

## EFFECT OF AUDITORS CULPABILITY ON CREATIVE ACCOUNTING IN NIGERIA

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### Abstract

*This study examines the effects of auditors' culpability on creative accounting in Nigeria. Auditors by virtue of their training, experience, the various Statutory Provisions and Acts relating to companies and professional bodies are expected to be able to uncover unethical accounting practices and bring same to the attention of the management and the regulators for remedial action. Unfortunately, cases of creative accounting practice still abound even with presence of auditors as examiners of books and financial statements of organizations. This study therefore was to examine the various ways in which creative accounting can be carried out in financial reporting; highlight the rationales for statutory auditors that allow creative accounting practices; identify the stance of professional bodies on auditor's misconduct in Nigeria, highlight instances of professional misconducts in Nigeria. The reliability of the instrument (questionnaire) was tested using test-re-test technique in which Spearman Rank Order correlation coefficient was employed for the determination of the relationship. Analysis of Variance (ANOVA) Statistically Technique was used to test the null hypothesis at 0.05 level of significance. The study revealed that the major reason for auditors' involvement in creative accounting practices in Nigeria is self-interest; diversities of professional judgment, hence users of accounting are adversely affected. This study recommends that adoption of International Financial Reporting Standards (IFRS) by all entities will reduce diversities of professional judgment in financial reporting by accountants and auditors.*

**Keywords:** Creative Accounting, Professional Misconducts, Auditors.

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### INTRODUCTION

Creative auditing is a fraudulent financial reporting tool where management deliberately misrepresents financial results in order to mislead investors and other users of published financial reporting. It is considered a universal

phenomenon. Although much is known about the practice of creative accounting in developed countries, practice in Nigeria does not have a good share or widespread knowledge and public opinion. This descriptive empirical study seeks to identify

the opinions and attitudes of various classes of accountants and auditors in Nigeria, who prepare financial statements and their auditors about the events of the creative audit report, including possible measures to limit it. This study shows that the creative audit of companies in Nigeria is long past. It follows the motives behind the practice of pursuing the selfish interests of certain interest groups as a detriment to the common good of the larger society. Measures to limit practice in professional accounting bodies, accounting training institutions,, the government, and the judicial cooperation.

Financial accounting reports are designed to reflect the true and fair financial affairs of an organization and to allow stakeholders and other users of such information to make informed decisions. However, recent accounting methods allow you to choose some policy and expert judgment when deciding on measurement methods, identification criteria, and even the definition of accounting institutions. This selection exercise may involve deliberate disclosure of information and manipulation of accounting figures, which makes the business more profitable than expected (or less profitable for tax purposes), and financially stronger than it is ought to be. This practice misleads consumers of accounting information, which is a threat to corporate investment and growth.

Corporate bankruptcy of most commercial banks in Nigeria; The recent arrests of some bank CEOs by the Economic and Financial Crimes Commission (EFCC) under former CBN Governor Dr. Charles Soludo are also the result of fraudulent financial reporting. This has affected the stability of the financial sector and has negatively affected the economy. In recent years, there has been an increase in the use of creative accounting practices in deposit money banks in Nigeria to attract unscrupulous investors or to gain unfair accounting rewards by entering misleading or misleadingly exaggerated statements about

bank finances. It is clear that the scope of forecasting of financial statements of banks in Nigeria and some other organizations has largely violated all known ethical standards of the accounting and auditing profession. Against this background, the study seeks to provide empirical research on the opinion of experienced staff of some commercial banks, accountants, auditors and some other relevant stakeholders on creative accounting practices in Nigeria.

Previous research on creative accounting, such as Amat, Blake, and Dowds (1999), focused primarily on the impact of creative accounting on investor decisions in the stock market, but did not provide reasons for this practice. Furthermore, the studies are foreign and their findings may not be appropriate for Nigeria due to differences in the environment. Thus, this study is an attempt to fill the existing gap by focusing on the country of Nigeria.

## LITERATURE REVIEW

### Conceptual Framework

To ensure uniformity in the preparation and presentation of financial accounting reports, generally accepted accounting practices (GAAP) maintain International Financial Reporting Standards (IFRS), but in accounting professionals and the business community, It is regulated by the regulatory body of accounting professionals. In Nigeria, this includes the Nigerian Financial Reporting Council (formally the Nigerian Accounting Standards Board). However, the accounting process and regulatory framework set out in Accounting Standards, the Act on Companies and Related Operations (CAMA, 2004), and the Act on Banks and Other Financial Institutions (BOFIA 2007) leaves room for accountant discretion. .. This involves resolving conflicts between competing approaches to how financial events and transaction results are displayed. This flexibility opens up possibilities for

manipulation, deception, and misrepresentation.

However, these activities as negatively practiced by the less scrupulous elements of the accounting profession are popularly referred to as creative accounting. According to Ghosh (2010), Creative accounting is the transformation of accounting figures from what they actually are to what perpetrators desire by taking advantage of the existing rules or ignoring some or all of them. The practices are characterized by excessive compilation and the use of novel ways of characterizing income, assets, or liabilities with the intent to influence readers towards the interpretations which are desired by the authors of the reports Ghosh (2010). According to Ezeani, Ogbonna, Ezemoyih and Okonye, (2012), this result in financial reports that are not all dull, but have all the complication of a novel, hence the term "creative". According to Idris, Kehinde, Ajemunigbohun and Gabriel (2012), while this practice is called creative accounting in UK, it is known as Earnings management in the USA.

Furthermore, they emphasized that terms such as "aggressive" or "innovative" or "cosmetic" or "misleading" accounting are also used to refer to creative accounting. Corporate accounting creativity can occur in at least three different financial market conditions. On the positive side, creative accounting may seem to involve the invention of accounting principles and technologies to recognize changes in the economic, social, political, and business environment. But in practice, the term is generally used in a negative rather than a positive sense, which can be both a blessing and a curse. It is a blessing when something new is created to refine the accounting system and add to the existing body of accounting knowledge. When unethical elements enter the system, creative accounting becomes a curse and is therefore undesirable. However, real world experience

reveals that in most cases it is undesirable to attract investors by presenting an exaggerated, sometimes misleading, and misleading statement of the organization's financial position. For this reason, this accounting system is sometimes referred to as "misleading accounting" and can identify two perspectives of the term. The first recognizes the true changes in corporate accounting practices and the second reflects unwanted window decorations that tend to distort financial information.

This latter view is commonly known as Creative Accounting Waidu and Matis (2012), Kamou, Mutiso and Ngui (2012), combining creative accounting with anyone, or a combination of the following actions: creating data, preparing documents, and cooking. Accounts. Jones (2011) rightly argues that accountants and eaters have the responsibility to maintain the highest standards of ethical conduct in their careers, the public, and the institutions they serve. They must be competent and have the responsibility to maintain confidentiality, integrity, and objectivity.

Therefore, a professional accountant must be sincere, honest, and honest in his approach to professional work. This statement of the International Federation of Accountants (IFAC) applies to all professional accountants and auditors in the course of their professional duties. However, this advice is more important to those who are members of the profession, as it represents the entire profession, not just itself. The name and reputation of a profession depends on the personal qualities of the people in it. Accountants should not allow personal biases or biases to invalidate objectivity. Accountants must maintain impartiality when reporting information in financial statements.

### **Benefits and Effects of Creative Accounting**

The real causes of creative accounting lie in the conflicts of interest among different interest groups.

- i. Managing shareholders' interest is to pay less tax and dividends.
- ii. Investor-shareholders are interested to get more dividends and capital gains.
- iii. Country's tax authorities would like to collect more and more taxes.
- iv. Employees are interested to get better salary and higher profit share.

But creative accounting puts one group or two to advantageous position at the expense of others. Earnings per share (EPS), the only number to which investors often go wrong by paying too much attention, can be "boosted by the stroke of an accountant's creative pen".

There are companies listed on the stock exchange, which show inflated profit and better financial position in their financial statements to attract investors, this creation of accounts just misguides and creates confusion; some companies prospectus may not always depict the reality of the financial positions of the listed companies; processes adopted for created accounting statements may hold out untrue hopes to investors for a shorter period but cannot continue to succeed for a longer period; ultimately, the concerned companies listed in the stock exchange collapse and the investors lose confidence in them and the stock market.

We sought to find out whether financial accounting information users in Nigeria are aware of creative accounting in the private sector of the economy. They carried out their study in Lagos, through field work questionnaire administered on practicing accountants from randomly selected audit firms. They found out that creative accounting has definitely affected information users. Hence in Nigeria it is believed that the practice of creative accounting is constructive to the benefit of the manipulator of accounts.

They also found out that the genuinely positive aspect of the corporation is presented in its fullest proportion to the public, while the area of weakness is played down in reporting in anticipation of correcting the weakness. They further revealed that accounting bases, principles, and processes should be streamlined to reduce diversities of human judgments on accounting issues. A large number of literatures that viewed creative accounting from ethical perspective see it as fraud and therefore a challenge to the accounting profession. A study carried out by Amat, Blake, and Dowds (1999), cited that, "the ethics of creative accounting", showed that accountants accept the ethical challenge that creative accounting raises need to be aware of the scope for both abuse of accounting policy and manipulation of transactions. Two categories of manipulative behavior: macro manipulation that is the lobbying of regulators to persuade them to produce regulations that is more favourable to the interest of the preparers of accounts. They found this to be pronounced in USA. The second one is the micro manipulation where the accounting figures are doctored to produce a bias view at the entity level. They observed this in large number in Spain and Nigeria. Both forms of behavior are morally reprehensible.

Some accounts are therefore prepared to serve the particular group the accountant wishes. Also, if creative accounting is practiced by any organization there is plenty of scope of maneuvering and manipulation of accounting information, such manipulation might have the shareholders, public, the government and any interested party absolutely confused as to what is and what is not real and true in connection with a set of published accounting statements. They also stated that available evidence shows that the practice of creative accounting is global. Ghosh (2010) cited and observed that not a few banks in Nigeria are involved in creative accounting. He found that banks directly lend

to stockbrokers to buy their own shares to sustain demand pressure thus causing continued price rise without corresponding appreciation in underlying values or fundamentals. They found that the major reason for creative accounting practices in banks is to boost market value of shares. They also noted that accounting principles and rules should be streamlined to reduce diversities of professional judgment in financial reporting.

### **Empirical Review**

This study investigates whether there is a link between auditors' attitudes towards creative accounting and their ethical judgment. The auditor also examines the relationship between attitudes and the quality of financial reporting, as well as the perceptions of factors influencing the use of aggressive accounting methods by financial statement makers. The study found that there was a significant relationship between the relevance and reliability of the auditor's reported information and the auditor's attitude towards creative accounting.

Ezeni, (2012) conducted research to determine the importance of audit independence for the role of external auditors in banking regulation and supervision. In addition, the study investigates factors that may threaten the independence of auditors. The study suggests that despite the endorsement of dual roles of reporting accountants and external auditors, the independence of auditors is still questionable, as the roles of auditors and accountants differ, and even external auditors are non-existent. - Perform audit services. As a result, extra care should be taken towards the dual role of external auditors and accountants, and more options should be provided before reporting accountants use the report as a last resort. Furthermore, research suggests that compulsory rotation of auditors can be harmful, and therefore a cost-benefit analysis of compulsory rotation is necessary to implement or leave a decision. Furthermore,

the study suggests that auditors should be held more accountable for the negative consequences of their actions towards third parties. At the end of the study, it is recommended that additional work be done on the responsibility of the auditor.

Rosner (2013) mentioned that accounting manipulation and fraudulent are two similar terms that represent management intent to interfere in the measurement and disclosure of accounting transactions and items of the financial statements, even though the accounting standards do not permit these practices. Rosner also mentioned that earnings manipulation is a studied selection methods of the operating, financing and investing operations. Moreover, he mentioned that such selection of accounting methods and policies are permitted by accounting standards, this selection should be disclosed to users.

Akin and Adeyemi (2010) noted that unless the accountants are imbued with in Nigeria, the socio-economic, political, and cultural environment of high sense of professional standard, ethical conduct and moral integrity. It however, noted that the general opinion has been expressed that the modern day Nigerian accountants are mere tools in the hands of fraudsters and that they simply allow personal interests to override national call to duty. In their quest to keep their jobs, they sometimes prepare three different accounts for the same organization (one for the shareholders, another for the management, and the third for the tax authority). He concluded by observing that the accounting professional bodies that are supposed to, and also claim to be the watch-dogs of their members have not done better. These professional bodies seem to engage in breast beating of erring members who violate professional etiquette, while at the same time claiming to be protecting public interest, committed to accountability and transparency and condemning unethical practices.

### Theoretical Review

Jensen (2012), observed that separation of firm ownership from management is necessary. It is also often credited to the landmark work of Baye and Jansen (2006). They suggested that agency problems will arise in any circumstance where the principal (owners, shareholders) employs the agent (management) to undertake a number of duties on their behalf for a reward. Thus, management acting as agent to the principal owes them a fiduciary duty of care to run the organization in the best interests of the owners for a stipulated reward (Jensen, 2012). However, Jensen argued that conflicts of interest do inevitably exist between the management and owners of businesses in cases where owners are not managers. This is because the theory assumes a model of man (manager) that is self serving, individualistic and opportunistic in nature, who prefers to maximize his own utility functions at the expense of the owners. As a result, the theory is built on the assumption that there is almost always a divergence of objectives between the goals of the management and those of the shareholders. Agency problems may also arise due to moral hazards and adverse selections (Jensen, 2012). Moral hazards refer to a situation where due to imperfections in the contract between the agent and the principal,

management may be opportunistic. Moral hazards tend to happen after the contract, adverse selection may occur both before and after the contract between the principal and the agent (Sung, 2011). Adverse selection refers to the possibility of shareholders hiring agents who do not have the right type and kind of skills that may enable them to deliver expected returns. This may be due to the existence of inherent imperfections in the contracting process (Gomez, 2013).

### METHODOLOGY

Though secondary data, the survey method of research design was adopted in this study. The population of the study comprises 105 Managers and 105 Accountants/Auditors in Lagos and Federal Capital Territory (FCT), through random sampling techniques. Data for the study were collected through questionnaires, which was designed in five response options of Likert-scale (i.e. Strongly Agree (SA), Agree (A), Strongly Disagree (SD), Disagree (D) and Neutral (N)). The questionnaire was administered on experienced Branch Managers/ Assistant Managers and Accountants.

The data collected were analyzed through; Analysis of Variance (ANOVA).

**TABLE 3.1: Data on Auditors' Culpability and Creative Accounting**

No	Question	SA	A	SD	D	N	Total
1	Should stakeholders in a company be able to lay claim against the auditors?	33	35	28	22	14	132
2	Should third party be able to lay claim against the auditor?	19	37	26	35	15	132
3	Auditors' culpability has not reduced creative accounting practices in Nigeria?	23	27	30	36	16	132
4	In the performance of the audit, it is the external auditor's responsibility to form an opinion on any material misstatement discovered.	31	44	21	18	18	132
5	The auditor's role is to ensure that financial statements do not contain any material misstatement.	56	13	30	18	15	132
	<b>Total</b>	<b>162</b>	<b>156</b>	<b>135</b>	<b>129</b>	<b>78</b>	<b>660</b>

Source: Researcher's Data Analysis (2020)

**RESULT AND DISCUSSION**

The hypotheses to be tested using ANOVA is:  
Ho 1: There is no significant relationship between auditors' culpability and creative

accounting in private sector in Nigeria. The summary of the data in table 3.1 is summarized in table 4.1.1 below:

**Table 4.1.1: Summation of Data on Auditors' Culpability and Creative Accounting**

Question	SA	A	SD	D	N	Total
1	33	35	28	22	14	132
2	19	37	26	35	15	132
3	23	27	30	36	16	132
4	31	44	21	18	18	132
5	56	13	30	18	15	132
<b>Total</b>	<b>162</b>	<b>156</b>	<b>135</b>	<b>129</b>	<b>78</b>	<b>660</b>

Source: Researcher's Data Analysis (2020)

The above responses were subjected to analysis of variance (ANOVA) using SPSS (statistical package for social sciences) version

15.0. The result is presented in table 4.1.2 below:

**Table 4.1.2: Analysis of Variance (ANOVA)**

Sources	Sum of Square (SS)	Degree of Freedom (df)	Means Square (Ms)	F (Ratio)	Remark
Variance between the means	881.99	4	220.50	2.4803	Accept
Variance within the means	1778	20	=88.90		Or
<b>Total</b>	<b>2660</b>	<b>24</b>			Reject

Source: Computed from Researcher's Raw Data (2020)

**Table 4.1.3: Descriptive 95% Confidence interval for Mean**

	N	Mean	Standard Deviation	Standard Error
SA	5	32.4	14.381	6.431
A	5	31.2	11.841	5.295
SD	5	27.0	3.742	1.673
D	5	25.8	9.011	4.030
N	5	15.6	1.517	0.678

Source: Computed from Researcher's data analysis (2020)

**Decision:** Since the calculated F-value of 2.4803 is less than the F-tabulated value of 2.87, the null hypothesis is accepted, which means there no significant relationship between auditors' culpability and creative accounting in private sector in Nigeria.

### **Auditors Engaging in Creative Accounting Practices and the Practice of Creative Accounting in Nigeria**

The hypothesis to be tested using ANOVA is: Ho2. There is no significant relationship between the reasons for statutory auditors engaging in creative accounting practices and the practice of creative accounting in Nigeria.

**Table 4.2.1 Data on Auditors Engaging in Creative Accounting**

No	Question	SA	A	SD	D	N	Total
6	The motives for statutory auditors engaging in creative accounting practices have effect on the practices in Nigeria.	60	23	25	14	10	132
7	Auditors' involvement in creative accounting practices is due to their socio-economic benefits.	30	37	34	19	12	132
8	The weakness of the regulatory bodies facilitates the involvement of auditors in creative accounting practices.	28	40	33	20	11	132
9	The changes in the societal norms encourage the practice of creative accounting by auditors.	18	43	33	26	12	132
10	Multiple accounting rules facilitate creative accounting practices.	40	28	20	33	11	132
<b>Total</b>		<b>176</b>	<b>171</b>	<b>145</b>	<b>112</b>	<b>56</b>	<b>660</b>

Source: Field Survey (2020)

The presented data were summarized in table 4.2.2 below:

**Table 4.2.2: Summation of group of Data**

Questions	S.A	A	S.D	D	N	Total
6	60	23	25	14	10	132
7	30	37	34	19	12	132
8	28	40	33	20	11	132
9	18	43	33	26	12	132
10	40	28	20	33	11	132
<b>Total</b>	<b>176</b>	<b>171</b>	<b>145</b>	<b>112</b>	<b>56</b>	<b>660</b>

Source: Field Survey (2020)

The above responses were subjected to Analysis of variance (ANOVA) using SPSS (statistical package for social sciences). The result is presented in table 4.2.3 below:

**Table 4.2.3: Analysis of Variance Table**

Source	Sum of Square (SS)	Degree of Freedom (df)	Means Square (Ms)	F (Ratio)	Remark
Variance between the means	1960.40	4	490.10	5.8850	Reject
Variance within the means	1665.60	20	83.28		
<b>Total</b>	<b>3626</b>	<b>24</b>			

Source: Computed from Researcher's Raw Data (2020)



**Table 4.2.4: Descriptive 95% Confidence interval for Mean**

	N	Mean	Standard Deviation	Standard Error
SA	5	35.20	15.912	7.116
A	5	34.20	8.408	3.760
SD	5	29.00	6.205	2.775
D	5	22.40	7.301	3.265
N	5	11.20	0.837	0.374

Source: Computed from Researcher's data analysis (2020)

**Decision:** Since the calculated F-value of 5.8850 is greater than the F- tabulated value of 3.06, the null hypothesis is rejected, which means there is significant relationship between the reasons for statutory auditors engaging in creative accounting practices and the practice of creative accounting in Nigeria.

### Quality of Auditors' Report and Creative Accounting in Nigeria.

The hypothesis to be tested using ANOVA is:

Ho3: There is no significant relationship between quality of auditors' report and creative accounting in Nigeria.

**Table 4.3.1: Data on Quality of Auditors' Report and Creative Accounting**

No.	Questions	SA	A	SD	D	N	Total
11	Do Creative accounting practices affect the Integrity of the auditors' report?	30	41	24	21	16	132
12	Does impaired auditor's transparency affect the auditors' report?	53	16	27	23	13	132
13	Does compromised due diligence affect the quality of auditors' report?	32	37	29	22	12	132
14	Do Creative accounting practices affect the quality of auditor's report?	37	32	24	27	12	132
15	Do compromised auditor's reports affect the Integrity of the auditors?	41	32	24	21	14	132
	<b>Total</b>	<b>193</b>	<b>158</b>	<b>128</b>	<b>114</b>	<b>67</b>	<b>660</b>

Source: Researcher's Data Analysis (2020)

The above presented data were summarized in Table 4.3.2 below:

**Table 4.3.2: Summation of Group of Data**

Question	S.A	A	SD	D	N	Total
11	30	41	24	21	16	132
12	53	16	27	23	13	132
13	32	37	29	22	12	132
14	37	32	24	27	12	132
15	41	32	24	21	14	132
<b>Total</b>	<b>193</b>	<b>158</b>	<b>128</b>	<b>114</b>	<b>67</b>	<b>660</b>

Source: Researcher's Data Analysis (2020)

The above responses were subjected to ANOVA using SPSS. The result is presented in table 4.2.7 below:

**Table 4.3.3: Analysis of Variance (ANOVA)**

Source	Sum of Square (SS)	Degree of Freedom (df)	Means Square (Ms)	F (Ratio)	Remark
Variance between the means	1792.40	4	448.100	11.9239	Reject
Variance within the means	751.60	20	37.580		
<b>Total</b>	<b>2544.00</b>	<b>24</b>			

Source: Researcher's Data Analysis (2020)

#### 4.3.4: Descriptive of 95% Confidence interval for Mean

	N	Mean	Standard Deviation	Standard Error
SA	5	38.6	9.127	4.082
A	5	31.6	9.503	4.250
D	5	25.6	2.302	1.029
SD	5	22.8	2.490	1.114
N	5	13.4	1.673	0.748

Source: Researcher's Data Analysis (2020)

In testing this hypothesis, responses were subjected to ANOVA using SPSS. The result shows that the F-distribution table resulted to 3.48 at degree of freedom of 4 and 10 with 95% confidence level (0.05 alpha) while, the F-calculated from ANOVA table above shows 3.6863 values.

**Decision:** Since the calculated F-value of 9.8678 is higher than the F- tabulated value of 3.06, the null hypothesis is rejected, which means there is significant relationship between the stance of professional bodies on auditors' misconducts and the practice of creative accounting in Nigeria.

#### Discussion of Findings

In response to the first hypothesis, the researcher undertook a study to observe whether or not there exist any statistical relationship between Auditors' culpability and creative accounting. The F-ratio shows that there is no statistical significant relationship between Auditors' culpability and creative accounting. The finding was in agreement with Jones (2011) that auditors are the favorite whipping boy when a significant misstatement is publicly unveiled.

In response to the second hypothesis, the researcher undertook a study to observe whether or not there exist any statistical relationship between reasons for statutory auditors engaging in creative accounting practices and the practice of creative accounting. The high F -statistical establishes a significant statistical relationship between reasons for statutory auditors engaging in creative accounting practices and the practice of creative accounting. The finding was in line with Otusanya et al (2011) argument that auditor's involvement in anti-social practices (creative accounting inclusive) was due to their pursuit of commercial interest.

For the third hypothesis, the high F -ratio confirms the statistically significant relationship that exists between quality of audit report and creative accounting in Nigeria. The finding claims that, Auditor reputation sullied and clients switch from low audit quality due to act of creative accounting involved by the auditor.

## CONCLUSION AND RECOMMENDATIONS

### Conclusion

The findings of the research study serve as the basis for drawing the following conclusions: Constructive accounting poses a tremendous challenge to the accounting profession when, in the event of extreme negation, the credibility of accounting principles and standards is sought. In general, creative accounting lends itself to fraudulent and undesirable methods. The ethical implications of constructive accounting raise the need for in-depth investigations into possible misuse of accounting policy choices and transactions. This study relates to the multifaceted nature of the ongoing financial crisis, which has deep roots in financial accounting by adopting creative accounting.

We therefore conclude that in the context of this paper, creative bookkeeping refers to bookkeeping techniques, in which financial information is diverted through window decoration and various manipulations, theoretically misrepresenting or maximizing profits in order to present a better financial picture, or masking capital structure and relevant information from existing or potential investors. By the way, it should be noted that misreported financial statements have a significant impact on management and other user decisions. The results showed that the real causes of creative accounting are conflicts of interest between different interest groups. This has led David Schiff (2003) to warn investors in general that counting a company's financial statements in the face is a recipe for disaster.

Therefore, we may conclude that creative accounting in the context of this paper refers to accounting techniques in which financial information is distorted by window-dressing and various manipulations in order to present theoretically, a better financial picture by

either increasing or reducing profit as the case may be, by giving a misleading appearance of capital size or structure and by concealing relevant information from existing or potential investors.

It must be noted that, misreported financial statements significantly affect management and other users' decisions. The finding revealed that real causes of creative accounting lie in the conflicts of interest among different interest groups. This has led David Schiff (2003) to warn investors in general that taking a company's financial statements at face value can be a recipe for disaster.

### Recommendations

It was recommended that effective rules and regulation of accounting practice should be put in place within the organization to forestall the incidence of Creative Accounting.

- i. Adopting of the set of global financial reporting standards known as international financial reporting standards (IFRS) must be embraced by all operators of accounts and those performing accounting duties.
- ii. Greater emphasis on enforcement of code of corporate governance and ethics. Proper enforcement of changes in accounting regulations, ethical standard government code by regulatory authorities will prevent companies from employing misleading reporting practices of creative accounting.
- iii. Regulatory agencies should draft rules that minimize the use of judgment estimation and prediction in the treatment of certain entries in financial reporting example extra ordinary items.
- iv. Auditors should have a part to play in identifying and reporting dishonest estimates, and they should be given the responsibility of detecting and reporting

- all instances of creative accounting practices.
- v. Accountants should uphold high ethical standards and maintain integrity in all their professional dealings. They should not allow personal prejudice or bias to override the principle of objectivity, transparency and due diligence in the profession.
- vi. Cases of financial scandals in local and multinational companies should be properly investigated by regulatory authorities and accounting bodies and their disciplinary committees in order to obtain all the needed facts, and use them as a basis for prosecution of offenders.
- vii. It was equally revealed that one of the best ways to prevent the practice of Creative Accounting is to enforce both preventive as well as strong enough punitive measures on those that engage in Creative Accounting practice.

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