



COLLEGE OF GRADUATE STUDIES
MBA PROGRAM

CREATIVE ACCOUNTING PRACTICES IN PALESTINE
(AN EXPLORATORY STUDY)

ممارسات المحاسبة الابداعية في فلسطين
(دراسة استكشافية)

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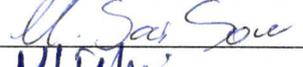
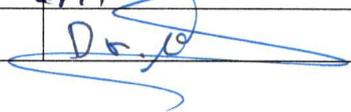
(دراسة استكشافية)

MASTER THESIS

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Dedication

- * To the soul of my daughter HASSNAH who left us early, we are and we always would be submitted to God's will.
- * To the soul of my father RUSHDI who left me early. I wished every moment that he would be on my side.
- * To the soul of my husband's mother HASNA who entered my life with a nice touch and left leaving special memories.

I dedicate this work.

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Thank you.

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ABSTRACT

Palestinian economy is in line with the movement of global economic development, where the growing number companies of all types and forms is emerging. This necessitates an integrated accounting system accompanied by a regulatory system consisting of internal and external auditing.

With the expansion of the communications network and globalization, some may resort to imitating some cases where some procedures have been followed to manipulate financial statements to satisfy certain stakeholders. There have been many cases in different ways of creative accounting, which necessitates scientific and practical studies. The researcher conducted a study aimed at exploring the reality of creative accounting and its relationship to internal and external auditing in Palestine

The researcher has carried out this study using an exploratory approach by interviewing the study sample constituting of 51 people working in the financial sector. The sample is composed of external auditors, internal auditors, accountants, financial managers, bank credit officer and tax assessor "evaluators". Based on their answers, the researcher answered the study questions, reaching several findings and recommendations.

The results showed that the interviewees regard creative accounting as fraudulent practice, which is used mainly to avoid paying taxes. It emphasized the existence of an internal control system and the positive role played by external auditors in the assurance and the improvement of financial statements reliability. The results also showed that there exist a confidence among professionals about the role of the state in regulating the financial sector in Palestine. But it emerged in a distinctive manner that the interviewees were concerned about some items of the financial statements and their vulnerability to fraudulent practices. They see that there is a need for a more comprehensive policy of the state in tracking creative accounting and fraud..

The main recommendations were destined to main actors: first, to academics and universities, they are encouraged to conduct more research and to establish a tight cooperation with professionals to work on the subject. Second, to PACPA, they should held more training and continuous education within members about new challenges facing auditing, especially about fraud detection, and improving ethics and ontology. Finally, to Palestinian government, to follow a more pedagogic way to inform people about tax system use and benefits.

الملخص

يتمشى الاقتصاد الفلسطيني مع حركة التطور الاقتصادي العالمي حيث تزيد اعداد المشاريع والشركات بأنواعها مما يستدعي وجود نظام محاسبي متكامل ويليه نظام رقابي يتكون من التدقيق بشقيه الداخلي والخارجي.

ومع توسع شبكة الاتصالات و العولمة قد يلجأ البعض الى تقليد بعض الحالات التي تم فيها اتباع بعض الاجراءات التي تهدف الى التلاعب بالقوائم المالية لإرضاء جهات معينة فظهرت حالات كثيرة وبطرق مختلفة للمحاسبة الابداعية مما يقتضي وجود دراسات علمية وعملية، لذا قامت الباحثة بعمل دراسة تهدف الى استكشاف واقع المحاسبة الابداعية وعلاقة ذلك بنظام التدقيق الداخلي و الخارجي في فلسطين.

قامت الباحثة بعمل هذه الدراسة مستخدمة المنهج الاستكشافي عن طريق اجراء مقابلات لجمع اراء عينة الدراسة المكونه من 51 شخصا يعملون في القطاع المالي حيث استهدفت مجموعة من المدققين الخارجيين والمدققين الداخليين والمحاسبين والمدراء الماليين وموظفي الائتمان بالبنوك وفاحصي الضريبة وبناء على اجاباتهم قامت الباحثة بالإجابة على اسئلة الدراسة و الخروج بمجموعه من النتائج والتوصيات.

خلصت الدراسة الى مجموعة من النتائج أهمها اعتبار المحاسبة الإبداعية كشكل من اشكال الاحتيال، وانها تستخدم أساسا لتجنب دفع الضرائب. وأكدت على وجود نظام للرقابة الداخلية، وعلى وجود دور إيجابي يقوم به المراجعون الخارجيون في ضمان موثوقية البيانات المالية. اظهرت النتائج ايضا ان هنالك ثقة من جانب المهنيين في دور الدولة في تنظيم القطاع المالي في فلسطين. لكن ظهر بطريقة مثيرة للاهتمام ان افراد العينة كانوا يخوفون من ببعض بنود القوائم المالية المعرضه للتلاعب ويرون ان هنالك حاجة إلى سياسة أكثر شمولية من الدوله في تعقب وموجهه التلاعب والاختلاس.

تم تقديم التوصيات إلى الجهات الفاعلة الرئيسية: أولاً، للأكاديميين والجامعات ، بتشجيعهم على إجراء بحث حول هذا الموضوع والتعاون مع المهنيين في هذا المجال من اجل البحث والتدريب. ثانياً ، بالنسبة لجمعية مدققي الحسابات القانونيين الفلسطينيين،توصي بالتصدي للتحديات الجديدة التي تواجه مهنة التدقيق ، خاصةً فيما يتعلق بالكشف عن الاحتيال بإجراء برامج تدريبية وإدخال منهج مناسب يهدف لتحسين الأخلاقيات والأنطولوجيا. وأخيراً ، إلى الحكومة الفلسطينية ، بتوصيتها باتباع طريقة اكثر تنقيفية لإلقاء الضوء على استخدامات عوائد النظام الضريبي وفوائده.

CHAPTER ONE

GENERAL FRAMEWORK OF RESEARCH

1.1 An Overview

The establishment of Palestinian Authority was marked by many challenges; none the least is the Israeli occupation. Pressures were put on the economic development of the country and the Paris protocol of 1994 was highly criticized; originally, the Protocol on Economic Relations was meant to remain in force for an interim period of five years, unfortunately it is always in application.

Essentially, the Protocol integrated the Palestinian economy into the Israeli one through a customs union, with Israel to control all borders, Imports from and exports to third countries. On the tax side of the protocol, Israel transfers the collected tax revenue for goods and services sold in Israel and intended for consumption in the Occupied Territories This made from tax collections and grants the most important sources in the economy. In accordance, pressure has been put on transparency by granted countries. The Palestinian authority has to make up for deficiency by more cuts and tax raising Daraghma & Iriqat (2015)..

As many neighbor countries Palestinian authority has opted for International Financial reporting standards (IFRS) and International Auditing Standards (IAS) as framework.. Other countries explain this adoption by more harmonized and understandable data for foreign investors Barbu and Baker (2010), which least likely to be the case in Palestine as the financial market is small and hard to attract investors because of restrictions and surveillance imposed by Israelis, as mentioned previously Abed (2015).

Fraud is certainly is highly criticized and have negative connotation in the society, but when it comes to creative accounting acts, some feels more comfortable avoiding paying taxes; giving the fact that the culture of participating to local environment through fiscal enabling is new to the culture, and some sees in creative accounting practices an intelligent way to react to external pressure Kassem (2012). For example this justifies combating low-cost dumping of imported goods, Israelis disloyal competition. Another point is behavioral; for instance these practices are not always

seen as fraud by certain societies, and the ego of some accountants or managers may lead to give legitimacy to such practices.

That is why Palestinian authority has founded Palestian Association of Certified Public Accountants (PACPA), (in 1995, under the license of the Ministry of Interior in accordance with the provisions of the Charities Act and civil bodies modified in 2000) to try to increase the awareness of society of the importance of auditing for all the stakeholders, and to restore a climate of confidence between the different interested parties. After 2002 with Enron and WorldCom accent has been put on the internal control and changes in corporate governance specially audit committee and the external auditor's interaction with different stakeholders. The recommendations of Sarbanes-Oxley have been integrated in different regulatory bodies, within which the application of Committee of Sponsoring Organizationa of Treadway Comission (COSO) principles and Fraud detection and encountering.

In simple structured enterprises accountant is at the same time the financial manager, the internal auditor, tax reconciler, and where sometimes financial statement preparation is done exclusively by auditors, a comprehensive methodology is necessary. This absence of duties separation favourizes fraud, and weakens internal control, leaving the door for more tax avoidance. Palestinian economic tissue is simple and family based, in-depth discovering its dimensions is something that was disregarded in favor of more confirmatory analysis. The researcher do think that an exploratory study probing on the subject of Fraud and Creative Accounting is very appropriate.

1.2 Research Problem statement

Corporate financial scandals all over the world have given an increasing attention to new means to be deployed in the financial reporting mechanism (accounting, auditing, internal auditing, corporate governance, SOX, COSO...), since an amelioration in this mechanism tends to offer effective practices to reduce risks and financial crisis, and to propose an equitable way of wealth sharing and faithful presentation.

Issues regarding economic resources are an inherent weakness in many developing countries including Palestine. Better understanding of taxes and fiscal system in general will enables efficient and effective functioning environment and it also ensures high levels of accountability. The problem of the study is about exploring the phenomena of fraud and financial statements manipulation through the exploration for their motives

and how the interaction among different stakeholders may affect this phenomenon especially from the point of view of practitioners. The sample of our study is has been selected to allow better understanding of the study population;

The study population consists of the following categories:

1. External auditors in the city of Hebron (18 persons interviewed)
2. Internal auditors in the city of Hebron (two persons interviewed)
3. Financial managers operating in companies in the city of Hebron (three persons interviewed)
4. Accountants in several sectors and sizes companies in the city of Hebron (11 persons interviewed)
5. Tax evaluators in the city of Hebron (10 persons interviewed)
6. Credit officers at banks in the city of Hebron (7 persons interviewed)

In addition, the problem of study tends to interrogate whether there is a viability of applying international standards of auditing and accounting in Palestine, and whether it is necessary to work to find alternative solutions, such as an internal or national code of conduct, to improve Palestinian financial accounting reliability.

Finally, the problem of study discusses the role of the Palestinian government and its institutions to face such cases of fraud. It implies auditors and accountants need to sufficient scientific, professional and ethical assistance to confront them and allow them carrying out their mission in best conditions.

1.3 Research importance:

The importance of this research is that it treats a subject of borderline, between what is forbidden and permitted, what has a negative effect and what is of non-effect, what is ethical and what is in the order of fraud. All this investigation must be conducted in an exploratory spirit, from the point of view of different professionals, which gives this subject a new look.

The importance of this research can be classified as for its importance for different parties:

- **For professionals:** this research must allow a better understanding of the subject of financial statements misstatement, wither due to fraud or to other borderline practices. This understanding could help bring suitable course of action, or at least give awareness and responsiveness.
- **For academics:** this subject is influenced by fad; it is more treated in time of financial scandals. Academics need to develop a pertinent agenda to deal with such a subject especially in emergent economies like the case of Palestine.
- **For government:** an understanding of reasons and origins of tax paying avoidance allow the government to propose suitable formation and awareness plan for different stakeholders in need for training, regulations, accompaniment to bring out solutions for this phenomenon of voluntary misstatement of financial statements.
- **For the researcher:** the researcher has exercised accounting in Palestine for twelve years; in public and private sector. The subject is something that personally has found present in several forms in real life and think that this research will allow a real and a valuable understanding of what scientific research is about, and how it might be carry out to offer an enriching experience both for herself and for her society.

1.4 Research objectives:

1. Exploring the reality of creative accounting practices as a borderline method of manipulation of financial statements in Palestine.
2. New regards to the reality of external auditing in Palestine and to the challenges facing it in terms of conduction, interaction with different parties.
3. Recognize the influence of external auditor selection, remuneration, continuous education... on the credibility and reliability of financial statements.
4. To shed light on the nature and importance of internal auditing.
5. Identify the objectives and incentives that drive stakeholders to consent or participate in manipulating the financial statements (more profit, less tax, loan negotiation...)

6. Show what role could be played by PACPA and tax authorities in order to increase the awareness and find suitable mechanism to detect and correct irregularities.

1.5 Research questions

QUESTION 1: Is there in Palestine manipulation of financial statements and use of creative accounting?

QUESTION 2: do Misappropriation and manipulation of financial statements in Palestine aim to reduce political costs of organizations and avoid paying taxes?

QUESTION 3: Is there any statistical significance of the effect of the internal audit on the quality of the financial statements?

QUESTION 4: Is there significant effect of applying internal auditing code of conduct on the quality of external auditing reliability?

QUESTION 5: Is there any statistical evidence that confirms the reliability of the financial statements based on the level of confidence in the quality of the external audit?

QUESTION 6: Is the quality of external audit fundamentally affected by the inadequacy of international auditing standards in the Palestinian case?

QUESTION 7: There are no statistical evidences that auditors are well aware and have the willingness to tackle window-dressing practices

QUESTION 8: Does coercive effort to shed light on creative accounting is quasi absent in Palestine?

1.6 Interrogations

The research has also some secondary general questions and interrogations that this research wish to answer to such as:

What is the difference between fraud and creative accounting? What are the other forms of financial statements manipulation? What motivate financial statements manipulation? What is the specificity of Palestinian case? What are the limits of the legislative bodies and texts? What is the relationship between external and internal auditor and how it would influence fraud tackling? Who are the stakeholders that push for misstatement? Do legislative and economic environment influence the financial reporting process? Who is responsible for preventive and corrective actions against financial statements' misstatement?

These questions must find answers throughout the different steps of this research and the overall understanding that this exploratory research wish to accomplish; this includes the literature reviews, the interviews and that findings discussion.

1.7 Scope of Study

Although this study wishes to contribute significantly to the field of accounting and auditing regulation in Palestine, it has the following limits:

- This study is built as exploratory and wishes to take the point of view of certain professionals based on their role in detecting or dealing with creative accounting and fraud in Palestine. The scope is limited by the choice of the sample which was chosen to integrate the maximum of functions, experiences, profile... but it is generalization still hard to assure due to the existence of other types of stakeholders, for instance financial statement stockholders, investors and other external parties.
- Another limit of the sampling is that 51 persons has been interviewed, the generalization of their answer is not in the scope of our work, giving the exploratory nature of the study.
- This research work want to give an image of fraud and borderline practices in Palestine, the interviews were administrated in Hebron. Nevertheless, the nature of the answers must not be different from or reflect specific aspects than any other city in Palestine.

- This subject, Fraud and borderline practices in Palestine, is evolutionary over the time, what has been done in this research is punctual and reflects something that might progress overtime, for instance the regulatory environment, and the level of awareness that the researcher wish will grow over time.
- Finally, many studies might come to contribute to its learning, weather through an investigation of a more specific aspect of the study or through another methodology, wither qualitative or quantitative.

CHAPTER TWO

THEORETICAL FRAMEWORK AND RELATED LITERATURE REVIEW

2.1 Introduction

From the perspective of a financial analyst, Smith (1992) considers that the highest part of the economic growth of the '80s is "due" to creative accounting rather to a real economic growth.

While being creative implies positive connotation, **Creative Accounting** has been surprisingly related to negative fraudulent misrepresentation practices. The term '**creative accounting**' can be defined as a practice that involves a transformation of financial accounts using accounting choices, estimates and other practices allowed by accounting regulation ' (Amat & Gowthorpe,2004; Rajput,2014). This term however is normally associated with **Window Dressing**; window dressing is actions taken to improve the appearance of a company's financial statements, it might be illegal, or not. The term **Income Management** has been recognized as an attempt by managers to influence financial statements by using specific accounting methods to achieve some self-interested goal (Barghathi et al, 2017).

Creative accounting is particularly common when a business has a large number of shareholders, so that management can give the appearance of a well-run company to investors who probably do not have much day-to-day contact with the business. It may also be used when a company wants to impress a lender in order to qualify for a loan.

Consistent among these precedent definitions is the notion of intentional manipulation of reported numbers by management Goel (2016). This distinction between wrong numbers innocently prepared, and equally wrong numbers prepared less innocently, has long bedeviled those involved with financial reporting, Statement standard on auditing N°53 describes when accounting error means an innocent mistake while accounting irregularity mean a deliberate one:

Errors may involve:

- Mistakes in gathering or processing accounting data from which financial statements are prepared
- Incorrect accounting estimates arising from oversight or misinterpretation of facts
- Mistakes in the application of accounting principles relating to amount, classification, manner of presentation, or disclosure.

Irregularities may involve:

- Manipulation, falsification, or alteration of accounting records or supporting documents from which financial statements are prepared
- Misrepresentation or intentional omission of events, transactions, or other information
- Significant intentional misapplication of accounting principles relating to amounts, classification manner of presentation, or disclosure

In this research work the researcher will use preferably “Fraud” and “Creative-Accounting” to evoke these two main aspects. The other terms used in literature might affect the reader understanding for the subject. This has as a goal to harmonize terms and to keep us concentrating on these two aspects.

This study will concentrate on both intentional and unintentional accounting numbers manipulating. As an exploratory study, whereas studies on this subject area still descriptive and lack of critical spirit, this study aims at both bringing back a critical perspective to its dimensions and exploring the reasons and application of these kind of accounting manipulation from the point of view of actors implicated and the accounting profession (accountants, financial managers, external auditors...).

Being exploratory does not mean for instance limiting this study to enumeration, the real goal is to establish an explanatory model that wishes to explain this concept and its practices within Palestinian economy.

This lead us to formulate the first research question:

QUESTION 1: Is there in Palestine manipulation of financial statements and use of creative accounting?

2.2 Literature Review on Streams on Creative Accounting

In this section the researcher will try to identify the main works that have addressed and tackled the question of creative accounting. These main streams are not exclusive or arbitrarily selected; they have been advanced in our arguments to treat our research questions about the origin of creative accounting and the main actors drawn in its generation (use and encountering) of creative accounting.

2.2.1 The origin of financial fraud and its relation with creative accounting: first attempt to propose a framework

Imagining the difference between these two terminologies might give the impression that fraud is bad and creative accounting is intelligent and legitimate. This section will try to discover the literature on the relationship between them and how this relation is too tight and relative.

The researcher can notice some evident look like arguments about creative accounting and fraud. Why do executives do it? To get rich quick? Because they view themselves as above the law? Because they are dishonest and utterly lacking a moral compass?

Strangely, it seems that the level of individual honesty typically has little to do with it. The perpetrators of financial fraud are often decent and honest individuals who have lived decent and honest lives. They have done well in school and earned college and graduate degrees (Young, 2013).

Even before Enron, Treadway Commission in October 1987 has seen since then that aggressive target of financial performance will lead to fraud. But the unexpected collapse of Enron and the bewildering demise of Arthur Andersen in the aftermath sent shock waves through the accounting profession worldwide. The impact of Enron's collapse was greater because it was closely followed by the bankruptcy of WorldCom in the USA, while scandals and collapses involving companies such as HIH Insurance in Australia, Parmalat in Italy, and Royal Ahold in the Netherlands and Equitable Life Assurance Society in the UK showed that this was not just a US phenomenon. "Enronitis" became a label associated with highly questionable accounting and auditing practices. There was a considerable interest in the Enron scandal and its consequences within the critical accounting literature (see, for instance, the special issue of *Critical Perspectives on Accounting* entitled "Enron.Con" – O'Connell, (2004).

Table (2.1) Examples of Recent Fraudulent Financial Reporting

Company	Nature of the Fraud
Enron (2001)	<p>Considered by many to be one of the most significant frauds of the early 2000s, Enron was initially a utility company that management converted into an energy trading company. When energy trades went bad, management covered up financial problems by:</p> <ul style="list-style-type: none"> • Shifting debt to off-balance sheet special entities • Recognizing revenue on impaired assets by selling them to special-purpose entities that they controlled • Engaging in round-tripping trades, which are trades that eventually found the assets returning to Enron after initially recognizing sales and profits • Numerous other related-party transactions
WorldCom (2002)	<p>In what would end in one of the largest bankruptcies of all time, WorldCom was the second-largest U.S. long distance phone company (after AT&T). The company pursued an aggressive growth strategy of acquiring other telecommunications companies. When the financial results of these acquisitions faltered, management decreased expenses and increased revenues through the following:</p> <ul style="list-style-type: none"> • Recorded bartered transactions as sales; for example, trading the right to use lines in one part of the world to similar rights to another part of the world • Used restructuring reserves established through acquisitions to decrease expenses; for example, over-accrued reserves upon acquiring a company and later “releasing” those reserves to decrease expenses of future periods • Capitalized line costs (rentals paid to other phone companies) rather than expensing them as would have been appropriate
Parmalat (2003)	<p>Parmalat is an Italian multinational company specializing in milk, fruit juice, and other food products. In the late 1990s, the company acquired various international subsidiaries and funded the acquisitions with debt. Ultimately, the fraud led to the largest bankruptcy in Europe. The company siphoned cash from subsidiaries</p>

	<p>through a complex scheme that:</p> <ul style="list-style-type: none"> • Overstated cash and included the false recording of cash ostensibly held at major banks • Understated debt by entering into complex transactions with off-shore subsidiaries in tax-haven places such as countries in the Caribbean
HealthSouth (2003)	<p>HealthSouth runs the largest group of inpatient rehabilitation hospitals in the U.S. Top management directed company employees to grossly exaggerate earnings in order to meet shareholder and analyst expectations. A wide variety of schemes were used including:</p> <ul style="list-style-type: none"> • Billing group psychiatric sessions as individual sessions; for example, with ten people in a group session, billing for ten individual sessions instead of one group session • Using adjusted journal entries to both reduce expenses and enhance revenues
Dell (2005)	<p>Dell is a U.S. computer maker that ultimately was forced to pay the SEC \$100 million to settle fraud charges against the company. The fraud included various disclosure inaccuracies, including:</p> <ul style="list-style-type: none"> • Misleading investors by miscategorizing large payments from Intel, which were essentially • bribes to ensure that Dell would not use central processing units manufactured by Intel's main rival • Misrepresenting the Intel payments as involving operations, enabling the company to meet its earnings targets • Failing to disclose the true reason for the company's profitability declines that occurred after Intel refused to continue making the payments
Koss Corp. (2009)	<p>Koss Corporation is a U.S. headphone manufacturer. The CFO misappropriated approximately \$31 of funds for her personal use during a period of time in which reported earnings was \$26 million. Ultimately, she had to pay \$34 million in restitution and is currently serving an 11-year prison sentence. She perpetrated the fraud through a process consisting of:</p>

	<ul style="list-style-type: none"> • Intimidation of lower-level employees • Sole approval for large expenditures made through American Express and other corporate credit cards • Lack of supervisory review and approval by CEO • Lack of audit committee oversight • Lack of an effective internal audit function
Olympus (2011)	<p>Olympus is a large multinational manufacturer involved in the medical, life science, industrial, and imaging industries. Its top level executives and boards:</p> <ul style="list-style-type: none"> • Concealed large losses related to securities investments for over two decades • Switched audit firms during the period because company management clashed with their external auditor over accounting issues • Committed fraud, which was eventually revealed when the company's president was fired after discovering and objecting to accounting irregularities
Longtop Financial Technologies (2011)	<p>Longtop was the first Chinese software company to be listed on the NYSE and was the leading software development provider in the financial services industry in that country. This fraud highlighted the risks that investors face when investing their money in Chinese companies with weak corporate governance. The company:</p> <ul style="list-style-type: none"> • Exaggerated profit margins by shifting staffing expenses to another entity • Recorded fake cash to cover up fake revenue that had been previously recognized • Threatened the audit firm personnel and tried to physically retain the audit firm's • workpapers when the auditors uncovered the fraud

Source: Johnstone et al , 2013

We can also add to this list several scandals happened in 2018, Theranos scandal in medical sector for example in copying other companies technologies and overestimating investments. KPMG in South Africa were involved in corruption giving VBS mutual fund clean report months before collapse, this leads to threatens for KPMG to continue operations in South Africa. This is exactly what happened in OMAN in 2018 after KPMG suspended from doing new work for a year after finding major financial and accounting irregularities at some listed companies.

On this aspect, Salustro and Leburn (2000) would say: “Crisis periods are actually trials for enterprises; affecting their cash flow and generating risks, that accounting doesn’t deal with in a flawless manner. Therefore, managers are tempted to resort to ingenious, more often questionable procedures, for refining accounts presentation.”

Authors like Stolowy and Breton (2003) are among the few interested in the subject of creative accounting daring to suggest a theoretical framework for the understanding of the accounting manipulation practices. Their seminal article on the subject has come in after the scandals of (2001-2002) to enable a more comprehensive analysis to this subject.

The fundamental principle which their theoretical framework is based on is the following: the aim of publishing financial information is that to reduce the costs of the enterprise projects financing. The practical means to operate these transfers are based on the results and the balance between the debts and share capital. Consequently, the purpose of accounting data management is to change these two measures: the variation of the result per share and the relation liabilities/assets.

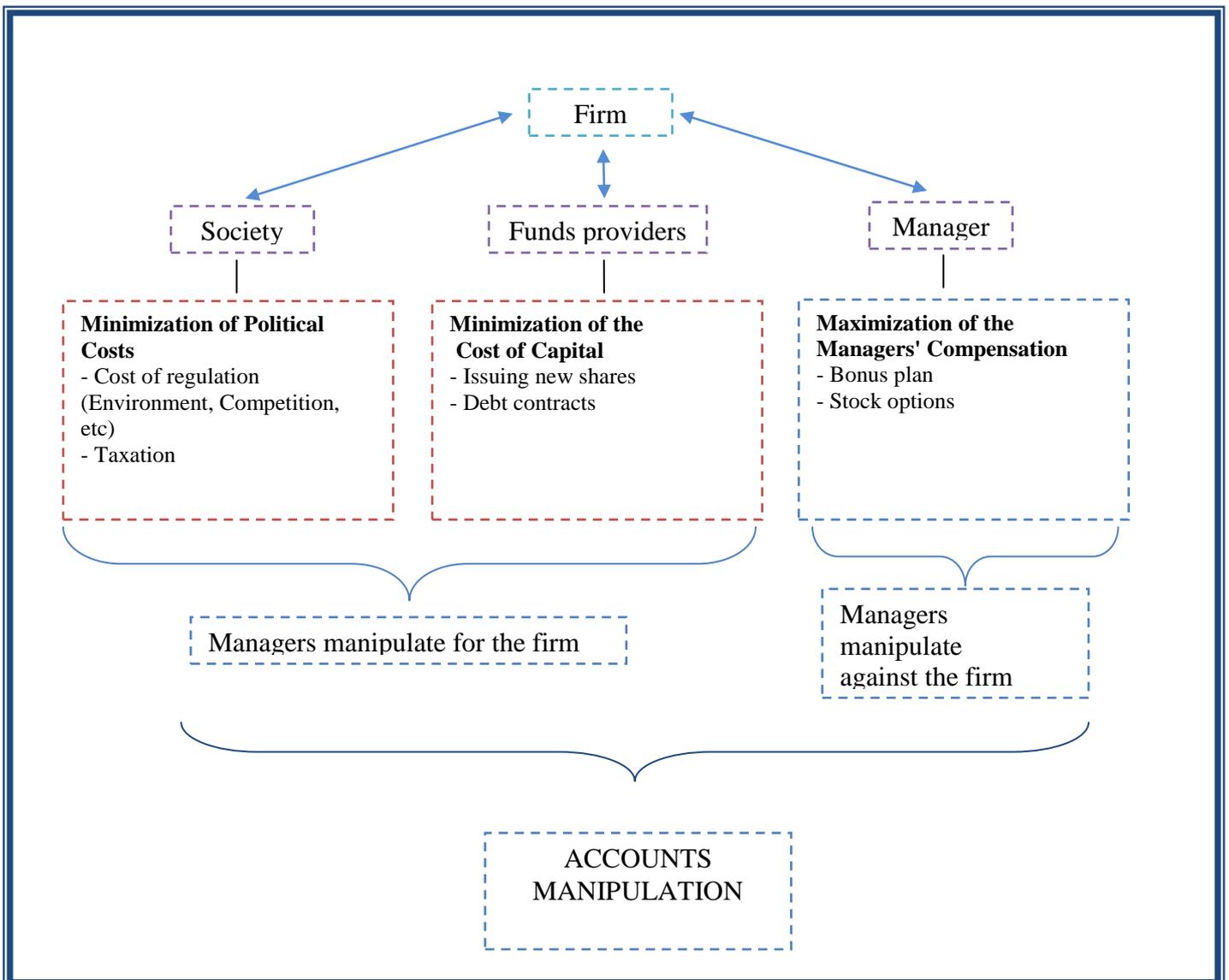
The result per share can be changed in two ways: either adding or subtracting certain profits or expenses (which represents the change of the net result) or transferring a column from the upstream or the downstream of the results serving as a computation base of the result per share (which is the management through classification). Regarding the relation between liabilities and assets, this can be modified by increasing the benefit or hiding certain financings with the help of engagements generating devices, off the balance sheet Stolowy and Breton (2003).

This might be motivated by the managers well to increase their wealth (approaching the exercise of their stock options for example), this is referred to her as the *maximization of managers’ compensation*. The Other type of manipulation is the *minimization of*

cost of capital by making the profit of the company look more attractive which will have influence on the ability of issuing more shares or on the borrowing policy of the company.

The third specific manipulation is when accounting is used to *minimize the cost of political costs*. This related to the practice of reducing company profitability in order to pay less tax. It is common in non-market financing oriented companies.

Figure 2.1 Represents Fraud and creative accounting practices.



Source: (Stolowy & Breton, 2004:7)

In Palestine these three types of practices seem to be a part of wealth presentation of companies; in a more family business environment the third type of manipulation is to our expectation is more common. The companies tend to avoid declaring the most of their benefits to avoid paying tax.

Evidently other types of management manipulation might occur also. This logically will tend to exist in simple partnerships to privilege one partner over another. In corporations this kind of businesses might push toward managerial fraudulent actions.

The third type based on capital granting is to discover. Reassessing the reliability of financial statements for third party financial institutions might be an indicator about this trustworthiness and an indirect valuable measure for our study.

This lead as to formulate the second research question:

QUESTION 2: do Misappropriation and manipulation of financial statements in Palestine aim to reduce political costs of organizations and avoid paying taxes?

But the financial statements are supposed to be audited and verified by auditors and tax evaluators if auditing is not obligatory. Why should we still ask questions about their reliability and decencies? This is what the researcher will tackle in next section.

2.2.2 Why control needs control?!

Auditors' role is to ensure that financial statements are within acceptable accounting guidelines. As already mentioned, a firm has some flexibility to use accounting methods that will temporarily inflate earnings. Yet, some firms have stretched this flexibility beyond the spirit in which it was intended. Auditors should impose some degree of control in these cases.

this seems to be so ideal oriented, prior to 2002 scandals auditors seemed to consider creative accounting practices more than normal, look to a questionnaire surveys of auditors' views on creative accounting have been conducted in the UK (Naser 1993) and Spain (Amat and Blake 1996) prior to scandals. Intentionally we want to look to researches before Enron to examin how creative accounting was seen. Table 1 shows a substantial minority of auditors in each country taking a tolerant view of creative accounting.

Tables 2.2: Results of surveys of auditors' attitudes to creative accounting

Agreement with the proposition	UK %	Spain %
The use of creative accounting is a legitimate business tool	36	31
Creative accounting is a problem that can never be solved	91	38

Source: taken from Naser (1993) and Amat and Blake (1996)

However, external auditors, like executives, are tempted to serve their own interests. Their compensation may be dependent on the amount of revenue that they generate. If they disallow some forms of creative accounting that may inflate a client's earnings, the client may hire someone else in the future.

The role of auditor as informers (whistle blower) is questioned. Claims to serving the public interest by mandating additional disclosures by auditors is fully consistent with the criticisms that traditional audit reports are overly technical, lack depth and are more concerned with the limitation of auditor liability than the provision of decision-useful information to stakeholders based on (Solomon, 2009). From a rational economic perspective, added controls over the attest function are part of the process of improving audit quality, this leaves a clear need for more interpretive studies that high-light complex social and institutional forces at work on auditing Maroun and Solomon (2014).

SOX (Sarbanes-Oxley act), in 2002, was considered to be a corner stone on how to improve auditor independency and how to report internal control as a leverage of auditor control over the audit process. Table 2 represents the major aspects and sections that summarized the SOX commitments:

Table 2.3: Sox main titles and sections

The legislation came into force in 2002 and introduced major changes to the regulation of financial practice and corporate governance. The Sarbanes-Oxley Act is arranged into eleven titles. As far as compliance is concerned, the most important sections within these are often considered to be 302, 401, 404, 409, 802 and 906
Title II – Auditor deals with strengthening the

Independence	independence of companies' external auditors by addressing key aspects of the auditor's relationship with the company. it imposes new restrictions on non-audit services provided to audit clients	
Title III – Corporate Responsibility	governs how public company audit committees review, certify, and sign off on audit reports	Section 302 Periodic statutory financial reports are to include information on financial statements and internal control
Title IV – Enhanced Financial Disclosures	Corporations enjoyed some leeway in how they reported off-balance sheet arrangements and contractual commitments, as well as in the application of measures related to Generally Accepted Accounting Principles (GAAP).	Section 401 Financial statements are published in accordance with GAAP and include all material off-balance sheet liabilities, obligations or transactions. Section 404 Issuers are required to publish information in their annual reports concerning the scope and adequacy of the internal control structure and procedures for financial reporting.
Title V – Analyst Conflicts of Interest	This Title addresses the conflict of interest between analysts and brokers/dealers	It has been recently amended considering that financial analysts had a significant

	for whom they do analysis or prepare reports.	responsibility for the 2008 financial crisis.
Title VIII – Corporate and Criminal Fraud Accountability	makes manipulation of documents, destruction of important documents, or the willful creation of wrongful documentation a felony. It also makes the act of impeding federal investigations a crime. Punishments for infraction can be significant fines, prison time (up to 20 years), or both.	Section 409 Issuers are required to disclose to the public, on an urgent basis, information on material changes in their financial condition or operations.
Title XI – Corporate Fraud and Accountability	provides additional (to Title VIII) guidance with respect to rules and punishment regarding fraudulent corporate activities. It authorizes the SEC to freeze remuneration or other forms of payments that may be payable to violators of the rules, pending investigation of the charges.	

Source: Author based on SOX website

In the same spirit, the Financial Security Act (La Loi sur La Sécurité Financière) of 1 August 2003 in France was promulgated to respond to the crisis of confidence born overseas and relayed in France by cases such as Vivendi. The two laws agree on the need to improve the transparency of financial reporting. They are based on the observation that the reliability of this information depends on the reliability of internal

control. The responsibility of executives and top management and external auditors on the elaboration of an efficient internal control will therefore extend (Cappelletti, 2006).

We can look to Jordan as a closed country that has been always a motor of change and a source of inspiration of Palestine since the west bank was under the Jordanian administration and still have influence on Palestine. The Jordanian Association of Certified Public Accountants (JACPA) has invited the Palestinian CPA to participate in the annual congress that was entitled the role of auditors in fraud detection in 2013.

Jordan is an IASB member bodies through Jordanian (JACPA). Moreover, Jordan was one of the IASC board members over the period 1988-1995 with aspiration to attract major foreign investment (Al-Shiab, 2008). IFRS is mandatory in Jordan since 1998 for public companies; its use is recommended for other companies. The most significant achievement for the JACPA was the recommendation for adoption of IFRS, which took effect from January 1990.

AL-Shiab brings the attention to the fact that it has been argued that IFRS are not appropriate for all developing countries because of their differences socially, culturally and politically relying on (Briston, 1978; Samuels and Oliga, 1982; Perera, 1985). However, all of these studies investigated countries that were making the radical change from communistic to capitalistic economies. In spite of the non-significant results on the cost of capital in Jordan, the author still thinks that adopting IFRS and following up with proper disclosure procedures will reduce the cost of capital within developing markets.

The Jordanian CPA has invited the Palestinian' CPA to participate in the annual congress that was entitled the role of auditors in fraud detection in 2013. This testifies that our subject is in the heart of the interest of professionals bodies in both countries.

The studies about auditing profession in Palestine are so limited, yet (Jarrar,2016) makes an interesting review of literature. He states that (Tabara and Ungureanu, 2012) show that the corporate governance implies a cycle that extends from the steering and monitoring role of the board, to the administrative and operational executives and the role of internal and external auditors' certification. (Al-Jabali et al, 2011) shows that the regulatory controls are in force and the major role in the process is played by internal auditor. (Zuelv and Jawhar, 2007) explores the relationship between the internal control

elements and the corporate governance. Their results show corporate governance requires adopting the internal control elements by the financial organizations.

The Arab Society of Certified Accountants (ASCA, 2001, p. 227) defines the internal audit as “an internal function of the department established to reflex the activity of internal independently in order to establish administrative control, including accounting control evaluate matching system with the requirements of the department or to work on the proper use of resources in order to achieve maximum production efficiency”. This is why a more in depth investigation of internal auditing in the process of fraud detection and elimination, if possible, all kinds of window-dressing.

The exploratory investigation study the researcher want to lead must give more details on these aspects.

2.2.3 Internal auditing role in the external auditing detection and the informing role (whistle blowing)

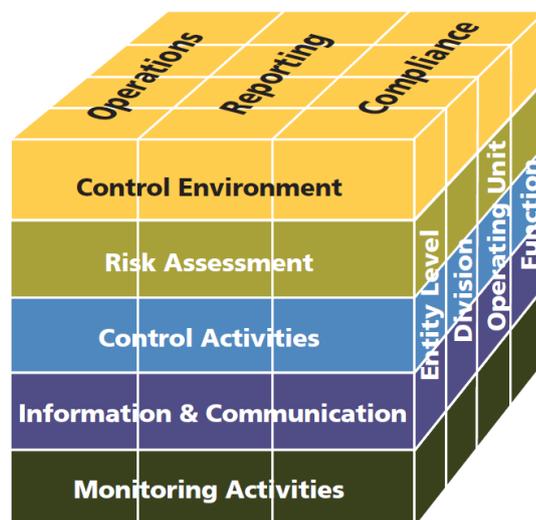
The establishment of the Committee of Sponsoring Organizations of the Treadway Commission (COSO) internal control framework in 1992 was considered a major event in the internal audit community (Giroux and Cassell, 2011). For the first time, management was provided with a unified approach for the evaluation of internal control systems which included five control components: (1) control environment, (2) risk assessment, (3) control activities, (4) information and communication, and (5) monitoring.

The Sarbanes Oxley Act of 2002 (SOX) shifted the internal audit focus to compliance consistent with the new regulatory regime (Hass et al, 2009). Under Section 404 of the Sarbanes Oxley Act, management must evaluate and report on the effectiveness of internal control (United States Government Printing Office, 2002). In Final Rule 33-8238 the United States Securities and Exchange Commission (SEC) defines internal control as being limited to “The subset of internal controls addressed in the COSO Report that pertains to financial reporting objectives,” and the SEC explicitly designates the COSO framework as satisfying regulatory criteria for SOX evaluation of company internal control over financial reporting (ICFR) (United States Securities, 2003).

However, the putting in action of these recommendations needs a real adaptation from both internal and external auditors and cooperation between them. That's why IAS 5 Standard explains that external auditors may use work performed by internal auditors that provides evidence about effectiveness of internal controls over financial reporting as a way to reduce external auditor work load like recommended by (Public Company Accounting Oversight Board). Nevertheless, they still regret neither use of the COSO internal control framework nor structured SOX audit programs are mandatory.

A major revision of the COSO internal control framework became available in May 2013. The revised framework includes a more in-depth discussion of fraud, now one of the enumerated principles of risk assessment. Although fraud is certainly considered important in risk assessment for ICFR, the original COSO framework addressed all risk similarly and did not single out fraud risk in particular. It is beyond the scope of this work to detail the new COSO framework, but figure 2.2 and table 2.4 present a summary of the new cube concept.

Figure 2.2: COSO cube



Source: McNally (2013) COSO and SOX compliance

Table 2.4: The 17 internal control principles by internal control component as presented in COSO's 2013 Framework

<p>CONTROL ENVIRONMENT</p> <ol style="list-style-type: none"> 1. Demonstrates commitment to integrity and ethical values 2. Exercises oversight responsibility 3. Establishes structure, authority, and responsibility 4. Demonstrates commitment to competence 5. Enforces accountability
<p>RISK ASSESSMENT</p> <ol style="list-style-type: none"> 6. Specifies suitable objectives 7. Identifies and analyzes risk 8. Assesses fraud risk 9. Identifies and analyzes significant change
<p>CONTROL ACTIVITIES</p> <ol style="list-style-type: none"> 10. Selects and develops control activities 11. Selects and develops general controls over technology 12. Deploys through policies and procedures
<p>INFORMATION & COMMUNICATION</p> <ol style="list-style-type: none"> 13. Uses relevant information 14. Communicates internally 15. Communicates externally
<p>MONITORING</p> <ol style="list-style-type: none"> 16. Conducts ongoing and/or separate evaluations 17. Evaluates and communicates deficiencies

Source: McNally (2013) COSO and SOX compliance

The research the researcher want to conduct wants to investigate the real role played by internal auditor is Palestine and the degree to which what happens in USA and over the world has influenced its deployment, if any, in Palestine.

The researcher ask two research questions on internal audit effect on financial statement reliance and on the auditing quality.

Question 3: Is there any evidence of the effect of internal audit or internal control systems on the quality of the financial statements?

Question 4: Is there significant effect of applying internal auditing code of conduct on the quality of external auditing reliability?

But the heart of the verification of financial statements is the external audit itself. Should the audit process be able to detect and prevent the falsification of financial statement? Are auditors well paid to assure their mission with neutrality? Is the local

internal legal system suitable for their need? This is what the researcher will address in the following section.

2.2.4 The external auditing environment: reducing the asymmetry of information dilemma

Studying the effectiveness of external auditing of financial statement impose several precautions that surround the auditing process (Role of the board of directors, the implication of internal auditing, the accountant position in the hierarchy...) These first category is referred to as **intra-organizational factors**.

However, the study of the auditing operational require also to **inter-organizational** analysis, specially, the relationship between auditing firms and the legislative bodies.

The Sarbanes Oxley Act includes several provisions aimed at increasing audit committee effectiveness. According to (Rupley et al, 2011) to shed light on characteristics of audit committee' post-SOX, existing research has yet to provide a comprehensive description of the extent to which audit committee effectiveness features. The focus was mostly on the independence of committee members and the improvement of their level of expertise. Audit committee resources include access to management and to both internal and external auditors. At the same spirit, He et al (2017) question the social relationship ties between external auditors and audit committee members; they concluded that this relationship may leads to undermine the audit quality and leads to unjustified increase in auditor remuneration.

On the other hand some researchers found positive relationship between audit committee and their role in observing and bringing solutions; Alkababji (2015) for instance has found that the committee in Palestinian banks combats money laundry and play a positive role in evaluating the internal control systems and supporting the internal and external auditing.

This imply that a look to the real functioning of board of directors in Palestine is more than necessary in order to detect the level of expertise and independency the member has, and if any, the existence of an audit committee within the members.

Another question that the researcher must emphasis here is the quality of the relationship between legislative bodies and the presence of clear and comprehensive standards. The International Standards on Auditing (IAS) is supposed to be the

standards applying to Palestine. The researcher tend to summarize them as follow Table 2.5, the researcher try to respect the auditing cycle philosophy illustrated in figure 2.3:

Table 2.5: Main IAS's related to audit performance and fraud detection

<p>ISA 210,220,230</p>	<p>Agreeing Terms of the Audit Engagement, Quality Control for an Audit Audit Documentation</p>	<p>enable an experienced auditor to understand i) the nature, timing and extent of the audit procedures ii) the results and evidence obtained and iii) how significant matters have been dealt with</p>
<p>IAS 250,260,265</p>	<p>Consideration of Laws and Regulations in an Audit of Financial Statements Communication with Those Charged with Governance Communicating Deficiencies in Internal Control to Those Charged with Governance and Management</p>	<p>Where the auditor encounters significant difficulty during the course of an audit, the auditor is required to notify such significant difficulties to the appropriate level of management, or those charged with governance</p>
<p>IAS 310,315,320,330</p>	<p>Planning an Audit of Financial Statements Identifying and assessing</p>	<p>to plan the audit so that it will be performed in an effective manner</p>

	<p>the risk of material misstatement through understanding the entity and its environment</p> <p>Materiality in planning and performing an audit</p>	<p>ISA 315 sets out the rules for identifying risks</p> <p>i.e. What can go wrong</p> <p>ISA 330 explains what you must do in response to these risks</p> <p>i.e. What are you going to do about it?</p>
IAS 240	<p>The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements</p> <p>- to identify and assess risks of material misstatements due to fraud - to obtain sufficient appropriate audit evidence regarding the assessed risks - to respond appropriately to fraud or suspected fraud during the audit</p>	<p>the auditor shall</p> <ol style="list-style-type: none"> 1) maintain professional scepticism 2) have discussion among the engagement team 3) perform risk assessment procedures and related activities 4) identify and assess risks of material misstatements due to fraud 5) respond to assessed risks of material misstatements due to fraud 6) evaluate audit evidence 7) obtain written representations 8) communicate to management and those charged with governance.

<p style="text-align: center;">IAS 500,505,510,540,530,570</p>	<p>Audit Evidence</p> <p>External Confirmations</p> <p>Audit Sampling</p> <p>Auditing Accounting</p> <p>Estimates, Including Fair Value Accounting</p> <p>Estimates, and Related Disclosures</p> <p>Going Concern</p>	<p>Objective =</p> <p>To design and perform audit procedures in such a way as to enable the auditor to obtain sufficient appropriate audit evidence to be able to draw reasonable conclusions on which to base the auditor's opinion</p>
<p style="text-align: center;">IAS 700 (amended)</p>	<p>New report</p>	

Source: Author based on Collings 2014

Figure 2.3 The Auditing Cycle of IAS



Source: (Collings, 2014)

This shows a big challenge over the practice of Palestinian auditors because the auditing of fair value of items demands an active market. The IAS 13 treats fair value and give guidance on its application. In USA, the Securities and Exchange Commission (SEC) held a roundtable discussion regarding fair value accounting and auditing standards. The issues discussed included:

1. The usefulness of fair value accounting to investors.
2. Potential market behavior effects from fair value accounting.

3. Practical experience and potential challenges in applying fair value accounting standards.

4. Possible improvements to the current standards.

5. Experience with auditors providing assurance regarding fair value accounting.

The complexity and the extreme subtlety that these items demand, (specially the audit on fair value) were subject of many discussions in most developed countries. One could ask the question about the suitability of such standards for Palestine and the usefulness of fair value measurement for its accounting. Friedmann et al; 2008 compared its usefulness from the point of view of different stakeholders (Creditors, investors), they reached a conclusion that investors think fair value provides investors with the most current and relevant information of any accounting method. Auditors on the other hand are especially challenged in determining fair values in particularly regarding key inputs and assumptions. Auditors and corporations would like more guidance on applying fair value accounting.

If this is true in USA market, it should be more appropriate to give real assistance for conducting their work. Harasheh and Nijim (2010) precise that the part of institutional investors in listed companies in Palestinian market; As of April 27, 2008, totals 53 % which represents 1,639.6 million USD. Does this amount justify preparing financial statements according to IFRS?

Alkababji (2016), concludes in his study of fair value (IAS 13) application and Palestinian publicly traded companies, he has used a fair value disclosure index, he has found significant differences in levels of disclosures on fair value measurements; the size of the company, its sector of operation and the type of auditors being the explanatory factors.

Shaheen (2010) concludes that the perception of users that reported information, which is available, is neither adequate nor relevant to investment decisions. In particular, relevant information was not sufficient, as companies listed did not comply with minimum disclosure requirements of international standards. In addition, it demonstrated the incredibility and timeliness of information, which leads to a lack of information, being impounded into prices consistent with Al-Fayyumi (2003) results.

This requires the availability of information at high degree of objectivity and accuracy (Zayoud and Keteem 2007) according to (shaheen,2010, p.288).

In Jordan, (Abu-Nassar and Rutherford 1996) study to discover the view of external users of annual corporate reports., finding that bank loan officers are the heavyweight users of the annual reports in Jordan, while individual shareholders and academics where found to be the least.

Over the years, IAS 39 has been subject to a fair amount of criticism, this has lead to his replacement with IFRS9 applicable by January first 2018. IAS 39 requires that most of the financial assets and liabilities should be recognized on the balance sheet at a fair value. This caused the European Union to adopt IAS 39 after excluding certain sections from it, thus causing a major obstacle in its convergence with IFRS and a problem for auditors in terms of what particular financial reporting standards to refer to in the auditor's report (Pacter, 2005). It seems problems with IAS 39 has not yet got over as Hartmann et al (2018) using an institutional approach has reached a conclusion that solution to such problems like derivative instruments valuation could not be simply addressed by detailed application is IFRS 9, but more faithful representation itself becomes a contextually bound concept, which can only be defined within an institutional logic ,In the case of Jordan while the vast majority of Jordanian banks use the services of Jordanian audit firms associated with international audit firms, especially those associated with Ernst & Young and Deloitte. Al-Khadash and Abdullatif (2009) concluded finds that financial performance of a bank is generally very significantly affected by valuing financial instruments at fair values. It also finds that there is a positive and extremely high value of Earnings Per Share (EPS) when implementing the fair values in evaluating the financial instruments.

This led us to formulate two research questions

Question 5: Is there any evidence confirming the reliability on financial statements based on the level of confidence in the quality of the external audit?

QUESTION 6: Is the quality of external audit fundamentally affected by the inadequacy of international auditing standards in the Palestinian case to respond to fraud and creative accounting?

Kilgore et al., (2014) cited definition of audit quality that is the auditor's ability to discover and report a breach or misstatement in the accounting system or financial statements. They report that the literature provides two approaches to test for audit

quality; the first focuses on the audit process outcome e.g. errors made by the auditor resulting in an inappropriate audit opinion and/or deficient financial statements, while The second approach assesses audit quality from an ex-ante perspective e.g. firm size, litigation experience, auditor reputation, auditor tenure, non-audit services, audit structure, and industry specialization.

The researcher will leave the debate on the relevance of IFRS accounting principles for a farther section, in the following section the researcher will concentrate more on literature on the nature of fraud and creative accounting practices.

2.3 Fraudulent And Creative Accounting Practices In Literature: Who Is First Crisis Or Fraud?

The researcher have mentioned earlier the fact that creative accounting tell the early millennium was considered a legitimate, clever practice. (Yadav, 2013) try to group some if its synonyms in different countries in Table 2.6 relaying on (Mulford & Comiskey, 2002)

Table 2.6: Different visions of accounting manipulation related to creative accounting

Label	Definition
Creative Accounting Practices	Any and all steps used to play the financial numbers game, including the aggressive choice and application of accounting principles, fraudulent financial reporting, and any steps taken toward earnings management or income smoothing
Aggressive Accounting	A forceful and international choice and application of accounting principles done in an effort to achieve desired results, typically higher current earnings, whether the practices followed are in accordance

	with GAAP or not
Earnings Management	The active manipulation of earnings toward a predetermined target, which may be set by management, a forecast made by analysts, or an amount that is consistent with a smoother, more sustainable earnings stream
Income Smoothing	A form of earnings management designed to remove peaks and valleys from a normal earnings series, including steps to reduce and "store" profits during good years for use during slower years
Fraudulent Financial Reporting	International misstatements or omissions of amounts or disclosures in financial statements, done to deceive financial statement users, that are determined to be fraudulent by an administrative, civil, or criminal proceeding

Source: (Yadav, 2013:182) based on (Mulford and Comiskey, 2002)

Stolowy and Breton (2000) described that creative accounting is a concept dealt by professions:

- i. Creative Accounting in a professional perspective: The motivation which they understood is what investors want to see, than what actually was to mislead them.
- ii. Creative Accounting in an Academic Perspective: creative accounting also entered in academic literature, in the U.K. under the label of window dressing. Manipulations were widely spread and have been dramatic effects on the understanding of risk and return potential of the firms far from efficient market hypotheses.
- iii. Creative Accounting and Creativity: creative accounting, as it is dealt with in a perspective, almost nothing to do with creativity. It is more likely to relate with accounting alternative than creativity.

Examples of some main known creative accounting practices are presented in the next table:

Table 2.7: Some Creative Accounting Practices

<p>Tangible assets: “subjective depreciation”</p>	<p>Management estimates that recoverable value is lower than net accounting assets are considered impaired for difference. The result will be affected by recording a depreciation expenses.</p>
<p>Goodwill</p>	<p>Goodwill capitalization and depreciation during its useful life have influence on the outcome of further coming year</p>
<p>Depreciation</p>	<p>Different method of depreciation has different impact on outcome change in methods or estimation is also highly used</p>
<p>Inventories</p>	<p>The under estimation or over estimation of stock finally has an impact not only on the financial statement of current year but also on the following year. The rule of the least of cost and market or cost and net realizable value is so confusing</p>
<p>Provisions for liabilities and charges</p>	<p>Establishment of provisions in those years where the profit results lead to decrease, while the resumption of the provisions in the income year in which the registers deficit increase leads to the result.</p>
<p>Construction contracts</p>	<p>Under the completed contracts, the result will be</p>

	recognized after the completion of contract, while in percentage of completion definitive result will be staggered over time switching from one method to another method also impact on profit and loss account
Fair value estimation	Arriving at fair value pose serious problems on some assets specially of financial assets evaluation over IFRS 9
Impairment and revalorization	Applying impairment test or tests of recovery imply future cash flow estimates that might create volatility from year to your specially that IFRS envisage reducing as well as increasing the value with corresponding gain and loss
Special industries R&D	Pharmaceutical and high technology industries engage he amount of R&D and the judgement on their feasibility is a critical point in their revenue recognition model
Banking sector risk assessment	The applicability of Bal II and Bal III is questionable and the recourse of risky investments is highly recurrent in this sector

Source: Author

Salustro and Leburn (2000) cited by Balaciu et al (2009) predicted even before “Enronitis” that “Crisis periods are actually trials for enterprises; affecting their cash flow and generating risks, that accounting doesn’t deal with in a flawless manner. Therefore, managers are tempted to resort to ingenious, more often questionable procedures, for refining accounts presentation”. At this occasion Stolowy and Breton (2003) proposed what could be qualified as a pivotal work on creative accounting trying to propose a conceptual framework that addresses the main research to that date on the subject. This figure 2.4 summarize the literature review and shows areas for further research.

The researcher still believe that this work results and areas of interest for future work are still relevant. Especially in the Palestinian, where the case is an exploratory study

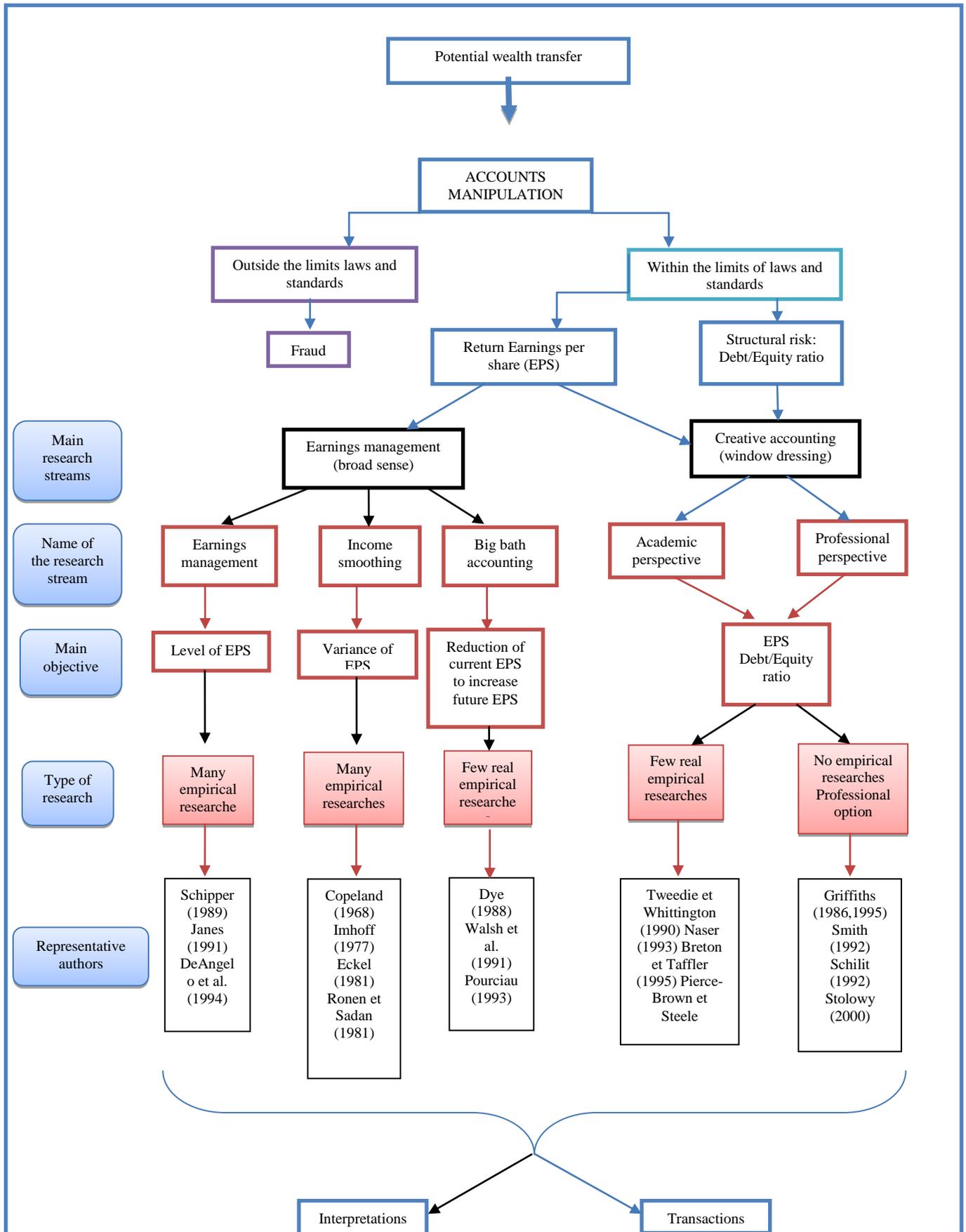
may benefit from the point of view of practitioners over all these areas of study. This also comforts our will to mainly stress the creative accounting practices and to shed lights at the same time to other relevant practices like earning smoothing, window-dressing, fraudulent earning ...

This led us to formulate two research questions regarding the awareness and the willingness to tackle the problem of creative accounting practices:

QUESTION 7: Do you think there is clear evidence that auditors are well aware and have the willingness to tackle creative accounting practices?

Question 8: Does coercive effort to shed light on creative accounting is quasi absent in Palestine?

Figure 2.4: Main research on Fraud and creative accounting



Source: Stolowy, and Breton (2004)

2.4 Theorizing fraud and creative accounting

Trying to theorize in accounting is not just a question of bringing numbers into some forced managerial theories. It is more a need to put accounting in its management field (Planning, Controlling, Processing ...). Accounting is not about a simple production of numbers, but it is about how this numbers can accomplish managerial missions, and how to allow all stakeholders to take decisions, and to reach equilibrium between forces in the organizations field, and to stabilize the participants in the process.

This is why the researcher will try to explore several theories' framework in order to choose what is more suitable for our analysis. The idea is to try to build a new framework based on these theories to be able to better embrace fraud and creative-accounting practices in Palestine.

2.4.1 *Fraud & creative accounting: beyond the simplest use of agency relationship*

If we want to well define corporate governance according to the widely cited cornerstone' work of Berle and Means (1932), the initial idea was to apprehend the consequences of the separation of (ownership / decision) that had occurred in large companies' management delegation in terms of economic efficiency. They were pioneers to wish to have more entrepreneurship and a position in favor of a stakeholder approached of governance, or even social responsibility of the company.

The function of governance is to frame the decisions of managers in order to improve the economic efficiency of the company from a partnership perspective. Whilst, according to agency theory 'the firm is a legal fabric which serves as a focus for a complex process in which the conflicting objectives of individuals... are brought into equilibrium within a framework of contractual relations.' (Jensen and Meckling, 1976). This major work of Jensen and Meckiling raises the question of the way by which conflicting interests come into congruence to press for figures manipulation in a comprehensive framework of production of creative accounting practices.

In 2009, each authority issued its own code of good corporate governance. While the PCMA's "Code of Corporate Governance in Palestine" applies to all firms with securities listed on the Palestine Stock Exchange (PSE), the PMA's "Corporate Governance Code for Banks" applies to the banking sector. The two codes are largely based on international standards Hassan & Hijazi (2015).

The relevant elements in the PCMA code include the following: Voluntary Formation of A Company Audit Committee

1. The code requires the board of directors in public shareholding firms to have between five and eleven members.
2. The code recommends having two board directors as independent members.
3. The code recommends that the board director not be involved in the firm's executive functions to maintain the distribution of authority and responsibility as well as to ensure better accountability.
4. The code requires shareholders to select the external auditors during their annual meeting based on the recommendation from the board of directors and the AC and to approve their fees.

Our research aims to clarify this framework by detecting and trying to understand the relation between actors within and outside the enterprise. We expect this relationship to be complex and conflictuel, that's why the main actors under analysis would be accountants, financial managers and auditors within organization field in which they operate.

Within the agency framework, it is both logical and inescapable that management behavior will be self-serving. Agency can, therefore, provide a solid framework for the understanding of creative accounting behavior. However, it may provide an incomplete theoretical basis for explaining or predicting management behavior. Earnings management studies are predominantly based on the assumption that managers have opportunistic behavior Ghazali et al (2015). Therefore, from the agency perspective monitoring managers is considered a necessity.

This work scope is not to propose a new system of governance for Palestinian companies. Not to pretend to significantly make improvement to theories of governance. The goal here is to question the usefulness of their theories and developments in order to better understand the role of main actors (government, auditors, managers...) in the production of financial statements and the potential of improving them by modifying the set of relationships.

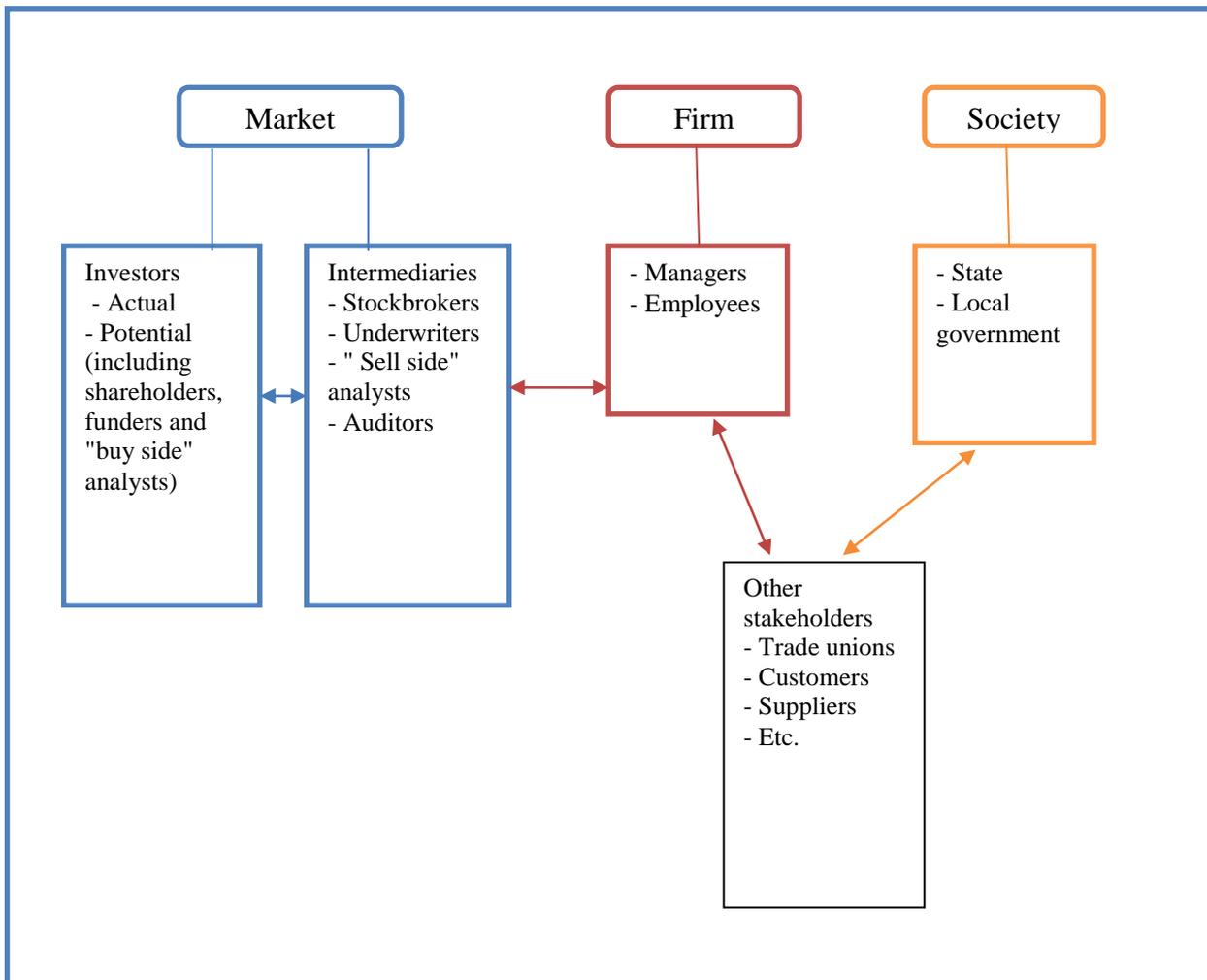
Privious research suggests that firms with high residual agency losses attempt to mitigate these costs by engaging in monitoring activities through a board or audit

committee as part of an internal corporate governance mechanism (for detailed study on agency costs history and evolution look to (Shah,2015) for example).

Elisabeta and Beatrice (2010) they comment on agency theory in the field of creative accounting. It relates to the conflicts of interests between users of accountancy information.

Stolowy, and Breton (2004) tried to simplify the relationship between the different stakeholders engaged in accounting manipulation strategy.

Figure 2.5 Actors in accounting manipulation strategy



Source: Stolowy, H., and Breton, G. (2004)

They have analyzed what every party can gain or lose in this, as to our point of view, simplified relationship in table 2.8

Table 2.8: What every party can gain or loss in a manipulated accounting environment

Players	Gains	Losses
Managers	Reducing the cost of capital Keeping their job Managing their remuneration Respect the debts covenants Official examination Minimization of income tax Gain tax advantage Improve relations with creditors, employees and investors Avoid political costs	The job and reputation
Existing shareholders	Increase the market value of their bonds Controlling employees claims	Wealth transfer to the actual Shareholders
Existing bondholders	Increase the market value of their bonds Controlling employees claims	Wealth transfer to the actual Shareholders
Employees	Keeping their jobs Increase the remuneration	Their job from an unexpected Bankruptcy
Suppliers	Keeping their client	Some money following an unexpected bankruptcy
Clients	Continuous services Warranty respected	Services interrupted Warranties not honored

State	Tax to collect Jobs for people	No more tax to collect Unemployed people to provide for
Bankers	Repayment of the loan	Some money following an unexpected bankruptcy
Society	Keeping the job Production of wealth	Jobs lost and resources wasted

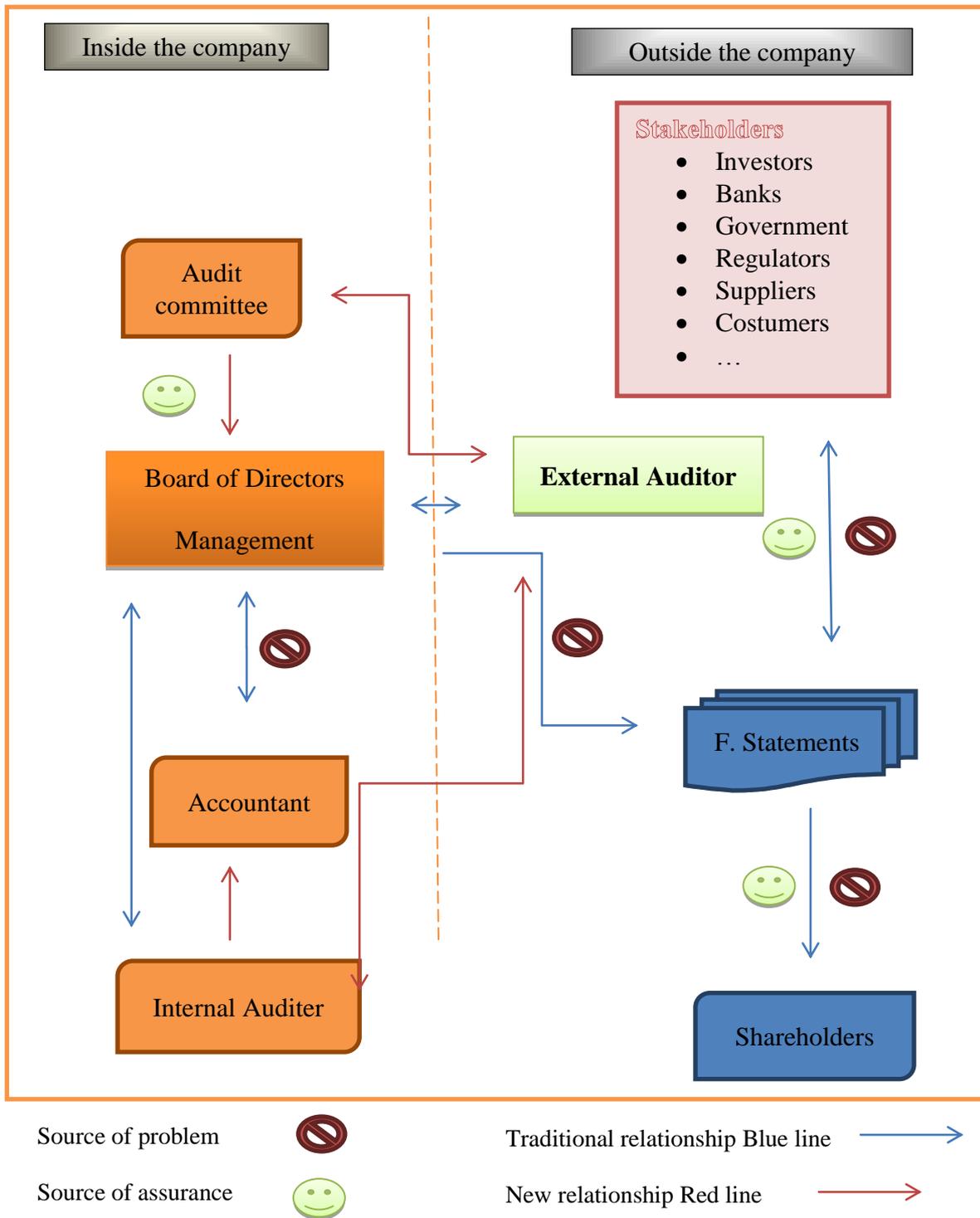
Source: Stolowy, H., and Breton, G. (2004)

Managers' purpose is to reduce the cost of capital, to satisfy the external demand of existing shareholders, to increase their own remuneration, to decrease the overall risk of the firm, or to avoid violating the debt covenant or incurring political capital costs. Concerning the auditors, two contradictory goals can be seen: on the one hand they want to satisfy the client and, on the other hand they want to avoid excessive risk from third parties.

Palestinian system of governance is somehow different, yet few research has been done in this area. For instance Daraghma and Alsinawi (2010) has questioned the adaptability of the legal framework for the listed companies in Palestine Securities Exchange (PSE) which is the Jordanian company act # 12 that issued in 1964 for the Palestinian investment environment. However, under the agency costs hypothesis, a low equity/asset ratio [capital structure] reduces the agency costs of outside equity and increases firm value by constraining or encouraging managers to act more in the interests of shareholders (Jensen and Meckling, 1976; Harris and Raviv, 1991; Myers, 2001). In addition, a number of studies indicate that the proportion of shares held by top management is positively related to firm performance (Gao and Song, 2007; Holderness, 2003). Palestine National Authority continued to adopt Jordanian company law [JCL] number 12 of 1964. Whereas, article number 104 of JCL requires a corporation to establish board of directors consists of 5 to 11 members. Yet, JCL allows a corporation to increase the number of directors beyond 11 persons. This procedure requires approval of from the Minister of Economy. Furthermore, the study of (Alsinawi, 2008) showed that the Palestinian laws permit a corporation to select CEO-Chairman duality or separation between these positions. Moreover, Alsinawi, (2008) shows a negative relationship between the board size and the performance.

Today many corporations, particularly in Palestine, have been owned and controlled by families; in turn, augmenting the agency issue that exists between management (the controlling family), owners and Board of Directors (Abdelkarim and Ijbara, 2010). This conflict has led to the issue of trust to be acknowledged in today's financial analysis and accounting practices (Amer and Abdelkarim, 2011). No prior studies have addressed the relationship between corporate governance and Earnings Management within the Palestinian context affirm Amer and Abdelkarim in 2011. Consequently the work on creative accounting in general might be rare at the least. In particular, they study the impact of the independent variables, Board Independence, Board Size, Ownership Concentration, CEO duality and Audit Quality, on Earnings Management, the dependent variable. The only corporate governance variables that had consistent results in both years were CEO duality and Board Independence.

Figure 2.6: main actors in financial statement manipulation



Source: Author

In this chart the researcher distinguish traditional pre-Enron and the after SOX relationship that governs the relationship of main actors in our study. The cooperation between external and internal auditors, the mandatory creation of audit committee, and the steering role of the later over the role of external auditor seems to be the most

important part of this new mechanism. Some practices represent a source of problem and need detection and surveillance. Other are source of assurance and need to be strengthen and merit improvement.

2.4.2 The Irrelevant Conceptual Framework Of IAS Under Question

Institutional theories are among the most used in organizations' studies (Davis and Marquis, 2005). The Accounting regulations spreads throughout countries that share the same visions and practice the same methods, in theory this will allow a more accessibility between markets and will permit the flow of investments through international canalization (foreign investments in financial markets, issuance of bonds in first and second markets...) we talk about (globalization of financial markets and mutualizing of funds). For example, in 2002, the European Community adopted a regulation (EC Regulation no. 1606/2002 of 19 July 2002) that aimed to replace the many national accounting standards with a single standard (the IFRS).

This part of this research will question the adaptability of Neo-institutional theory to International Auditing Standards diffusion in Palestine.

2.5 A theory of isomorphism and diffusion applied to IAS?

The sociological approach to institutional theory emphasizes the cognitive aspect as well as the effect of cultural systems. Individuals are both the cause and the effect of institutions; while institutions are a set of cultural rules (Meyer and Rowan, 1977); institutional effects are spreading by the isomorphism across organizational field (DiMaggio and Powell, 1983). They highlighted **coercive, normative, and mimetic** processes of reproduction.

Coercive factors involved political pressures and the force of the state, providing regulatory oversight and control; (Examples are regulatory governmental bodies' pressure for IFRS and IAS implementation in Palestine;

Normative factors stemmed from the potent influence of the professions and the role of education; for PACPA's role in encouraging IAS application becomes this standards reflects their vision or because some of members have been influenced by their professional adaptation;

And **Mimetic** forces drew on habitual, taken-for-granted responses to circumstances of uncertainty. In this kind of forces PACPA and regulatory bodies are influenced by other cultural aspects such as education systems, relationship with other professional bodies such like JACPA's and Arab leading bodies in Egypt, and the general movement of standards adoption all over the world.

By introducing the concept of organizational field, the neo-institutional theory, has led the discussion to a meso (intermediary) level of analysis. DiMaggio and Powell, in 1983 and 1991, drew on Bourdieu's conception of a field, emphasizing both the relational and cultural aspects of membership. The components of this organizational field are sometimes an interesting field of study itself, what is the role of each actor and who sets the cultural taken-for-granted (in the terms of Neo-institutional theory) or the GAAP (in the accounting and auditing admitted rules). Henceforth, the neo-institutional theory has been designed as a theory of legitimacy and consistency.

You gain in legitimacy when you adopt agreed upon practices and when you do like others. When an organization does what is admitted in other organizations belonging to the same organization field it gains in legitimacy and transform its practices into acknowledged practices.

The process by which a field comes to be organized consists of four stages:

- a. an increase in the amount of interaction among organizations within a field;
- b. the emergence of well-defined patterns of hierarchy and coalition;
- c. an upsurge in the information load with which the members of a field must contend;
- d. the development of mutual awareness among participants that they are involved in a common enterprise.

Research on accounting harmonization has adopted Neo-institutionalism using several methodologies. For example Barbu and Baker (2010) used a historical approach to investigate the role of certain institutions to promote IFRS on international and European institutions. Dufour et al (2014) developed an empirical model to measure (DiMaggio and Powell, 1983) forces to trace the harmonization of accounting standards in different countries.

In this research the researcher question the adaptability of IFRS and IAS to Palestine and the eventual gap in practices with what we might observe on the ground. Why does regulatory and professional bodies where in favor of such adoption and what this might bring to the investment environment in which the majority are business small and medium enterprises with mostly debt financing? Is the decision to adopt IAS has come in throughout the organization field in normal stages as the four stages cited above?

We should clearly remind that west bank was under Jordanian control and Gaza strip was under Egyptian supremacy. This continued to influence the practice in terms of professional syndical and regulatory influence.

When Palestinian Authority takes control over Palestinian territories, it was an opportunity to adopt a more universal approach that goes with sovereignty and auto-management over the regulatory and the legislative environment.

Adopting IFRS and IAS roles seemed very convenient for Coercive, Normative and mimetic reasons. The **Coercive** role gives more legitimacy for the new state as an actor in Palestinian economy, the **Normative** role played by PACPA to legitimize their influence over the profession, and finally the convenience of IAS as an international approach that allow to Palestine to look modern and on the same stage as the neighbor countries, especially Jordan and Egypt. Factors like Anglo-Saxon culture and capital market existence, wealth, openness to exterior world, common law countries and favorable economic openness have been variables questioned by Zehria and Chouaibib (2013) and found correlated to IFRS and IAS adoption, all these factors are mainly absent in Palestine.

2.5.1 The question of IAS as a rational myth: the danger of decoupling

Nearly three decades ago, the first neo-institutional arguments were formulated by John Meyer and colleagues such as Brian Rowan in 1977 and Richard Scott in 1987, and by Lynne Zucker in 1977. This new orientation proposed that formal organizational structure reflected not only technical demands and resource dependencies, but was also shaped by institutional forces, including rational myths, knowledge legitimated through the educational system and by the professions, public opinion, and the law.

Other authors start talking about 'institutional Rationality "that they claim to be a collective institutional vision guiding individual behaviours (Lounsbury and Crumley, 2007, Scott, 2008). The "institutional rationality" has already been discussed by Meyer

and Rowan (1977) that they relate to their "rational myths." Things become myth and taken-as-granted and it is supposed to allow performing better even though it is application in reality is not easy to notice its notable achievement. Examples in management science are numerous, Balanced Scorecard, CRM, ABC costing... Still, the idea that homogenizing pressures exerted similar influences throughout an organizational field was questioned by many.

Debates also ensued over the sources of institutional pressures, most notably: Where do rational myths come from? How do practices travel and circulate? What are the primary sources of legitimacy?

However, reading the first works on neo-institutional theory may let understand that they has attributed to it a vision of institutional reality as being stable, recurring and surrounded by dominant and perpetual practices (Selznick, 1975). According to this same vision, neo-institutionalism presents the institutionalization process as linear and inevitable (Dambrin et al., 2007). A growing number of studies have sought to question the relevance of international accounting standards (IASs) to developing or emerging economies (Zaman and Shiraz Rahaman, 2005) they confirm "While it cannot be denied that some countries may have similar contextual variables, it has long been argued that the environments of developing countries significantly differ from the West and accounting technologies developed by and for the West may not be appropriate for addressing the problems in today's developing economies p.817".

Wallace and Briston (1993, pp. 216-217) maintain that:

"Developing countries continue to adopt foreign accounting and educational systems. This is often expensive, and the adopting country has little control over the relevance of imported accounting. The main issue is whether the objectives of the assistance-granting country (or aid-agency) and receiving country are congruent. The biggest problem developing countries have is that of too many foreign "experts" marketing half-baked solutions to problems that neither they nor the recipient nations understand. Donor agencies should collaborate more closely with the recipient country to ensure that their assistance is delivered only in accordance with national accounting development plans."

The formal or adopted structures and procedures may not offer efficient solutions to all organizations, and sometimes organizations claim to adapt to institutional pressures but in reality they do not. Instead, they decouple their actual practices to preserve

organizational efficiency. Once adopting the socially accepted structures and procedures, organizations are considered legitimate by other organizations in their fields, regardless of their actual usefulness. One manifestation of organizations in need of institutional legitimacy is the collecting and displaying of huge amounts of information that have no immediate relevance for actual decisions (DiMaggio and Powell, 1983; Meyer and Rowan, 1977).

According to this same vision, adoption of IAS in Palestine might be decoupled or loosely coupled from the real application of auditing practices on the ground. Like this organizations might be seen legitimate in comparison to their related colleagues, but in reality use their own internally developed techniques to detect and answer to fraud and creative accounting practices. Worse, they might intentionally ignore such practices and be a partner in fraud.

2.5.2 The question of methodology in institutional analyses

Neo-institutional theory is not just a conceptual tool to analyze results; it is also a methodology to adopt in order to better understand them. It is in this sense that Scott (2008) emphasizes that “[institutional pressures] were alleged to make organizations more similar without necessarily making them more efficient. Given the stance taken by these foundational essays, institutional theory stood in danger of becoming a theory of socially legitimate albeit inefficient organizations (p.436)”. No one doubt that IAS are a complete and adapted tool to audit financial statements efficiently, but its adaptability to SME’s and to developed countries were questioned, especially in enriching the daily practices of Audit.

Lounsbury and Crumley (2007) draw attention to empirical richness that the recent works explore by interesting not only in Meso level of analysis - hitherto dominant in neo-institutional researches - but also looking at individual-actors level; providing hence new opportunities for theoretical development. Hasselbadh and Kallinikos (2000) draw attention to the fact that institutionalization is not limited to the construction of an organizational field: it supposes the development and involvement of organizations in the implementation of performance principles, standards and control systems that make the action of these organizations recognizable, transmittable and controllable. “Understood as the outcome of social construction, institutionalization needs to abandon the bird's eye view of the field, and come closer to the social and cognitive means and

procedures underlying rationalized beliefs and schemes of action.” (Hasselbladh and Kallinikos, 2000, p.700).

The bird's eye view of the field implies questioning the adopting but not the application, the strategic but not the operational, the collective but not the individual, the theory but not the practice of managerial innovations. The researcher wish herein, to be more close to what occupy the mind of all the actors in the process of financial statements production, auditing and use in decision making process.

Hasselbladh and Kallinikos (2000) regret the lack of empirical programs in what they call institutional argument of rationality. Most notably, a productive line of work developed on government regulation of the work place. Rather than seeing the state as potent, imposing common practices across organizations, research by Edelman in 1992, Dobbin and Sutton in 1998, and Edelman et al in 1999, demonstrated that regulation and legal mandates were as much an endogenous force as an exogenous constraint. Rather than thinking of organizations in the field as subject to a common set of pressures and acting in a relatively homogeneous fashion, these scholars noted the complexities and variety of organizational responses to the law as well as the extent to which professionals inside organizations helped construct the law and created the regulations that shaped ‘best’ practice in the field of employment regulation and workplace rights.

Neo-institutional theory is not just about homogenous spreading of accounting standards, but the way that every country, every institution might use them.

2.6 The Cultural Approach To Accounting Normalization

Literature contains several approaches that explore the extent to which international differences in accounting, with specific reference to corporate financial reporting systems, may be explained and predicted by differences in cultural factors (Hofstede, Gray...). These methods merit to be mobilized in order to give more valuable dimensions to our analysis.

2.6.1 Hofstede cultural dimensions

There is no identification for Palestine in Hofstede famous dimensions, but we can compare Palestine to its neighbor cultures especially Jordan

Power Distance:

It expresses the attitude of the culture towards these inequalities amongst us. Power Distance is defined as the extent to which the less powerful members of institutions and organizations within a country expect and accept that power is distributed unequally.

With a high score of 70, Jordan has a hierarchical society. This means that people accept a hierarchical order in which everybody has a place and which needs no further justification.

Individualism:

The fundamental issue addressed by this dimension is the degree of interdependence a society maintains among its members. In Individualist societies people are supposed to look after themselves and their direct family only.

Jordan's low score of 30 on this dimension means that it is considered a collectivistic society. This is evident in a close, long-term commitment to the member 'group', be that a family, extended family, or extended relationships. Loyalty in a collectivist culture is paramount and overrides most other societal rules and regulations. The society fosters strong relationships where everyone takes responsibility for fellow members of their group. In collectivist societies: offence leads to shame and the loss of face, employer/employee relationships are perceived in moral terms (like a family).

Masculinity

A high score (Masculine) on this dimension indicates that the society will be driven by competition, achievement and success. A low score (Feminine) on the dimension means that the dominant values in society are caring for others and quality of life. A Feminine society is one where quality of life is the sign of success and standing out from the crowd is not admirable. The fundamental issue here is what motivates people, wanting to be the best (Masculine) or liking what you do (Feminine).

Jordan has a moderately low score of 45, meaning that it is thus considered a Feminine society. In Feminine countries the focus is on “working in order to live”. Conflicts are resolved by compromise and negotiation. Incentives such as free time and flexibility are favored. Focus is on well-being and status is not shown or emphasized.

Uncertainty

This dimension, Uncertainty Avoidance, has to do with the way that a society deals with the fact that the future can never be known: should we try to control the future or just let

it happen? This ambiguity brings anxiety with it, and different cultures have learnt to deal with this anxiety in different ways. The extent to which the members of a culture feel threatened by ambiguous or unknown situations and have created beliefs and institutions that try to avoid these is reflected in the score on Uncertainty Avoidance.

In this dimension Jordan receives an intermediate score of 65, and thus has a high preference for avoiding uncertainty. Countries exhibiting high uncertainty avoidance maintain rigid codes of belief and behavior and are intolerant of unorthodox behavior and ideas. In these cultures there is an emotional need for rules (even if the rules never seem to work).

Long Term Orientation

This dimension describes how every society has to maintain some links with its own past while dealing with the challenges of the present and future, and societies priorities these two existential goals differently. Normative societies, which score low on this dimension; for example, prefer to maintain time-honored traditions and norms while viewing societal change with suspicion. Those with a culture which scores high, on the other hand, take a more pragmatic approach: they encourage thrift and efforts in modern education as a way to prepare for the future.

The very low score of 16 indicates that Jordan is expected to have a strongly normative culture. People in such societies have a strong concern with establishing the absolute Truth; they are normative in their thinking. They exhibit great respect for traditions, a relatively small propensity to save for the future, and a focus on achieving quick results.

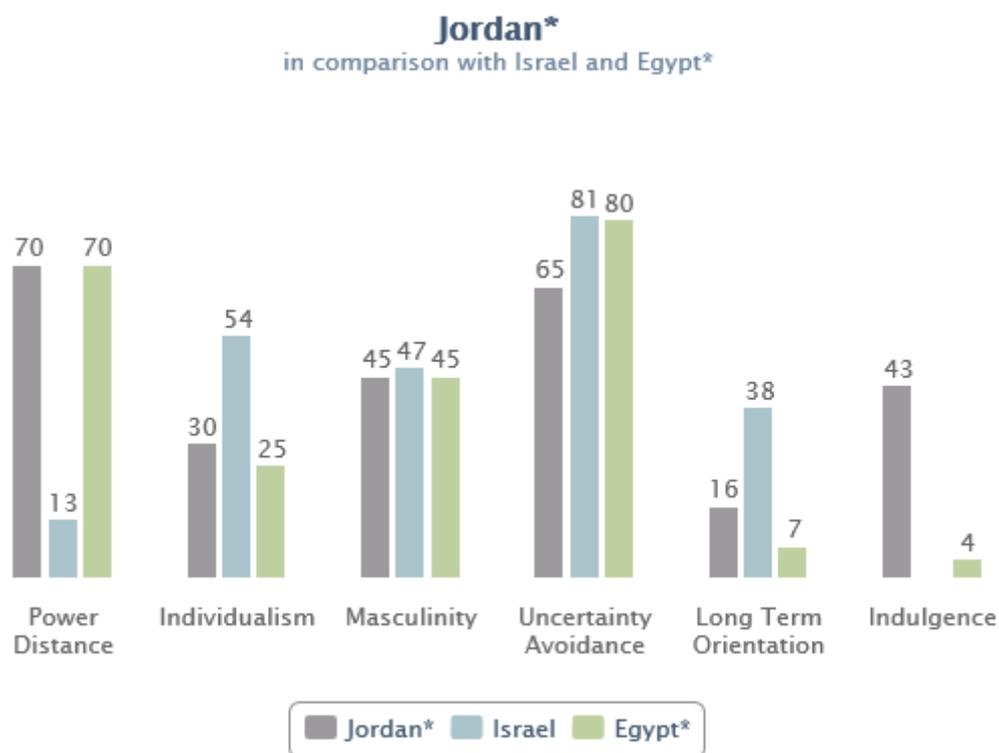
Indulgence

One challenge that confronts humanity, now and in the past, is the degree to which small children are socialized. Without socialization we do not become “human”. This dimension is defined as the extent to which people try to control their desires and impulses, based on the way they were raised. A tendency toward a relatively weak control over their impulses is called “Indulgence”, whereas a relatively strong control over their urges is called “Restraint”. Cultures can be described as Indulgent or Restrained.

Jordan’s relatively low score of 43 indicates that its culture is one of Restraint. Societies with a low score in this dimension have a tendency to cynicism and pessimism. Also, in

contrast to Indulgent societies, restrained societies do not put much emphasis on leisure time and control the gratification of their desires. People with this orientation have the perception that their actions are, or should be, restrained by social norms and feel that indulging them is somewhat wrong.

Figure 2.7: Hofstede comparable cultural dimensions for Palestine neighbors countries



Source: Greet HOFSTEDDE website

Certainly Palestine is neither Jordan nor Egypt, but the comparison with Israeli society makes us understand that they still to be close as Arab countries. The main lessons to be learned in what concern the attitude towards fraud:

People needs clear hierarchal orders, loyal to society norms, normative by nature and expect clear indications to follow, may be less framework adaptors and more rules followers, tending to be sensible for self-interest maximization, restrained to achieve goals and do not like ambiguity. This makes us questioning the adaptability of IAS of auditing as a framework of orientation to bring suitable answers to fraud.

2.6.2 *Gray's accounting normalization*

Hofstede (1984) has carried out his study over IBM branches over the world as a basis for his study of national cultures. Many limits have been advanced; lack of methodological evidences, a shift in culture, the mixed origins in such multinational companies, ... where advanced as critics to his matrix.

Other researches wished to identify the importance of tax rules, the use of prudent/conservative valuation procedures, the strictness of application of historical cost, the making of replacement cost adjustments, the use of consolidation techniques, the generous use of provisions, and the uniformity between companies in the application of rules. The results of the statistical analysis did not, however, go much beyond providing support for the classification of countries as either micro-based or macro-based.

Gray (1988) suggests that the accounting values of professionalism, uniformity, conservatism and secrecy may be used to explain and predict differences between national accounting models. Gray (1988, p.8) defines these four accounting value dimensions as follows:

Professionalism vs. Statutory control: “a preference for the exercise of individual professional judgment and the maintenance of professional self-regulation as opposed to compliance with prescriptive legal requirements and statutory control”;

Uniformity vs. Flexibility: “a preference for the enforcement of uniform accounting practices between companies and the consistent use of such practices overtime as opposed to flexibility consistent with the perceived circumstances of individual companies”;

Conservatism vs. Optimism: “preference for a cautious approach to measurement so as to cope with the uncertainty of future events as opposed to a more optimistic, laissez-faire, risk-taking approach”;

Transparency vs. Secrecy: “preference for confidentiality and the restriction of disclosure of information about the business only to those who are closely involved with its management and financing as opposed to a more transparent, open and publicly accountable approach”.

Gray analysis has been widely used to analyze accounting normalization, the researcher do think it might be an opportunity to analyze and draw conclusions on this work. cultural influence on accounting disclosures has characterized several studies; Douppnik and Riccio (2006) study of Brazil and USA based on Gray's theory to study conservatism and secrecy to see if countries apply the same standards (IAS 11 and IAS18) differently, they found difference confirming correlation between conservatism and disclosure.

In his study of six countries, Akman (2011) used Hofstede's cultural dimensions to investigate whether a difference in financial disclosure due to culture had appeared after the use of IFRS. The result shows that the cultural dimensions of the individualism, power distance, uncertainty avoidance and masculinity affect greatly the level of financial disclosure of sample companies.

Salter and Lewis (2011) in their study of 15 countries used both Gray and Hofstede's accounting values and cultural dimensions on actual data for seven years to determine the relationships between one of Gray's accounting values (conservatism) and Hofstede's cultural dimensions. The outcome of the evaluation shows that cultural value of individualism is significantly and positively related to differences in income measurement practices between nations.

Naghshbandi et al. (2016) carried out the empirical review to examine the cultural implications on IFRS implementation, i.e. to find out if culture impacts accounting practices especially IFRS practices. It is concluded that culture is likely to influence the level of information disclosed, through accounting value of confidentiality on IFRS practices.

Adedeji et al (2017) has carried out a literature review to examine the extent to which national culture is an explanatory variable disclosure choices, and how cultural environments effect sustainability disclosures. They found that the effect of national culture on accounting systems and performance, social disclosures and environmental disclosures and performance was focused on the developed economies, and little has been done in the less developed nations. They concluded that more efforts is to be done to integrate cultural dimensions to better help implementing sustainability disclosures.

CHAPTER THREE

RESEARCH DESIGN AND METHODOLOGY

3.1 Methodology and Research Design and Conduct

The present chapter describes the method the researcher used to explore research objectives. As the aim of our study was to holistically explore fraud and creative accounting in Palestinian and the reaction to fraud and creative accounting practices from the point of view of practitioners and professionals, the study approach accounted for the exploratory nature of the research; In what concerns the sample, the population pools is constituted of a sample with Auditing and non-auditing functions, with different Gender, Education, Experience ...nature. The researcher starts this chapter by contextualizing this research within the realm of quantitative and qualitative methods. The researcher then details the approach by defining samples, describing interview, elaborating on data method of analysis.

3.2 Quantitative Versus Qualitative Research

The many research methods could be used; they can be separated into two categories: quantitative methods and qualitative methods. Each of these approaches has a set of distinct features pertaining to the data collected, the generalizability of results, the level of variable control, and key research instruments (Belk, Fisher and Kozinets, 2013).

In quantitative research, predetermined variables are measured or manipulated, ultimately leading to the collection of numerical data. In this type of study, the researcher tries to remain invisible while administering structured measures such as experiments and survey questionnaires. The ensuing results are assumed to be generalizable throughout contexts, as unrelated variables are controlled. This allows the researcher to target specific phenomena (Belk et al., 2013; Creswell, 2013).

In qualitative research, variables are measured in a naturalistic context where little control is exercised over the studied phenomena. In this type of study, the researcher becomes the most important instrument, as he or she must use his or her skills and rapport to build participant trust. Rather than quantitative research's impersonal experiments and questionnaires, qualitative methods include depth interviews and case

studies (Belk et al., 2013). The resulting data are nuanced verbal and visual information that cannot be generalized beyond the specific study context (Belk et al., 2013).

3.3 Interview and exploratory study

Quantitative and qualitative approaches both have their strengths and weaknesses. Sequential research now is more in use where we start by a qualitative followed by a quantitative approach. In the context of our study, we were limited by the fact that the researcher is living abroad, nevertheless, wishing to perform the research in Palestine in order to meet the objectives of being useful to her economy were she had her professional experience.

Exploratory studies are a valuable means to ask open questions to discover what is happening and gain insights about a topic of interest (Belk et al., 2013). The research questions in this field wish to answer questions on (HOW) and (WHY). It is useful if you wish to clarify your understanding of an issue, problem or phenomenon where literature has already started to forge your understanding. There are a number of ways to conduct exploratory research. These include a search of the literature; interviewing 'experts' in the subject; conducting in-depth individual interviews or conducting focus group interviews. We have mentioned earlier the study of Balaciu et al (2009) who have carried out their study using an exploratory approach who has used it to discover literature and approaches used in creative accounting; in a more field research Alleyne & Howard (2005) for instance has used a survey of auditors and users to explore auditors responsibility in fraud detection in India.

The exploratory phase search strategy usually comprises one or more of the following:

- Discovery and analysis of secondary sources.
- Published studies (usually focused on the results of surveys or on case studies featuring one or a few incidents).
- Document analysis.
- Retrieval of information from organization's database(s).
- Interviews with those knowledgeable about the problem or its possible solutions (called expert interviews).
- Interviews with individuals involved with the problem (called individual depth interviews or).

- Group discussions with individuals involved with the problem or its possible solutions (including informal groups, as well as formal techniques such as focus groups or brainstorming). (Cooper & Schindler, 2013).

Because of their exploratory nature; the qualities of these methods depend on the quality of participants and interviewees and the franc nature of dealing with the subject. Exploratory research has the advantage that it is flexible and adaptable to change. Exploratory research may commence with a broad focus but this will become narrower as the research progresses. Tailored design method was chosen to enable the construction of interview questions based on our research questions. The advantage of the chosen methodology is that the researcher can build trends from the results of the interview identifying the areas of concerns and then explain the reason behind them with the information.

People often compare **exploratory**, **descriptive** and **explanatory** methodologies and could be confused by their resemblance; the purpose of **descriptive** research is to gain an accurate profile of events, persons or situations, research questions that are descriptive are likely to begin with, or include, either ‘WHO’, ‘WHAT’, ‘WHERE’, ‘WHEN’ or ‘HOW’. Descriptive research may be an extension of a piece of exploratory research. Whilst, Studies that establish causal relationships between variables may be termed **explanatory** research. Research questions that seek explanatory answers are likely to begin with, or include, ‘WHY’ or ‘HOW’. The emphasis in explanatory research is to study a situation or a problem in order to explain the relationships between variables.

In an exploratory study, in-depth interviews can be very helpful to find out what is happening and to understand the context. Semi-structured interviews may also be used in an exploratory study. Both of these types of interview may provide important background or contextual material for your study. You will find it helpful to conduct exploratory, qualitative interviews where your research design adopts an inductive approach.

3.4 Sample description and presentation

This allows you to collect data from a representative sample of those who work in areas that treats and deal with fraud and creative accounting, weather as their job relate them to or because they audit on or produce financial statements. However, in seeking to

counter arguments about the generalizability/transferability of qualitative research studies using semi-structured or in-depth interviews, it is important to recognize that such studies cannot be used to make statistical generalizations about an entire population where your data are from a small non-probability sample.

Table: 3.1 : Demographic distribution of the sample

		Frequency	Percent	Valid Percent	Cumulative Percent
Gender	Male	36	70.6	70.6	70.6
	female	15	29.4	29.4	100
Job	External auditor	18	35.3	35.3	35.3
	Internal Auditor	2	3.9	3.9	39.2
	Financial Manager	3	5.9	5.9	45.1
	Accountant	11	21.6	21.6	66.7
	Tax assessor "checker"	10	19.6	19.6	86.3
	Credit Officer	7	13.7	13.7	100
Experience	1-5 years	9	17.6	17.6	17.6
	6-10 years	21	41.2	41.2	58.8
	11-15 years	13	25.5	25.5	84.3
	more than 15 years	8	15.7	15.7	100
Education	Diploma	5	9.8	9.8	9.8
	B A	42	82.4	82.4	92.2
	M A	4	7.8	7.8	100
	Total	51	100	100	

3.5 Conduction of interviews

Interview therefore tends to be used for descriptive or explanatory research. **Descriptive research**, such as that undertaken using attitude and opinion questionnaires and questionnaires of organizational practices, will enable you to identify and describe the variability in different phenomena. In contrast, **explanatory or analytical research** will enable you to examine and explain relationships between variables, in particular cause and effect relationships. The researcher had a preference for the second method because of the exploratory nature of our research. The researcher tends to answer research question and to conclude on our findings rather than testing hypothetical deductive zero hypotheses.

Major decision area in question design is the degree and form of structure imposed on the participant. The various response strategies offer options that include **unstructured response** (or open-ended response, the free choice of words) and structured **response** (or closed response, specified alternatives provided). Free responses, in turn, range from those in which the participants express themselves extensively to those in which participants' latitude is restricted by space, layout, or instructions to choose one word or phrase, as in a fill-in question. Closed responses typically are categorized as (*dichotomous, multiple-choice, checklist, rating, or ranking response strategies*) (Cooper & Schindler, 2013) as follow:

1. *Free-response* questions, also known as open-ended questions, ask the participant a question and either the interviewer pauses for the answer or the participant records his or her ideas in his or her own words
2. *Dichotomous questions* suggest opposing responses
3. *Multiple-choice questions* are appropriate when there are more than two alternatives or when we seek gradations of preference, interest, or agreement
4. When you want a participant to give multiple responses to a single question, you will ask the question in one of three ways: the checklist, rating, or ranking strategy. If relative order is not important, the *checklist* is the logical choice
5. *Rating questions* ask the participant to position each factor on a companion scale, either verbal, numeric, or graphic
6. When relative order of the alternatives is important, the *ranking question* is ideal.

We tried to propose an interview composed of all these type of questions in a more closed ended questions; the sample needs to be as representative and accurate as possible where it will be used to generalize or to emerge tendencies. Researcher will also probably need to relate findings to earlier research. It is therefore important to select the appropriate characteristics to answer research questions and to address objectives. There will need to have:

- Reviewed the literature carefully (The construction of the interview was done by respect to research questions emerged from literature review);
- Discussed ideas with colleagues, project tutor and other interested parties (This interview was validated by non-less than five researchers and Tax function professionals)

CHAPTER FOUR

DATA PRESENTATION, ANALYSIS, AND INTERPRETATION

In the first part we will try to present the research questions and to relate them to their perspective questions asked to our interviewees.

4.1 Data presentation according to structured interview answers

QUESTION 1: Is there in Palestine manipulation of financial statements and use of creative accounting?

To answer this question, three under question were asked to interviewees as follow:

1. Does discovering a fraud is important and do you think it must be punished?

Where 64.7% of the respondents confirmed that discovering a fraud is important and must be punished. This is a high percentage.

2. Suspecting a case of creative accounting is important.

Where 60.8% supported that suspecting a case of creative accounting is important.

3. In the second case do you evaluate the impact and the extent on financial statements?

Where 64.7% emphasize the need to evaluate the impact and the extent to which it might have effect on financial statements. With the majority of interviewees thinking that the effect should be evaluated.

The results showed a belief of the existence of a high level of manipulation of the financial statements, the answers comes to shed light on responders believe of the existence of such a manipulation and its relationship with creative accounting. It could be induced from the answers that there is an agreement on the importance of detecting and punishing misappropriation of financial statements, the importance of investigating creative accounting cases and the need to assess their impact on the financial statements.

These answers also show that professionals think that creative accounting and fraud exist in Palestine and affect financial statements.

QUESTION 2: do Misappropriation and manipulation of financial statements in Palestine aim to reduce political costs of organizations and avoid paying taxes?

We refer to the answers of our interviewees in order to understand the main reason for financial statements misappropriation, four sub questions have been asked:

4. Do Palestinian companies wish to avoid paying tax thanks to alternative methods that accounting allows?

67.7% of responders believe that the Palestinian companies want to avoid paying tax, or to reduce the sum paid. This point confirms how much people believe that creative accounting exists and how it could be used.

5. Do Palestinian companies wish to show the highest profitability to satisfy stockholder?

31.4% of interviewees only in our sample think that the Palestinian companies wish to show the highest profitability to satisfy stockholder. This might be confirming the last question results and could be understood as applying mainly to companies (corporation) where stockholders pressure exist and leading management to dig for more profitability.

6. In Palestine, do you think companies are willing to easily manipulate their financial statements?

74.5% emphasize that the companies in Palestine are willing to easily manipulate their financial statements

7. Do you consider creative accounting as fraud?

82.3% considered the creative accounting as fraudulent practice; few were those who think it is not, the legitimacy of these practices then does not exist.

If we look attentively to these answers we would see that responders are more tending to believe that manipulating accounts and creative accounting practices serve a goal of avoiding paying taxes with percentage of 67.7% rather than wishing to increase profitability to satisfy shareholders 31.4%, undoubtedly this might be the case where corporation is the legal form of the company. This is conformed to literature Stolowy & Breton (2004).

The other point is that, responders believe in an easy manipulation possibility in Palestine with majority of the sample 74.5% . whilst, In the same spirit 82.3% of sample consider creative accounting as fraud which is conformed to the necessity to bring legal actions into the court; this does not mean that such sanctions exist already or that it's the way things are done.

This contributes to the coherence of the conformity of a positive answer to the main question. The main reason for using creative accounting practices in fraudulent way to avoid or to reduce payment of taxes.

Question 3: Is there any evidence of the effect of internal audit or internal control systems on the quality of the financial statements?

The answer to this question is to be obtained by asking more sub questions to our interviewees:

8. Do you consider yourself well informed about the last updates of the conceptual framework? (COSO, IFRS, IAS, SOX...)

41.2% out of our sample consider themselves well informed about the last updates of the conceptual framework. This number is relatively modest knowing that the sample members' are specialized and this might reflect the need for more up-to-date. Moreover, the fact that some of the conceptual framework of internal control usefulness is related to its applicability; the pure theoretical awareness without training on how to put in place is more than nonsufficient.

9. During an audit does the auditor follow the conceptual framework or the internal guidelines (interpretations) of his own audit firm?

The majority believe that during an audit auditors should follow the conceptual framework guidelines over those of their own audit firm. This question shows two things:

First: the interviewees think that in case a conflict might exist, it is more preferable to use the framework indications. Just 17.6% would use the company indications.

Second: in literature often internal control is stressed to be an indication and communication between auditors and management and between internal and external auditor allow to best bringing correction actions to the company system

of internal control. This cooperative spirit should be questioned in Palestinian environment.

10. In the same case you consider that there is a conflict between the guidelines and your own individual interpretation, what do you prefer to apply?

This question tends to investigate the critical spirit of auditors, by investigating their awareness of conflicts between what is in the frameworks and their own understanding. 31.4% of respondents considered that there shouldn't be a conflict between the guidelines and their own individual interpretation. The majority then think that such a conflict might exist. This is the first part of their answers and related directly to the next question.

11. Which is more likely to apply and use?

The results showed that 92.2% of the responders are likely favorable to the use of International Auditing and Standards recommendation, while 7.8% of the sample is likely to use their individual interpretation or the recommendation of their company.

This result is in opposite of the literature where companies experience and self-judgment were appreciated knowing that the cases of corruption in these countries are the responsibility of auditor and the strict application of IAS is not a guarantee or responsibility moderator in these old audit tradition countries

12. Is there an internal auditor or internal control surveillance in the company where you work or you deal with?

Finally, the results showed that 76.5% of the samples are related to companies that have an internal auditing, while in 23.5% of the cases internal auditing does not exist. This number is to relativize when taking into account the vast champ of application of internal auditing; some financial consulting services offered by auditing firms could be considered as such.

The results showed an average effect according to responders of the application of internal audit on the quality of the financial statements.

The answer to these questions showed in general that our interviewees believe that internal control is important and having effect on financial statements quality. At the same time we can interpret that there is a need for better understanding for the framework that underline internal control and internal auditing in Palestine; through

training or continuing education. Nevertheless, according to their Job Auditors seem to be more reluctant than other members to the application of norms. Where education level differs in what concerns the knowledge of the updates of auditing framework on the level of significance.

Question 4: Is there significant effect of applying internal auditing code of conduct on the quality of external auditing reliability?

This research question intended to continue the later research question by interrogation interviewees on their point of view over several sub questions as follow:

13. How often do you think that there exists cooperation with the internal auditor during an audit process?

62.7% think that there is cooperation with the internal auditor during an audit process that is necessary and recurrent in the course of an audit mission. The verification of internal control should figure in the procedure of audit process.

From other side; results of the next question showed that the auditor is likely to reject a new customer based on the following items in order:

14. Under which of the following conditions auditor might refuse a new client?

On the one hand, 58.9% think they might refuse a client because of his bad reputation, on the other hand 49% responds that they might refuse a client because of problems he has with tax or other authorities, 29.4% thinks the reasons might be because the previous external auditor resigned, and finally, 23.5% considered refusal could be because of other external auditors refused to collaborate with the client.

We then asked to cite other reasons that might have contributed to consumer rejection; these reasons are various and relates sometimes to internal control problems or to fraud detection.

From these reasons are lack of cooperation from clients and internal auditors, other reasons are related to confidence level, the incoherence between remuneration and work charge, and finally many dimension as honesty and decency. Also non conformity with

managerial governance values such as clear control procedures and coordination within organization levels.

The results showed the effect of code of conduct application on the reliability of the external audit to a high degree, other auditors might refuse costumers for reasons not related to accounting fraud reasons (remuneration; timetable, conflict of interest...).

Question 5: Is there any evidence confirming the reliability on financial statements based on the level of confidence in the quality of the external audit?

This research question intended to understand interviewees' point of view of the new practices that IAS recommends (Audit by risks) over several sub questions asked as follow:

15. Do you consider that your audit procedures are the result of the total audit risk equation?

35.5% consider that their audit procedures are the result of the total audit risk equation. This indicates that few of our interviewees agree with total risk approach to auditing. At the same time, individuals believe in the quality and the importance of external audit which they believe it might guarantee the quality of financial statements. They also ignore if this approach are really directly correlated to audit procedures as the estimation of risk may be done without direct consequences on the quality of the audit procedures.

16. What is according to you the tolerable percentage of control risk within the equation? Give a percentage

To answer the question of determining the allowable risk ratio within the audit equation, the most common percentage was 3%, with 39.2% of occurrence in answers choosing this ratio. The risk equations one of the valuable tools to determine the risk acceptance in audit missions; 3% is quite rigorous measure and we can ask ourselves if the population are conscious about risk taking percentages in emergent economies like Palestine. In fact, people are devoted to such low risk acceptance when they are judging audit missions from outsiders' point of view, they might have taken suck percentages in auditing university manuals, or simply because the calculation is a matter of judgment in countries where auditing risk is calculated based on intuition and experience.

The elements which retain mostly the attention during the audit process or stress highly the competences while preparing the financial statements are sorted by the mean as follows:

17. Which one of the following elements focuses your attention when met during an audit process or in preparing financial statements

- 60.8% believed tangible assets subjective depreciation characterize a problematic matter for auditors and should draw their attention.
- 45.1% supposed goodwill is problematic, this item is less problematic than in literature because of its nonexistence in the interviewees organizations
- 54.9% thought depreciation and amortization could easily be subject to manipulation
- 68.6% believed inventories could be easily over or underestimated
- 43.2% only thought provisions for liabilities and charges is problematic also for their rare applicability to the Palestinian case
- 58.8% agreed construction contracts revenue recognition is easily transformable
- 35.3% only considered impairment and revalorization are problematic to this subject, this percentage is completely under what is described in literature
- 45.1% considered special industries R&D for instance in industries like pharmaceutical industry are hard to evaluate and account for
- 35.3% only perceive banking sectors risk assessment as indications of Ball II or Ball III might affect the sincere presentation of banks financial statements
- Finally, 47% believed that all previous answers depend to who made the initial or the companies' evaluation.

The results showed that the reliance on financial statements based on the level of confidence in the quality of the external audit' mission was more than moderate.

QUESTION 6: Is the quality of external audit fundamentally affected by the inadequacy of international auditing standards in the Palestinian case to respond to fraud and creative accounting?

The adaptability of Palestinian auditing legislative environment, (regulations and IAS auditing standards) to serve the Palestinian case (size of the companies, economic environment ...), was questioned. The interrogation on this subject demands to link this subject to our main questioning on fraud and creative accounting practices. We asked questions first on the capacity to distinguish Fraud from creative accounting and the effect on the type of the report that could be issued.

18. What type of audit report would you issue (qualified opinion, adverse opinion, disclaimer of opinion) in case of:

- Deviation from standards is material: 82.4% of the sample agreed that this deserve an adverse opinion; which is the type of modified audit opinion that express in audit report of financial statements where auditors have obtained all sufficient and appropriate audits' evidences and concluded that there **are material misstatements found**. Auditor also draw conclusion that those material misstatements are **pervasive to all financial statements**. From the results of the previous question we notice 82.4% of respondents had a negative opinion regarding the fact that the deviation is materially significant.
- Deviation is a mistake majority of answers hesitated between adverse and disclaimer of opinion; disclaimer opinion issues by auditors to financial statements when they could **not obtain sufficient and appropriate financial statements to support their opinion**. There are many reasons why auditors could not obtain sufficient and appropriate supporting documents. Auditor might also issue disclaimer audit opinion if **the major of transactions or event in the financial statements involve exceedingly judgment** and management could not justified those transactions or event sufficiently according the accounting standard that they are using. As per **ISA 705**, auditors shall disclaim its opinion or issued the disclaimer opinion on financial statements if they are unable to obtain sufficient and appropriate audit evidence to supporting their opinion. Auditors could disclaimers opinion only if they conclude that, for the items or accounts, they could not obtain evidence, are material to financial statements and also pervasive.
- Deviation is a Fraud; clear from the results of the previous table that 98.1% had a negative view of the deviation as a Fraud. That results in a qualified or a

disclaimer of opinion. This is the opinion that mention by ISA 700 and ISA 705so that qualified opinion, it is sub of modified audit opinion, where auditor issued this opinion is for financial statements that does not present true and fair view in all material respect. Qualified audit opinion is different from others two modified opinions since the misstatement found by auditors effect only for the items themselves. While adverse and disclaimer, the misstatements might be effect the whole financial statements.

19. In case of fraud detection which privileged partner would you inform of the problem?

- 68.7% identified management of the company as main partner to be informed in case fraud or creative accounting were discovered
- 68.6% identified audit committee of the company
- 56.9% identified chief accountant of the company
- 49% identified tax authorities

The answers were not in conformity with literature; as the reporting to tax authorities was the most cited. Here, responders were more about communication with Management and trying to find solutions, before that these facts been brought to tax authorities. This is clearly related to the nature of the society and the mediation which characterize the society.

The answers come to give indication that more work should be done in order to better understand International Auditing standards and their relation to fraud and creative accounting. The approach based on total risk equation and risk detection, including internal control risk is not clearly assimilated in the practices as described by our sample interviewees.

QUESTION 7: Do you think there is clear evidence that auditors are well aware and have the willingness to tackle creative accounting practices?

The answer to this must be obtained by digging into the qualifications and the dispositions were answers to several sub-questions were as follow:

20. Are Auditors efficiently equipped against creative accounting thanks to training and qualifications on regulatory framework?

31.3% think that the auditors efficiently equipped against creative accounting because of training and qualifications about conceptual framework such as (Ex: IAS, IFRS, SOX...). The majority still think that more effort should be done to improve the ability of auditors and other professionals to tackle efficiently this problem. Knowing about the last updates need to be completed with training and suitable condition to enable the action.

21. How much PACPA cooperate with both auditors and accountants to prevent and inform against fraud?

35.3% think the PACPA doesn't cooperate enough with both auditors and accountants while just 5.9% thinks it does it to a satisfactory degree. This includes training, integrating fraud detection to curriculums in the professional accreditation system, conferences, workshops, best practices recommendations...

22. How much auditing process (appointment, remuneration, reporting...) is adapted to prevent fraud

41.1% think the auditing process (appointment, remuneration, reporting...) is adapted to prevent fraud. The main points revealed in the appointment are that engagement periods are not specified in law, remuneration is not high enough and competition between auditors could lead to retention problems, reporting on auditing for fraud is not specified nor the cooperation rules with clients, the exercising of services beside audit service also was evoked.

The answers to these three sub-questions lead us to conclude that auditors are not sufficiently equipped to deal with fraud and creative accounting matters. In terms of processing the auditors need efficiently to encounter creative accounting by training and qualification, and the extent of cooperation of Palestinian Auditors Association with auditors and accountants to reduce and inform about Fraud and misstatement is vital. Reward and reporting and suitability to deal with misstatement also need to be improved.

Question 8: Does coercive effort to shed light on creative accounting is quasi absent in Palestine?

The answer to this question investigates the effort from state to find suitable solutions to creative accounting in Palestine through three questions:

23. How ready is the Palestinian tax authority to prevent fraud

54.9% think that Palestinian tax authority is not that ready to prevent fraud. The answers were divergent and they tend to believe things still to be done to arm auditors with suitable tools to detect and treat it.

24. What is according to you the importance of each one of the following stakeholders or moral aspect in improving accounting and auditing in Palestine?

The answers came to classify by their importance starting by

- Stockholders
- Management
- PACPA and the taxation authority
- Education and moral system (ethics, habits, religion...)
- Stock exchange market

The first two aspects are the insider partners in the company, the other are external. This is more a cooperative and a collaborative way to treat creative accounting through mediation and arbitration.

25. What respect to the importance of each one of the following stakeholders in the improvement of accounting and auditing in Palestine

- The Taxation Authority was approved with 51% of answers
- PACPA with 45.1% of answers
- management with 45.1%
- Stockholder 47.1%
- Education and moral system (ethics, habits, religion...) 45.1%
- Stock exchange market 64.7%

We can see that people think that the most powerful actors on the improvement of Auditing in Palestine are public authority presented by tax regulation bodies and

management willingness to improve auditing. Then come education and professional bodies at the last place...

4.2 Retour on theory:

Many works have questioned critically the approaches mobilized in auditing in general and auditing borderline practices in particular. They draw the attention of researchers on “very little of what is now called ‘field work’ in auditing. The apparent reason for this is that professional service firms are reluctant to provide research access to client data and to live audit assignment...” (Power, 2003, p. 380).

The researcher can distinguish three types of theories mobilized in this perspective; one is ‘auditing and the production of legitimacy:

1- Neo-institutional theory and the reproduction of a uniform approach in quest of legitimacy through auditing standardization

Isomorphism is believed to be critical for organizational survival. It takes place because all organizations, according to institutional theory, face the same external pressures: regulative, normative and cultural-cognitive (DiMaggio and Powell, 1983). This might be found relatively in the Palestinian case because of the role played by coercive and normative pressures, in form of indirect pressures for the normalization of an institutional logic of (audit capacity to detect and prevent fraud). Regulative inclines them to coercive isomorphism by expedience, rules and sanctions. Normative inclines them to professional isomorphism, which is compliance by social obligation, certification and accreditations in the organization's external and internal contexts.

Although in the answer to questions, our sample were convinced to high extent that creative accounting practices exist in Palestine and that they aim at reducing political costs of organization (from Question 1 and 2), the results shows a belief in the role of state and professional bodies (from Question 8), that lead to a respect of International Auditing Standards (from Question 6 and 7).

Creative Accounting and fraud are supposed to be combated by IAS, the auditing standards are adopted by PACPA and recommended for the use in presentation to Tax authorities. This mechanism put in application several rules that wish to encounter any fraudulent practices. Despite programmers by firms and professional institutes to standardize the audit process, divergences in the style and application of audit routines

have been evident Power (2003). The auditing in Palestine seems attached to many routines leading to more attention to be paid to risk and willingness towards internal control application (From question 5). However, institutionalists diverge on the mechanisms and consequences of the interaction between organizations and their external environment The presence of three types of forces is clear and evident with the power of *Normative* bodies (PACPA) and *Coercive* bodies (Tax authorities) and finally *Mimetic* forces (through the following of IAS as most of neighbor countries).

Findings shows several divergence in Risk assessments and evaluations and the way (Risk Audit) should be put in Palestine. In addition, some divergence on the inherent risk associated with several posts of Balance Sheet and Income Statement has been observed. Convergence in contrary were observed concerning the position and the influence of PACPA and Tax authorities as major regulators in the Auditing profession.

2- Corporate governance and insights from the Palestinian case on auditing as a governance mechanism

Interactions among board of directors, management, internal audit and external audit as the four components of corporate governance and presents internal audit as a resource for the other components. Several prior internal control studies have argued that better internal control will allow reduced external audit work and improve its quality. Organizations can enhance corporate governance effectiveness by strengthening internal audit and fostering internal-external auditor coordination Mihret et al (2011).

Besides, a basic tenet of auditing is that better internal control reduces the need for substantive audit work by external auditors. The answer to research question three (Question 3) showed is that interviewees think that internal auditing makes a difference in the quality of financial statements in Palestine.

In Palestine most of the economy main tissue is made out of family owned business, organized in several forms, normally under private shares companies. This is proven by Claessens et al. (2002a) through their research on 2,980 companies in Asia, which the results show that the ownership of public companies in Asia tends to concentrate in a family ownership. Claessens et al (2002b) stated that when ownership structure is concentrated in a few shareholders, controlling shareholders would have the ability to determine the company's direction and operation, which is commonly referred as entrenchment effect In such a case we are more attached to code of conduct existence,

(from Question 4) is that interviewees feels that code of conduct makes a difference in the quality of financial statements, many points should be done in order that the audit be carried out according to better conditions; remunerations, audit scope, relationship between auditors, rotation....

The voluntary nature of governance mechanism and the availability of information for the different decision makers were advanced in the literature. In contrast to the substitution view applied to internal control, the literature usually argues that the relationship between external auditing and corporate governance mechanisms such as outside directors and audit committees is complementary. Audit quality is a complex and multidimensional concept (Herusetya 2012). The perception of audit quality is different among stakeholders of the company, depends on their involvement level in audit process and their point of view on how they measure audit quality. For example, investors have their own perspective towards audit. Investors want that the financial statements they use are useful for decision making. To be useful for decision making, financial statements should have high credibility, so investors measure audit quality from the credibility of the financial statements. (From Question 5) the quality of the audit is understood as free from errors and leading to faithfully presented financial statement.

3- Cultural dimension and its influence on Auditing and attitudes towards creative accounting

Many studies have mentioned the role played by culture on audit, especially with respect to motives for fraud. An examination of the effect of culture and audit quality on managers' decisions regarding accounting accruals reveals that company managers with free-cash-flow in low growth tend to use discretion in selecting income-increasing accounting choices (Astami et al, 2017). The researcher tried to analyze results based on answers she has got, to see if any factor push in the direction of misstatement. For instance, using a sample of international auditors from 33 countries, Chen et al, 2010 found strong and robust evidence that auditors are more likely to issue modified audit opinions to clients domiciled in countries with a strong secrecy culture: defines as “a preference for confidentiality and the restriction of disclosure of information about the business only to those who are closely involved with its management and financing as opposed to a more transparent, open and publicly accountable approach.” Gray (1988).

The researcher expected the same results for this research as Palestinian case seems to be classified as secrecy country; the researcher could precise that according to answers auditors are more favorable for an approach according to which they prefer to discuss fraudulent practices with management and audit committee instead of reporting them to qualified authorities. At the same time preferring qualified opinion to disclaimer of opinion in cases of fraud.

According to similar studies carried out at Egypt for example; Societies with high level of uncertainty avoidance, large power distance are likely to be secretive. High level of secrecy has direct effect on information disclosure practices (Dahawy, Shehata and Ransopher 2010). Egyptians tendency for secrecy conflicts with the adequate disclosure mandated by the IAS (Dahawy, Merino and Conover 2002). Many managers in Egypt believe that the increased disclosure will entail them to disclose unfavorable information to the tax authorities and competitors (Dahawy and Conover 2007). The low score of individualism observed in the Egyptian case refers to very strong family relations, which conflicts with the disclosure of related party transactions required by IAS Elbayoumi et al (2019). This confirms our results showing prudence and secrecy in dealing with fraud in Palestine.

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

This chapter presents the main findings in our research and what could be learned from this findings, we also formulate some perspective researches agenda and try to bring some recommendations and finish by highlighting some limits.

5.1 Main research findings

- 1) The results showed the professionals present in our sample believe that a manipulation of the financial statements exists, such a manipulation has a direct relationship with creative accounting practices that could easily affect financial statements.

It is important to detect and punish misappropriation of financial statements, it is also important to investigate creative accounting cases. There exists a need to evaluate the impact of creative accounting practices on financial statements.

This answers our first research question concluded that professionals think that creative accounting and fraud exist in Palestine and affect financial statements.

- 2) We found according to our interviewees a confirmation of what has been mentioned in the literature inducing that in family owned business the pressure to use fraudulent or creative accounting practices is to reduce political costs; this means to avoid paying taxes by choosing suitable accounting methods or by practicing misappropriation. In what concerns corporations the pressure is more on profit maximization to satisfy stockholders.

Our interviewees were also think that creative accounting is a form of fraud and fraudulent practices and that it is allowing an easy way to manipulate financial statements.

The main reason for using creative accounting practices in fraudulent way is to avoid or to reduce payment of taxes and to reduce political costs of organizations.

- 3) We found according to our interviewees that internal control is important and it has effect on financial statements quality. At the same time we found i that there is a need for better understanding for internal control and internal auditing in Palestine; this could be achieved through training or continuing education.

The majority of our interviewees believe in International Auditing Standards as a main framework for auditing in Palestine and that in spite of the need for formation and training it still the indications of the law and it should be fully followed by auditors.

There is evidence on the effect of internal audit or internal control systems on the quality of the financial statements.

- 4) The code of conduct is the rules that maintain confidence in the system of auditing according to our interviewees. Cooperation between auditors, external and internal is necessary, and with other members in the enterprise environment that relate to the auditing process; such as audit committee or members of board of directors.

In the collective understanding, the most important aspects for which an auditor might refuse a mission is costumer reputation and the fact that this costumer has problems with tax authorities.

As answer to our research question, there is significant effect of applying internal auditing code of conduct on the quality of external auditing reliability.

- 5) The auditing mainly tries to guarantee the financial statements by assuring against certain risks; inherent, control and detection risks. Our finding showed our interviews varies according to their understanding of the total risk equation.

In what concerns the risky assts that auditors deal with:

- Goodwill, depreciation and amortization, inventory and revenue recognition could easily be subject to manipulation and they are containing a more inherent risk.
- Finally, the majority of our sample believed that all the risky items in the balance sheet and the income statement depend to the companies' evaluation, and could be then risk inherent

The answer to our research question confirm the reliability on financial statements will be based on the level of confidence in the quality of the external audit.

- 6) The answers stressed that the communication with Management is vital to bring solutions to fraudulent suspected practices. before that these practices been brought to tax authorities. The mediation spirit and a cooperative way of auditing characterize the society.

The deviation from standards applications might be matter to subjective evaluation and better understanding of Auditing standards evaluation of risk and to responding to deviation from standards.

We conclude that the quality of external audit is fundamentally affected by the inadequacy of international auditing standards in the Palestinian case to respond to fraud and creative accounting according the understandability of these principles as shown in our sample.

- 7) External auditors according to our interviewees are not sufficiently equipped to deal with fraud and creative accounting.

In terms of processing the auditors need efficiently to encounter creative accounting by training and qualification, and the extent of cooperation of Palestinian Auditors Association with auditors and accountants to reduce and inform about Fraud and misstatement has been mentioned as necessary. The remuneration, the appointment and the procedure is to be clarified with a clear cooperation from the part of PACPA.

There is no clear evidence that auditors are well aware and have the willingness to tackle creative accounting practices in Palestine is the result of our main findings.

8. When interrogating our sample on the state effort to find solution to improve financial statement utilization; the most powerful actors on the improvement of auditing in Palestine still public authority presented by tax regulation bodies and PACPA. A good cooperation with management to improve auditing and give credit to financial statements is more than important.

Coercive effort to shed light on creative accounting is to be improved, through PACPA and tax authorities effort must be done to better encounter creative accounting and Fraud and inform both Auditors and financial statements other users about it.

5.2 Limits and future potentials

1- Limits of the study

This study has the following limits:

- This study has analyzed the vision that some professionals who work in the field of auditing, banking credits, tax authorities and internal auditors. It was convenient to integrate some stakeholders in the study to effectively detect outsiders to the system of accounting and auditing and to enlarge to more natural users of financial statements like, stockholders, clients, investors...
- The study started with an exploratory nature, it has used a interviews as data collecting tool due to researcher place of residency. It was more convenient to carry such a research with semi-directive in depth interviews or case study with qualitative methodology.
- The study closed to investigate fraud and creative accounting practices, the use of two distinctive separate phases of research was more appropriate.
- The Palestinian case is characterized by family owned business; the most of the literature produced on the subject used reference to more developed economies, with problems not comparable to Palestine, such as agency conflicts, and financial markets measures...

2- Future perspective

Many opportunities for future researches are conceivable:

- To held a research on case studies or action research on the practice and the routines of auditing profession.

- To held a more in depth interviews on a second phase more qualitative oriented research.
- To base a research on audit quality one a quantitative model to be tested on market data.
- To cooperate with tax authorities on more research intervention bases on some standard of auditing to test the level of application and information divulgation respect for these selected standards.

5.3 Recommendations and lessons from this study:

This study has many recommendations that the researcher classify as follow:

1- On the level of qualified authorities

- Spreading International Auditing Standards and International Financial Reporting Standards has been an influence of their adaptation in several neighbor countries. These standards must go with recommendations and explanations suitable for local environment.
- Conducting periodic training workshops for external auditors and introducing them to creative accounting methods, financial manipulation practices to update them with real cases and examples;
- Reassessing techniques for the examination of the external audit profession and enriching it with questions and simulations explaining different situations of creative accounting and manipulation of financial statements;
- Adopting deterrent measures for all those found guilty of meddling with the financial statements;
- To strengthen the relations between legislators, stakeholders and financial professionals to discuss, analyze and debate on issues to be rearranged, and to come up with solutions to satisfy all parties in order to ensure that financial statements are not manipulated;
- Facilitate investment bases and reduce taxes so that people do not recourse to manipulating financial statements.

2- On the level of private sector corporate governance

- Segregate duties with clear job description for each job and clear regulation for the communication and the authentication;

- Adoption of a system of remuneration founded on bonus for employees based on the profitability of the company;
- Strengthen the moral system of employees to avoid bowing to the will of anyone to manipulate the financial statements;
- Enhance the importance of a robust internal auditing system to avoid any manipulation;
- Increase the salaries of workers so that the souls do not seek to gain

3- *On the level of academic and research institutions*

- Integrate on the curriculum courses on internal control, internal auditing using international auditing standards, with accent been put on creative accounting;
- Supplementary cooperation between universities and chambers of commerce and private sector to conduct research, train students, give continuous education on Fraud and creative accounting;

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APPENDIX

Appendix (1): Interview Validation

The Interview has been validated by:

Dr. Mohammad Al- Jabari/Hebron University

Dr. Yousef Hassan/ BirZait University

Dr. Ibrahim Al- Sweity/ Al-Qaseem University

Dr. Majdi Al-Kababji/ Alquds Open University

Dr. Athanassios dionissios/ ESCEM University-France

Dr. Nizar Al-Sharif/ ESCEM University-France

Mr. Nael Said Ahmad/ Hebron University

Appendix (2): Interview Guide

1. Does discovering a fraud is important and do you think it must be punished?
2. Suspecting a case of creative accounting is important.
3. In the second case do you evaluate the impact and the extent on financial statements?
4. Do Palestinian companies wish to avoid paying tax thanks to alternative methods that accounting allows?
5. Do Palestinian companies wish to show the highest profitability to satisfy stockholder?
6. In Palestine, do you think companies are willing to easily manipulate their financial statements?
7. Do you consider creative accounting as fraud?
8. Do you consider yourself well informed about the last updates of the conceptual framework? (COSO, IFRS, IAS, SOX...)
9. During an audit does the auditor follow the conceptual framework or the internal guidelines (interpretations) of his own audit firm?

10. In the same case you consider that there is a conflict between the guidelines and your own individual interpretation, what do you prefer to apply?
11. Which is more likely to apply and use?
12. Is there an internal auditor or internal control surveillance in the company where you work or you deal with?
13. How often do you think that there exists cooperation with the internal auditor during an audit process?
14. Under which of the following conditions auditor might refuse a new client?
15. Do you consider that your audit procedures are the result of the total audit risk equation?
16. What is according to you the tolerable percentage of control risk within the equation? Give a percentage
17. Which one of the following elements focuses your attention when met during an audit process or in preparing financial statements
18. What type of audit report would you issue (qualified opinion, adverse opinion, disclaimer of opinion) in case of:
19. In case of fraud detection which privileged partner would you inform of the problem?
20. Are Auditors efficiently equipped against creative accounting thanks to training and qualifications on regulatory framework?
21. How much PACPA cooperate with both auditors and accountants to prevent and inform against fraud?
22. How much auditing process (appointment, remuneration, reporting...) is adapted to prevent fraud
23. How ready is the Palestinian tax authority to prevent fraud
24. What is according to you the importance of each one of the following stakeholders or moral aspect in improving accounting and auditing in Palestine?
25. What respect to the importance of each one of the following stakeholders in the improvement of accounting and auditing in Palestine