or academic, agreed that internal auditing applied according to the approved auditing standards could limit the creative accounting methods and practices applied to financial reports (income statement, financial position statement, cash flow statement).

Another study was conducted by Al-Amrawi (2017), which tested the role of internal auditing in limiting creative accounting practices, where the study community consisted of academics with competence in accounting and auditing, and 40 questionnaires were distributed to the sample observations. The study aimed to learn about all the definitions and concepts associated with creative accounting and internal auditing and to highlight the way in which illegal practices and methods of creative accounting are exposed. The study also aimed to determine the ability and readiness of internal auditing in the face of creative accounting practices, which is practiced on the managements of companies at all levels. The study found that internal auditing contributes to increasing the credibility and reliability of financial statements and to improving the internal control system of companies.

The aim of Al-Halabi study (2009) was to demonstrate the importance of the reliability of financial statements and its role in decision-making and to identify the types of bias in accounting measurement that affect the reliability of the data. The study sample consisted of 60 observations, where 180 questionnaires were distributed to these categories. The study found that creative accounting is a set of methods and procedures adopted by the accountant to achieve the interest of some stakeholders in the company.

The study also found that detection of errors, manipulation and fraud is the responsibility of the auditor, especially if the auditor does not carry out the task of detecting such manipulation and fraud as required.

The study of Al-Zamili (2008) examined the implications of creative accounting practices on the financial statements. It aimed to identify the knowledge foundations, methods and ethical perspective of creative accounting, and to demonstrate the impact of these practices and methods on financial statements through the extent to which they affect their credibility. This study found many results, the most important of which is that creative accounting is an innovative practice used by accountants to process and falsify the numbers in the financial statements using their knowledge of accounting. The study also found that following the legal and regulatory procedures for the accounting profession reduces creative accounting practices and their risk.

The study of Ismael (2017) aimed to examine the impact of creative accounting techniques on the reliability of financial reports, with particular reference to Saudi auditors and academics. In addition, the study examined the relationship between regulations and ethical standards and the creative accounting practice. The study relied on quantitative research and used primary and secondary data. The preliminary data were obtained through 100 structured questionnaires distributed randomly to accounting practitioners and auditing staff. This study showed the impact of techniques used in creative accounting practices that affect the reliability of financial reports from the point of view of auditors and academics. The study examined the negative effects of accounting techniques and found that negative techniques used in creative accounting

practices cannot be completely eliminated and that such techniques could be reduced to the extent possible.

The study of Tassadaq & Malik (2015) examined the gravity of creative accounting in preparing financial reports, where preliminary data were collected through structured questionnaires and adopted from the study of Lin & Yang (2006). The secondary data were collected from published sources, and data were collected from the industrial sector. The study sample consisted of 120 professionals and descriptive statistics were used to determine percentages. The study found that companies participate in creative accounting practices because of many unethical motives and that creative accounting leads companies to scandal in illegal and legal processes. It also showed that creative accounting is not only an ethical responsibility, but that there are other factors affecting these reports, such as the role of the internal auditor in approving the issuance of these statements.

In the Iraqi environment, the study of Habis & Al Rawashdeh (2013) examined focusing on the concept and meaning of creative accounting, focusing on the role of the corporate internal auditor for his important role in tracking and auditing creative accounting practices, if any, and because many companies in the world collapsed due to creative accounting practices, the study examined the causes of this collapse. The questionnaire distributed to the study sample, which included a group of auditors from audit offices as well as licensed offices in Iraq, was used. The study found that previous references and practices of creative accounting have an important role in detecting new practices to try to limit their spread.

## **2-5 Characteristics this study from previous studies**

It is clear from the previous studies presented that, although the previous studies dealt with the subject matter, none of them examined the study subject, which is the creative accounting practices in each of the financial statements represented by (Financial position statement, income statement, cash flow statement and equity statement) and their impact on the credibility of financial reports. The study is also characterized by its second main objective which is to find to what extent the audit committees contribute to moderating the relationship between creative accounting practices and the credibility of financial reports. This study is also recent where it was conducted during 2021. The study is also characterized by the study community where it was conducted on commercial banks listed on Amman Stock Exchange. The current study is therefore a new study that can be relied upon by Jordanian commercial bank administrations listed on Amman Stock Exchange in making their decisions. It could also be used to develop future studies using the results of this study.

## **3-1 Study Methodology**

The current study relied on the analytical descriptive approach, being one of the most important for human and social studies, and in order to obtain the necessary data for this study on the impact of creative accounting practices on the credibility of financial reports under the moderating role of the audit committees of commercial banks listed on Amman Stock Exchange; A questionnaire for this purpose was developed and distributed to the study sample during 2021.

## **3-2 Study community and sample**

The study community consists of all (13) Jordanian commercial banks, and with regard

to the sample study, the researcher selected all (13) banks of the study community. As for the study observations, (financial managers, accountants, audit managers and internal auditors) working for Jordanian commercial banks listed on Amman Stock Exchange were selected. The researcher relied on the appropriate sample method, which is a non-probabilistic sample, as a result of the difficulty in identifying the study community accurately. Accordingly, the researcher distributed (170) questionnaires to (financial managers, accountants, audit managers, and internal auditors), with (13) questionnaires for each of Jordanian commercial banks. The researcher retrieved (147) questionnaires that were answered, and (18) questionnaires were excluded because they were incomplete or the respondents were not serious about filling them out. The final study sample was (129) questionnaires representing (75.8%) of the study sample observations.

## **4. Statistical analysis and hypothesis testing**

This section presents the results of statistical analysis of the sorted data from the study tool (questionnaire), which addressed the impact of creative accounting practices on the credibility of financial reports of commercial banks financial reports under the moderating role of audit committees, based on the descriptive analysis of the study variables, multiple regression model and hierarchical regression model to reach and discuss results.

## **4-1 Study tool evaluation**

To ensure the stability and validity of the questionnaire as one of the basic elements to be found in the characteristics of the study tool, and then to ensure that the scale does not contradict itself and is stable so that it gives the same results if it is re-applied to the same sample (which is called the reliability coefficient); The test and re-test reliability



method was relied upon, by conducting an initial test of the study tool on a miniature sample consisting of (15) observations of the sample in the month of 11 of 2021, which was conducted again after a period and found 84% match in the sample's answers, indicating that there is a high degree of reliability in the questionnaire, and confirmed the consistency of the questionnaire paragraphs with what they belong. (This is meant by internal consistency, called Validity). Therefore,

Cronbach's Alpha test was used, which is concerned with determining the extent of reliance on the measurement tool in giving the same results or close results, if the measurements were repeated in similar conditions on the same sample or on a similar sample, the suitability of the whole structure of the questions within each study variable was tested, and the measure of the variance ratio between the questions in each variable was measured using the Kaiser-Meyer-Olkin (KMO) test, as follows:

**Table No. (1) Results of Cronbach's alpha test for study variables**

| Factor  | Cronbach's Alpha | KMO Sig. | Kaiser-Meyer-Olkin (KMO) |
|---|------------------|----------|--------------------------|
| Creative accounting in financial position statement | 0.797            | 0.000    | 0.775                    |
| Creative accounting in income statement             | 0.799            | 0.000    | 0.802                    |
| Creative accounting in equity statement             | 0.885            | 0.000    | 0.890                    |
| Creative accounting in cash flow statement          | 0.922            | 0.000    | 0.918                    |
| Credibility of Financial Reports                    | 0.893            | 0.000    | 0.885                    |
| Audit Committee                                     | 0.825            | 0.000    | 0.830                    |

It is noted from Table No. (1) that the ratios of Cronbach's alpha coefficient indicate that there is a high degree of stability for all variables, where the alpha coefficients were statistically acceptable for all variables because they were higher than (70%) (Sekaran, 2014), and according to (Tabachnick & Fidell, 2013), the value of (KMO) test must be higher than (70%), indicating the suitability of the whole structure of the questions within the variable and determining data coherence for this variable. According to the above table, it is clear that the test values for all variables were higher than 70% at (KMO Sig. < 0.05 = 0.000), which is statistically significant at a significant level of (95%). This is due to the study sample observations who were carefully selected in this study because their

direct correlation in preparing and supervising the financial status statement.

#### **4-2 Validation of data for statistical analysis**

It is important to ensure that the study data fulfill the conditions that confirm their suitability for hypothesis analysis tests by conducting the normal distribution test for Standardized Residual, where linear regression assumptions state that the residuals must be distributed normally (Hayduk et al., 2007), as it is important to follow the normal distribution, and if they do not follow the conditions of normal distribution, non-parametric statistical analysis tests must be conducted. In order to verify that the study data follow the normal distribution of residuals, the necessary tests were carried out, and the results of the verification tests of the study data,

represented by the normal distribution of residuals, Multicollinearity and autocorrelation, are as follows:

### A. Normal distribution test

**Table No. (2): Normal distribution of residuals in the study model**

| Standardized residual | Kolmogorov-Smirnov |     |       |
|-----------------------|--------------------|-----|-------|
|                       | Statistic          | df  | Sig   |
|                       | 0.070              | 129 | 0.200 |

Table No. (2) shows the results of verifying the normal distribution of the residuals in the study model (Normal-Distribution), represented by the contribution of audit committees to moderating the relationship between creative accounting practices and the credibility of financial reports of commercial banks using the (Kolmogorov-Smirnov) test. The decision rule according to this test is that the residuals follow the normal distribution if the probability value (P-Value) is greater than (0.05) (Babbie et al., 2018). Otherwise, the distribution of the residuals is considered abnormal. According to the above table, it is noted that the residuals follow the normal distribution, where the probability value of this test reached (0.200), thus, parametric tests of data on the contribution of audit committees can be used to moderate the relationship between creative accounting practices and the credibility of financial reports of commercial banks.

### B. Multicollinearity and Autocorrelation tests

The Multicollinearity Test was used to test the validity of the study data for statistical analysis where the researchers (Luo et al., 2007) defined Multicollinearity as a phenomenon that occurs when there is a high correlation between two or more independent variables in the multiple regression model. This creates negative impacts on analysis by eliminating the ability to interpret the findings and conclusions of the study, which in turn will affect the generalization and accuracy of the study model. The researcher verified that there was no problem with Multicollinearity Test in the study models through the use of both Variance Inflationary Factor (VIF) and the Tolerance factor, as well as the use of the Autocorrelation Test to ascertain that there was no autocorrelation problem in the study model, as shown in Table (3) as follows:

**Table No. (3) The results of testing the validity of the study data for statistical analysis**

| Variable  |             | Multicollinearity |           |
|---|-------------|-------------------|-----------|
| Name  | Type        | VIF               | Tolerance |
| Creative accounting in financial position statement | Independent | 0.934             | 1.070     |
| Creative accounting in income statement             | Independent | 0.865             | 1.156     |
| Creative accounting in equity statement             | Independent | 0.823             | 1.214     |
| Creative accounting in cash flow statement          | Independent | 0.983             | 1.018     |
| Audit Committee                                     | Moderate    | 0.781             | 1.281     |
| <b>Durbin-Watson = 1.987</b>                        |             |                   |           |

Variance inflation factors (VIF) was used to detect the correlation of study variables, the general rule of VIF is that there is inflation by this indicator when the value is greater than 10, and therefore, regression coefficients are poorly determined by the increase in inflation between independent variables (Schreiber-Gregory, D., & Jackson, 2017).

By reviewing of table No. (3), for the inflation factor, it was found that all values were less than 10.

As for the Tolerance coefficient, which is another test used to detect the problem of tolerance of the variable remaining within the study model to be tested, and the problem appears in this test if the value of the tolerance coefficient is less than (0.10). On revision of table 3, for the tolerance coefficient, it was found that all values were greater than (0.10). Based on the assumptions of the previous two indicators, it is clear that all independent study variables exceeded these two indicators, which means that there is no Multicollinearity problem in the study model.

Autocorrelation test was also conducted to ensure that there was no autocorrelation problem in the model using (Durbin-Watson test). According to (Field, 2013), the problem appears when the adjacent values of variables are correlated, affecting the validity of the model as it will have an unreal effect on that correlation. The results of the study show that

the calculated D-W value of the study model reached (1.987), since this value falls within the appropriate range (1.5 to 2.5), and is the closest to optimal (D-W = 2, indicating that there is no problem of autocorrelation affecting the validity of the study model).

#### 4.3 Descriptive statistics of the study sample and its variables

The researchers distributed (170) questionnaires to the financial managers, accountants, audit managers and internal auditors of Jordanian commercial banks listed on Amman Stock Exchange, and their number is (13) banks, with (13) questionnaires for each bank. The researcher retrieved (147) questionnaires and excluded (18) questionnaires because respondents were not serious about filling the paragraphs of the questionnaire. The final study sample consisted of (129) questionnaires, or (75.8%) of the study sample.

To show the response rates for the study questions, the researcher relied on the fifth Likert Scale, and it was taken into account that the scale used in the study should be properly graded from strongly disagree to strongly agree, and therefore the arithmetic mean (weighted average) of ranking options is calculated by first calculating the length of the period (4 by 5), where 4 represents the number of distances, and 5 represents the number of choices, the result is 0.80, so the averages of answers extracted from descriptive analysis tests were classified.

**Table No. (4) Results of the descriptive analysis**

| No. | Variable  | Mean   | Std. deviation | Approval degree |
|-----|---|--------|----------------|-----------------|
| 1   | Creative accounting in financial position statement | 1.8198 | 0.2738         | Low             |
| 2   | Creative accounting in income statement             | 1.5952 | 0.3413         | Very low        |
| 3   | Creative accounting in equity statement             | 1.9546 | 0.5297         | Low             |

|   |  |        |        |           |
|---|--|--------|--------|-----------|
| 4 | Creative accounting in cash flow statement | 1.7604 | 0.5270 | Very low  |
| 5 | Audit Committee                            | 4.3085 | 0.3549 | Very high |
| 6 | Credibility of Financial Reports           | 3.8829 | 0.5475 | High      |

Table (4) shows the average results of the descriptive analysis of the study variables. According to the table, it is noted that the arithmetic mean of creative accounting practices in the financial position statements reached (1.8198) with a low degree of approval, and researchers explain the reason for this is that the financial position statement is one of the important financial statements for evaluating the performance of commercial banks' business. It is also an important source of attraction for existing and new investors, and giving lenders a clear picture of the bank's business results for making their decisions, which makes it important to achieve credibility in the presentation of this statement and to avoid creative accounting practices in order to present business results with high credibility and transparency so as to ensure the continuity of commercial banks' business and the achievement of their strategic objectives. The arithmetic mean of creative accounting practices in the income statement reached (1.5952) with a very low degree of approval, the researchers explain the reason for this is that is that the financial position statement is important for evaluating banks' business in each financial period, as well as it is an important tool for lenders and other stakeholders to present the results of bank business at the end of the financial period, which makes it important to achieve credibility in the presentation of this statement and to avoid creative accounting practices to present business results with high credibility and transparency in a way that ensures the continuity of commercial banks' business and the achievement of their strategic objectives. Also, the arithmetic

mean of creative accounting practices in the equity statement reached (1.9546) with a low degree of approval, the researchers explain the reason for this is that is that the equity statement is one of the important financial statements for evaluating the performance of bank management, and how owners' funds are invested and exploited in the optimal way to achieve returns for investors. It is also an important source of attraction for existing and new investors, and giving them a clear picture of the bank's business results for making their decisions, which makes it important to achieve credibility in the presentation of this statement and to avoid creative accounting practices in order to present business results with high credibility and transparency so as to ensure the continuity of commercial banks' business and the achievement of their strategic objectives. Moreover, the arithmetic mean of creative accounting practices in the cash flow statement reached (1,7604) with a very low degree of approval, the researchers explain the reason for this is that is that the financial cash flow statement is important for evaluating banks' business in each financial period, as well as it is an important tool for lenders and other stakeholders to present the results of bank business at the end of the financial period, which makes it important to achieve credibility in the presentation of this statement and to avoid creative accounting practices in order to present business results with high credibility and transparency so as to ensure the continuity of commercial banks' business and the achievement of their strategic objectives.

As for audit committees, their arithmetic mean reached (4,3085) with a very high degree of approval and with a standard deviation of (0.3549). With regard to the credibility of the financial statements, its arithmetic mean reached (3.8829) with a high degree of approval, and the researchers explain the reason for this is that is that the financial statements are important for evaluating banks' business in each financial period, as well as they are an important source of attraction for existing and new investors, and giving lenders a clear picture of the bank's business results for making their decisions, which makes it important to

achieve credibility in the presentation of these statements and to avoid creative accounting practices in order to present business results with high credibility and transparency so as to ensure the continuity of commercial banks' business and the achievement of their strategic objectives.

#### 4.4 Study hypotheses test

**The first main hypothesis Ho1:** There is no statistically significant impact of creative accounting practices on the credibility of financial reports of commercial banks.

**Table No. (5) Results of the multiple regression test for the first study model**

| Variable                     | $\beta$ | Coefficient | Std. Error | T-Statistic | Prob. |
|------------------------------|---------|-------------|------------|-------------|-------|
| <b>Constant</b>              | 5.689   | -----       | 0.275      | 20.679      | 0.000 |
| Financial position statement | -0.225  | -0.174      | 0.107      | -2.108      | 0.037 |
| Income statement             | -0.254  | -0.244      | 0.087      | -2.920      | 0.004 |
| Equity statement             | -0.174  | -0.260      | 0.056      | -3.095      | 0.002 |
| Cash flow statement          | -0.129  | -0.191      | 0.055      | -2.347      | 0.021 |
| R                            | 0.426   |             |            |             |       |
| R-squared                    | 0.181   |             |            |             |       |
| Adjusted R-square            | 0.155   |             |            |             |       |
| S.E. of regression           | 0.326   |             |            |             |       |
| F-statistic                  | 6.869   |             |            |             |       |
| Prob(F-statistic)            | 0.000   |             |            |             |       |

Table No. (5) shows the test results of the first study model through the multiple regression of the independent study variables represented by the combined creative accounting practices (creative accounting practices in the financial position statement, creative accounting practices in the income statement, creative accounting practices in the equity statement, and creative accounting practices in the cash flow statement) and their impact on the dependent variable (the

credibility of financial reports of commercial banks). It is noted from the table that the calculated F value reached (6.869), which is significant at a level of (0.05), indicating that the proposed first study model is suitable, and the results of the regression analysis showed that the value of (Sig. F-statistic), which reached (0.0000), is less than the significant level of the test which is (5%), so the first main null hypothesis must be rejected and the alternative hypothesis accepted, meaning that

there is a statistically significant effect of creative accounting practices on the credibility of financial reports of commercial banks.

The results of the regression analysis also showed that the value of Adjusted R-Square reached (0.155), which means that only about 15.5% of fluctuations that occur in the credibility of financial reports of commercial banks can be explained by changes in creative accounting practices.

For the purpose of determining the impact of each of the creative accounting practices in the financial statements on the credibility of financial reports of commercial banks, where the results of the multiple regression test were relied upon as follows:

**a. Ho1.1: There is no statistically significant impact of creative accounting practices in the financial position statement on the credibility of financial reports of commercial banks.**

It is noted from Table No. (5) that the value of the significant level (Sig.T) decreased from (5%), which reached (0.037), and this result is supported by the high absolute value of T calculated which reached (2.108), which was higher than its tabular value of (1.657) at a degree of freedom (128). According to the decision rule that states that the null hypothesis is rejected and the alternative hypothesis is accepted if the value of Sig t is less than (5%), thus the creative accounting practices of the financial position statement affect the credibility of financial reports, so the first null sub-hypothesis must be rejected and the alternative hypothesis accepted, meaning that there is a statistically significant effect of creative accounting practices of the financial position statement on the credibility of financial reports of commercial banks.

According to the value of Coefficient which reached (-0.174) indicates a negative impact of creative accounting practices in the financial position statement on the credibility of financial reports, which also indicates that creative accounting practices in the financial position statement rank last in terms of influencing the credibility of financial reports of commercial banks listed on Amman Stock Exchange among the practices examined in the study within creative accounting practices.

**b. Ho1.2: There is no statistically significant impact of creative accounting practices in the income statement on the credibility of financial reports of commercial banks.**

It is noted from Table No. (5) that the value of the significant level (Sig.T) decreased from (5%), which reached (0.004), and this result is supported by the high absolute value of T calculated which reached (2.920), which was higher than its tabular value of (1.657) at a degree of freedom (128). According to the decision rule that states that the null hypothesis is rejected and the alternative hypothesis is accepted if the value of Sig t is less than (5%), thus the creative accounting practices of the income statement affect the credibility of financial reports, so the second null sub-hypothesis must be rejected and the alternative hypothesis accepted, meaning that there is a statistically significant effect of creative accounting practices of the income statement on the credibility of financial reports of commercial banks.

According to the value of Coefficient which reached (-0.244) indicates a negative impact of creative accounting practices in the income statement on the credibility of financial reports, which also indicates that creative accounting practices in the income

statement rank second in terms of influencing the credibility of financial reports of commercial banks listed on Amman Stock Exchange among the practices examined in the study within creative accounting practices.

**c. Ho1.3: There is no statistically significant impact of creative accounting practices in the equity statement on the credibility of financial reports of commercial banks.**

It is noted from Table No. (5) that the value of the significant level (Sig.T) decreased from (5%), which reached (0.002), and this result is supported by the high absolute value of T calculated which reached (3.095), which was higher than its tabular value of (1.657) at a degree of freedom (128). According to the decision rule that states that the null hypothesis is rejected and the alternative hypothesis is accepted if the value of Sig t is less than (5%), thus the creative accounting practices of the equity statement affect the credibility of financial reports, so the third null sub-hypothesis must be rejected and the alternative hypothesis accepted, meaning that there is a statistically significant effect of creative accounting practices of the equity statement on the credibility of financial reports of commercial banks.

According to the value of Coefficient which reached (-0.260) indicates a negative impact of creative accounting practices in the equity statement on the credibility of financial reports, which also indicates that creative accounting practices in the equity statement rank first in terms of influencing the credibility of financial reports of commercial banks listed on Amman Stock Exchange among the practices examined in the study within creative accounting practices.

**d. Ho1.4: There is no statistically significant effect of creative accounting practices in the cash flow statement on the credibility of financial reports of commercial banks.**

It is noted from Table No. (5) that the value of the significant level (Sig.T) decreased from (5%), which reached (0.021), and this result is supported by the high absolute value of T calculated which reached (2.347), which was higher than its tabular value of (1.657) at a degree of freedom (128). According to the decision rule that states that the null hypothesis is rejected and the alternative hypothesis is accepted if the value of Sig t is less than (5%), thus the creative accounting practices of the cash flow statement affect the credibility of financial reports, so the fourth null sub-hypothesis must be rejected and the alternative hypothesis accepted, meaning that there is a statistically significant effect of creative accounting practices of the cash flow statement on the credibility of financial reports of commercial banks.

According to the value of Coefficient which reached (-0.191) indicates a negative impact of creative accounting practices in the cash flow statement on the credibility of financial reports, which also indicates that creative accounting practices in the cash flow statement rank third in terms of influencing the credibility of financial reports of commercial banks listed on Amman Stock Exchange among the practices examined in the study within creative accounting practices.

**The second main hypothesis Ho2:** There is no effect of audit committees in moderating the relationship between creative accounting practices and the credibility of financial reports of commercial banks.

The second study model is designed to examine the impact of audit committees in moderating the relationship between creative accounting practices and the credibility of

financial reports of commercial banks. Table No. (6) below shows the results of the hierarchical regression test of the second study model:

**Table (6) results of the hierarchical regression test of the second study model**

|                         | Variable            | Coefficient (β)                | Sig.T                  | Std. Error | T-Statistic |
|-------------------------|---------------------|--------------------------------|------------------------|------------|-------------|
| <b>First Model</b>      | <b>Constant</b>     | -----                          | 0.000                  | 0.245      | 22.614      |
|                         | Creative Accounting | -0.409                         | 0.000                  | 0.136      | -5.058      |
| <b>Second Model</b>     | <b>Constant</b>     | -----                          | 0.000                  | 0.409      | 11.586      |
|                         | Creative Accounting | -0.321                         | 0.000                  | 0.148      | -3.661      |
|                         | Audit Committee     | 0.211                          | 0.017                  | 0.057      | 2.415       |
| <b>First Model</b>      |                     | <b>Second Model</b>            |                        |            |             |
| Adjusted R <sup>2</sup> | 0.161               | Adjusted R <sup>2</sup>        | 0.192                  |            |             |
| R <sup>2</sup>          | 0.168               | R <sup>2</sup>                 | 0.204                  |            |             |
| R                       | 0.409               | R                              | 0.452                  |            |             |
| F-Statistic             | 25.580              | F-Statistic                    | 16.191                 |            |             |
| Sig. F-Statistic        | 0.000               | Sig. F-Statistic               | 0.000                  |            |             |
|                         |                     | <b>Δ R<sup>2</sup> = 0.037</b> |                        |            |             |
|                         |                     | <b>Δ F = 5.830</b>             | <b>Sig Δ F = 0.017</b> |            |             |

Table No. (6) shows the test results of the second study model through the hierarchical regression of the independent study variables represented by the combined creative accounting practices (creative accounting practices in the financial position statement, creative accounting practices in the income statement, creative accounting practices in the equity statement, and creative accounting practices in the cash flow statement) and their impact on the dependent variable (the credibility of financial reports of commercial banks) in the presence of the moderating variable (audit committees). It is noted from the table that the calculated F value after the inclusion of the moderating variable reached (16.191), which is significant at a level of (0.05), indicating that the proposed first study model is suitable, and the results of the hierarchical analysis showed that the value of (Sig. F-statistic), which reached (0.0000), is

less than the significant level of the test which is (5%), so the second main null hypothesis must be rejected and the alternative hypothesis accepted, meaning that there is a statistically significant effect of audit committees in moderating the relationship between creative accounting practices and the credibility of financial reports of commercial banks. It should be noted that the inclusion of the moderating variable in the study model changed the suitability level of the proposed model, where the value of the change between the models reached (Δ F = 5.830), which is significant at a level of (0.05), where it reached (Sig Δ F = 0.000), in addition to a small improvement in the explanatory power of the model after the inclusion of the moderating variable with a value of (Δ R<sup>2</sup> = 0.037), it can therefore be judged that the audit committees moderated the relationship between creative accounting



practices and the credibility of financial reports of commercial banks.

The results also showed that the value of Adjusted R-Square reached (0.192), which means that only about 19.2% of fluctuations that occur in the credibility of financial reports of commercial banks can be explained by changes in creative accounting practices in the presence of audit committees as a moderating variable.

It is also noted from Table No. (6) that the value of the Coefficient determining the type and size of the impact, which was before the inclusion of the moderating variable (-0.409) and which indicates that there is a statistically negative impact of creative accounting practices on financial decisions, and the value of the Coefficient after the inclusion of audit committees was (-0.321 = Coefficient), indicating a decrease in the negative impact while maintaining a statistical significance for the impact of creative accounting practices on the credibility of financial reports of commercial banks, where the significance value reached (Sig. T = 0.000) at the significant level of (5%), and this indicates that the moderating variable moderated the relationship.

## **5. Discussing findings and recommendations**

### **5-1 Study Results**

Based on the previous results in the previous chapter, the most important results can be summarized as follows:

1. There is a statistically significant impact of creative accounting practices on the credibility of financial reports of commercial banks. According to the researcher, this is due to the primary objective of financial reports, which is to communicate economic information

about the resources and financial performance of the company to all relevant parties. Since the preparation of financial reports is a very important issue affecting the decision-making process of different individuals, corporate bodies, investors and policy makers, the integrity and fairness of these financial statements are essential in order to serve all parties fairly, and therefore any manipulation of accounting data leads to reports containing misleading data, which justifies the important impact of creative accounting practices on the credibility of financial reports. This finding is similar to the study of Al-Zamili (2008) and the study (2017) of Ismael. The following sub-results fall within this result:

- a. There is a statistically significant impact of creative accounting practices in the financial position statement on the credibility of financial reports of commercial banks.
  - b. There is a statistically significant impact of creative accounting practices in the income statement on the credibility of financial reports of commercial banks.
  - c. There is a statistically significant impact of creative accounting practices in the equity statement on the credibility of financial reports of commercial banks.
  - d. There is a statistically significant impact of creative accounting practices in the cash flow statement on the credibility of financial reports of commercial banks.
2. There is an impact of audit committees in moderating the relationship between creative accounting practices and the credibility of financial reports of commercial banks. According to the

researcher, this is due to the importance of audit committees in banks, through their supervision of the internal audit function, protection of the external auditor, ensuring his independence, assisting him in performing the required tasks and assisting him in obtaining all the necessary information, as well as providing full coordination between the external auditor and the internal auditor, which plays a significant role in reducing the manipulation of financial statements and thus positively affecting the credibility of financial reports. This finding is similar to the study of Abdul Haq and Khaira (2020), the study of Al-Amrawi (2017) and the study of Habis & Al Rawashdeh (2013).

## 5-2 Study recommendations

Based on the findings, the study concluded a set of recommendations, the most important of which are:

1. The study recommends that the administration of Central Bank of Jordan should follow strict policies to discover creative accounting methods in the financial position statement and to develop deterrent laws that provide penalties and sanctions to those who practice such methods.
2. The need for audit committees to monitor the compliance of the bank with the Securities Act, the regulations, instructions and decisions issued by it.
3. The need for audit committees to recommend the boards of directors on matters related to external audit procedures and the work of external auditors.
4. The managements of Jordanian commercial banks listed on Amman Stock Exchange should present the information contained in the financial

statements in a credible manner that will enable them to re-evaluate the previous and subsequent events in the bank for the benefit of the administration, investors and related persons.

5. The accounting culture among users of data and financial information should be developed by offering educational programs and organizing discussions for users of financial information explaining the creative accounting practices of some banks and the major developments in the field of auditing and accounting.
6. The departments of Jordanian commercial banks listed on Amman Stock Exchange should create the appropriate conditions to provide credible information in the financial statements that is useful in the decision-making process.
7. The study recommends that research should be conducted on the impact of creative accounting practices on the income tax base of commercial banks listed on Amman Stock Exchange.

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