

EMPIRICAL EVIDENCES OF ROMANIAN AUDITORS' BEHAVIOR REGARDING CREATIVE ACCOUNTING PRACTICES

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ABSTRACT

A highly qualitative financial reporting refers to the publication of accounting information complying with the requirements of the reporting framework and generally, they must be transparent, intelligible, relevant, credible and comparable. Based on the results of the theoretical research regarding the auditors' behavior regarding creative accounting practices, this paper investigates Romanian auditors' attitude. To this purpose we set up an empirical study that has as main objective the identification of the financial auditors' perception regarding the existence and the forms of manifestation of the creative accounting phenomenon in the companies which made the object of our study. After analyzing the results of the information provided by descriptive statistics, we can conclude that all of the creative accounting practices mentioned in survey had been encountered quite frequently by the auditors in our sample, the lowest incidence being the one that regarded the creative accounting practices affecting the financial assets. Only a few studies in the Romanian accounting literature are focused upon investigating or exploring different empirical evidences of Romanian auditors' behavior regarding creative accounting practices. Our study contributes to the existing accounting literature on the topic by testing research propositions referring to the auditors' perception of the users' interests and the existence and frequency of creative accounting practices.

•  *creative accounting, auditors, behavior, manipulation, Romanian companies*

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INTRODUCTION

The responsibility of the management regarding the correctness of representations in the financial statements is strongly related with the privilege to decide on the communication of necessary information. Although, the drawing up of financial statements and the related general information report is the management's responsibility, it is possible for the auditor to suggest adjustments in order to get a faithful image. When the management insists on presenting a financial statement which according to the auditor seems unacceptable, the latter has two options: either to issue an unfavorable or a reserved opinion, or to withdraw from its audit commitment. According to McMillan (2004), the relationship between auditor and management emphasizes the inevitable need to develop a strong moral structure regarding the practice of the auditor profession. The author is interested in analyzing the best ways in which the auditors can handle the management's exaggerated pressure. In this regard, he identifies two possibilities:

- the first is the enforcement of some types of control which should be carried out so that they explicitly limit certain relations with the client;
- the second consists in enforcing disciplinary control means which should encourage the auditor's system of personal convictions and which can less-favour the possibility to break the public trust that the auditor counts upon in his profession in order to prosper.

The border between “*fair*” and “*bad accounting*” is a very thin and slippery one, and those who should preserve it are, according to some authors, the auditors, who, being integer, honest and objective, should make sure the law in itself but also its spirit as well are respected. We believe this is not an easy role to play, as the auditor is in a conflict of interests most of the times, but instead he should be a mediator. The idea of audit's mediating role between different types of accounting information users can be found often and in different forms in the literature, ultimately leading us towards the idea of the social responsibility of accounting (Kerry & Brown, 1992; Bingham, 1992; Power, 1993).

The auditors are employed by the economic entities in order to certify the fact that their financial statements are in accordance to the economic reality, yet the interest they protect is not that of the employing entities. They must protect the interest of the users of financial statements and to do so they must be totally independent from the employing customer, to answer as such in order to take into account more the responsibility to the public, thus preventing this profession from becoming a commercial profession, lacking its ethical essence (Hanlon, 1994). The audit as a call of duty, seen as responsibility for those who cannot protect themselves, is tackled with in the studies of Cousins *et al.* (1998). Liu and Zhuang investigate in 2011, whether the efficiency of the audit committees influences the existing correlation between the forecasts based on result management techniques and the quality of the financial analysts' forecasts, concluding that the efficiency of the audit committees has a

moderating effect on this correlation. This influence results from the increased responsibility of the audit committees in monitoring the voluntary reports. The results show that the forecasts based on result management techniques issued by those firms which have efficient audit committees are to a greater extent positively correlated with the degree of accuracy of the financial analysts' forecasts, and negatively with their degree of dispersion, than in the case of firms with less efficient audit committees. According to the authors, an efficient audit committee is exclusively made up of independent managers and managers specialized in accounting expertise and who meet at least four times a year.

Our research hold forth to initiate a questionnaire based research in order to analyze the Romanian auditors' behavior on creative accounting practices. We have initiated this research hoping that the results obtained will allow us to determine the Romanian auditors' perception in respect to stakeholder's interests, the existence and frequency of creative accounting practices. Also, one of our objective was to point out the key creative accounting practices that auditors' identify in their professional missions and the potential ways to fight against them. The questionnaire has three parts: 1. general information about the respondent; 2. questions testing the auditors' perception on creative accounting practices; 3. personal data about the respondent. In total, the questionnaire had 18 questions out of which 17 closed questions and 1 open question. Out of the 18 questions, 10 require answers from a scale from one to five, varying between strongly agree (5) to strongly disagree (1). The choice of this scale is justified by the fact that this type of questionnaire can be easily processed.

The remainder of the paper is organized as follows. The next section briefly describes the theoretical framework regarding the potential involvement of auditors in noticing and limiting creative accounting practices. The third section presents our research design and methodology, explaining the way our study was conducted and the main objectives of our investigative research. The fourth section reports the results of questionnaire and tackles as well with the testing of some research propositions. The final section of our paper summarizes and concludes our findings and contributions revealing also the weaknesses of our study.

1. LITERATURE REVIEW

The involvement of audit in limiting the practices of creative accounting should be characterized by responsibility, permanence; at the same time, the auditors should display independence, impartiality, fairness, competence, and credibility. The largely spread technique of the result strategic management activity has, according to Hadani *et al.* (2011), an opposite impact on the quality and credibility of financial statements and leads to the increase of the information asymmetries between owners and managers. The study presented investigates the effect of the shareholders' activism and the monitoring by the most important institutional owner of the result's strategic management. Pfarer *et al.* (2008), quoted by Hadani *et al.* (2011), consider that the

manipulation of the results reported in financial statements represents a popular practice encountered within public companies. By deceiving the investors, the manipulation of the results may lead to an inappropriate allocation of temporary resources.

According to Mitchell *et al.* (1991), the auditor who should indicate the health of the economic entities audited, does not get involved enough and is not objective, not taking his role seriously. This group of authors is the one who criticized most often the Audit – Creative Accounting relation. The failure of the audit to detect the mistakes which were deliberate or not, mistakes which might occur in the financial statements, may lead to the submination of this evaluation process' value (Levitt, 1998). In support of these statements, the authors have brought into attention the example of the following companies: Polly Peck, Coloroll, Johnson Matthey, Corton Beach, British & Commonwealth, Rush & Tomkins, Sound Diffusion, British Island Airways, Sock Shop, Parkfield, Eagle Trust, Leavitt Group or the well known Enron. All these companies had been audited; they had been given a clean bill of health, the conclusions of the audit being that their financial statements were in accordance to the economic reality. A few weeks after the publication of the Audit Report, all these companies went bankrupt. The question raised then, for each case, was: where were the auditors? The reputation of this profession has lost due to these scandals which have shaken the world economic stage. If until then the profession of auditor had been respectfully treated, this aspect was forgotten and replaced with skepticism. The commitment to the public interests, which is the essence of professionalism, was a variable element and in many cases a null one, which has led to the opinion that the ethical code of the profession had been broken. An interesting perspective on the auditors' reputation can be found in the paper of Karagaretnam, Lim and Lobo (2010) who, in a research carried out in the banks in 29 countries, determine that it is influenced by two aspects: the type of auditors and the auditor's specialization in a certain industry. Including the two variables in the same test, they conclude that only the auditors' specialization in a certain industry has a significant impact on the actions targeting the confinement of the appeal for creative accounting practices.

In Hui and Fatt's vision (2007), both the earnings management and the audit risk reduction are multidimensional structures. They have established some crucial convergence points between the audit processes of the external auditors and the firms' strategic management agendas. A theoretical framework which includes some proposed strategic organizational conditions which align to the internal and external organizational effects for the firm's results and theories are then presented. The literature review leads to the conclusion that the integration of the audit processes and of the organizational conditions is for certain beneficial for both auditors and firms. The routine resulting from such integration may represent an asset of tacit, difficult to emulate knowledge. Thus, the practices and the levers of such a routine deserve the managers and the researchers' attention. For a substantial diminishing of the result strategic management and the audit risk, we favor the idea that the firm's

organizational conditions deserve more attention from the managers and auditors. The understanding of constant practices regarding the audit activities within the organization of the firm's activity is considered beneficial for both parties. Using data of the industrial census from China, Li (2011) examines the institutional manipulation model of the statistics of the profit reported by the manufacturing firms. This manipulation is called "earnings management". The authors consider that this phenomenon is more penetrating in China than in mature market economies, like those in the USA, and that the Chinese firms seem to follow a „shut up and make more money” strategy by the tendency to reduce to zero the profits and revenues reported. The same tendency of revenues reduction to zero can be seen in the case of Portuguese firms that have high income taxes. The results presented by Marques *et al.* (2011) confirm the importance of auditors, shareholders and fiscal counselors who must be alert to the association between the considerations of tax planning and the revenues reported in the monitoring analysis and the counseling activities regarding the firm's policy.

In our opinion, the profession of auditor cannot be considered responsible for the financial failure of these entities as it does not have all the tools to fight against such deceiving practices as the ones discussed. Many times, the requests exceed the knowledge that a financial auditor should have according to his status, necessary to be able to carry out his auditing work; therefore, in detecting the cases of creative accounting, this level of knowledge is insufficient. Taking into consideration the fact that those normally using these accounting engineering know very well the audit procedures and they “cover the tracks” of the application of these economically inaccurate practices, concomitantly with the use of the so called techniques of *"blinding of the internal control system"* (Saxunova, Bartkova, 2005), this approach is making the auditor's work even more difficult in the attempt to discover these practices. We consider that, yet difficult for an auditor to foresee the financial failure before it happens, they should pay more attention to the management's ability and the evaluation of the latter integrity. A competent management is permanently preoccupied with potential financial problems, changing its management techniques in order to reduce to the minimum the effects of some short-term problems. Regarding the management's ambiguous integrity, the cases in which key-members of the managerial team have been convicted are well known. Signals of integrity problems can also be generated by the frequent changes of key-members within financial or internal audit departments or by the ongoing conflicts with the employees and trade unions.

There are not many studies in the Romanian accounting literature investigating or exploring different empirical evidences of Romanian auditors' behavior regarding creative accounting practices. While authors such Munteanu and Zuca (2011), Tabără and Rusu (2011), are dealing with identifying the main creative accounting techniques and the way in which the latter influence the information presented in the annual financial statements, affecting their quality and credibility, other authors such Morariu

and Jianu (2009), Horomnea *et al.* (2012) starting from aspects concerning huge financial scandals exemplify some of the most encountered cases, on the border between creative accounting and accounting fraud. We notice here their attempt to emphasise via comparison, the correlations between the two interfaces, including the motivations and factors that frauds and accounting engineering are based on, as well as the purpose to reflect some of the constraints of the audit procedures in identifying the accounting fraud generating situations. Regarding the empirical study carried out by Vladu and Groşanu (2011) it reports the results of a survey designed to explore the existence and magnitude of creative accounting practices in the Romanian accounting environment using as a reference point the opinion of some of the top representative accounting professionals like: financial auditors, regulators and professional bodies representatives of the Chamber of Financial Auditors of Romania and also representative of the Body of Expert and Licensed Accountants of Romania. Another empirical study realized by Groşanu *et al.* (2011) is focused on the study regarding the impact of applicable accounting regulations in Romania on creative accounting techniques.

2. RESEARCH DESIGN AND METHODOLOGY

In our study we have conducted an empirical research about the auditors' perception on the accounting practices; the period of time during which the research was carried out was May-July 2011, the method used was the survey while the instrument of our research was the questionnaire. In our study we intended to identify the financial auditors' perception on the existence and forms of manifestation of the creative accounting phenomenon within business companies. The objectives of our research are, as follows: to determine the auditors perception on the users' interests, the existence and frequency of creative accounting practices as well as to emphasize the main creative accounting practices that the auditors have identified in their professional experience, after auditing the financial statements of business companies and possible ways to fight against these. Therefore, we will present a descriptive analysis of the answers provided by the sample subjects and also test some research propositions. Synthetically, they are:

RP1: The number of years of professional experience influences the auditors' perception regarding the quality of financial statements.

RP2: There is a correlation between the auditors' professional experience and the frequency of creative accounting practices encountered in their audit financial statements missions.

RP3: The existence of an efficient internal control system is in correlation with the financial auditors' perception of the tendency to use creative accounting practices.

RP4: The possibility of identifying the accounting manipulation tendencies is in a significant correlation with the frequency of creative accounting practices encountered in the financial statements audit missions.

The universe population is represented by the 43 CFAR¹ member auditors from Bihor County. The choice of the sample dimension is essential, because only if the sample is representative, the results of the estimations can be inferred on the total (universe) population. Several aspects should be taken into account, such as the probability to guarantee the results, the variables' standard deviation in the total population, the maximum admitted error, the available financial, human and time resources. One of the difficulties we had to face is related to the impossibility of estimating the dispersion in the total population. Moreover, the results of the survey will be used to estimate several indicators, with different (and unknown) standard deviations. Given the fact that most of the times the indicator which will be estimated in the total population is the proportion of a part of population in the total one, we will consider its maximum value, in case of dispersion of dichotomous variables, that is

$$\sigma^2 = p(1 - p) = 0.5(1 - 0.5) = 0.25$$

where p represents the proportion in which the population surveyed presents the choice of the interest variable in sampling.

When dealing with large universe populations, the sample volume is calculated using the formula:

$$n = \frac{t_{tab} \sigma^2}{e^2}$$

where:

t_{tab} – the critical value of Student distribution, for n degrees of freedom and a conveniently chosen probability – for a 95% probability the critical value is 1.96,

σ^2 – the dispersion of the variable in the total population,

e – the maximum error admitted – we will choose an error of maximum 5%.

Taking into account the fact that the total population is made up of 43 financial auditors and because everybody's contact addresses could be identified, the surveys were sent via electronic mail. The purpose of our research is the analysis of the auditors' perception on the creative accounting phenomenon, so a survey was drawn up. When drawing up surveys, we used the Likert scale with 5 scale levels. This type of measurement scale refers to a series of aspects for which the subject expresses his agreement or disagreement. We have chosen this type of Likert scale with the levels of appreciation strongly agree, agree, neither agree nor disagree, disagree and strongly disagree because the 7 level type would require much more refinement from the respondents, making the completion process difficult, which could have led to a much lower answer rate. The surveys were made and posted on the Internet page: goo.gl/Xg2WV so that the respondents accessed the link received by e-mail, the answers being automatically directed to balaciu.diana@gmail.com. Thus the anonymity of the respondent was preserved. The surveys were sent on 16.05.2011. As

everybody's contact addresses had been identified, the surveys were sent via electronic mail to all the auditors, the answer rate being of 58.13%.

We used Cronbach Alpha in order to analyze and confirm the survey's reliability as well as of the measurement scale. We grouped the questions referring to the perception on creative accounting, obtaining a coefficient $\alpha=0.804$, which indicates a reliable scale. The elimination of any item leads to a lower Alpha.

3. DISCUSSION REGARDING FINANCIAL AUDITORS' PERCEPTION ON THE EXISTENCE AND FORMS OF MANIFESTATION OF CREATIVE ACCOUNTING PHENOMENON

In order to analyze the answers given by the auditors, we built one-dimensional as well as crosstabulation tables, in which we presented the absolute and relative frequency of the answers in our sample. The survey contains two categories of questions: general ones, their role being to provide an as faithful as possible image regarding the personal profile of the sample auditors as well as questions regarding the financial auditors' perception on the existence and forms of manifestation of the creative accounting phenomenon within Romanian companies.

Descriptive analysis of answers

I. General questions

a) The first general aspect which has been emphasized with the help of the survey questions is the ***distribution of auditors by gender***.

Table 1. Distribution of respondents in the sample by gender

Answers	Absolute simple frequencies	Relative simple frequencies	Relative cumulated frequencies
Female	17	68.0	68%
Male	8	32.0	100.0%
Total	25	100.0%	-

The results presented in **Table 1** show that the majority of auditors answering the survey questions were women.

b) We also wanted to emphasize the ***distribution of the 25 auditors in our sample by the position held in the organization***. We have noticed that most auditors are general managers/CEOs (16%) while an extremely high percentage could not find their position amongst the survey answers (64%), 8% of our respondents were audit accountants while 12% were executive directors.

c) ***Distribution of the sample by age***. Another characteristic describing the sample of auditors from a demographical point of view is age.

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Table 2. Distribution of respondents in the sample by age

Answers	Absolute simple frequencies	Relative simple frequencies	Relative cumulated frequencies
Under 40 years old	2	8.0 %	100.0 %
41 – 50 years old	15	60.0 %	92.0 %
Over 50 years old	8	32.0 %	32.0 %
Total	25	100.0 %	-

As seen in **Table 2**, most of auditors were aged between 41 and 50 years old, moreover, 92% of them are over 41.

d) The experience as a financial auditor. The respondents were asked about their experience as financial auditors, as their professional experience can significantly influence the frequency of creative accounting practices encountered in their financial statements audit missions. We will deal with this hypothesis later, in order to establish whether it is confirmed or not at a sample level. The majority of the auditors have a maximum 5 years experience while 44% of them have seniority in the field of more than 5 years.

e) The auditors' belonging to professional associations was another general aspect we've been interested in. All the auditors in our sample were members of professional associations. The answers received show that 91% of the auditors are RACCPA members while 78% of them are members of other professional organizations.

Table 3. The auditors' from the sample belonging to professional associations

Answers	Absolute simple frequencies	Relative simple frequencies
ACCA	2	8.0
ACCA, RACCPA ²	1	4.0
RACCPA	5	20.0
RACCPA, Others	8	32.0
RACCPA, NARV ³	7	28.0
Total	25	100 %

After this preliminary analysis we could create the profile of the auditor included in the survey: it is a female, it is a general manager, 45 years old, it has experience as an auditor between 1 and 5 years and it has at least the RACCPA membership.

Questions regarding the financial auditors' perception on the existence and the forms of manifestation of creative accounting phenomenon in Romanian companies

The most important part of our research has as a purpose the determination of the auditors' perception on creative accounting techniques. We present here a part of the descriptive statistics referring to these aspects, and we will tackle the subject again and more thoroughly analyse them in the part dedicated to the testing of some research propositions.

a) The auditors were questioned on the *elements targeted by entities through creative accounting practices*. The questionnaire had a few pre-set choices, but the auditors could give open answers, as *well*.

Table 4. The frequencies associated to the creative accounting practices encountered by the auditors

Answers Creative accounting practices	Strongly agree	Agree	Neither agree nor disagree	Disagree	Strongly disagree
Development expenses	5	10	4	4	2
Amortization and depreciation of assets	11	12	0	2	0
Re-evaluation of tangible assets	9	14	2	0	0
Financial assets	1	14	5	3	2
Stock evaluation	10	13	0	2	0
Evaluation and recognition of provisions for risks and expenses	12	11	0	2	0

As seen in Table 4, all the creative accounting practices enumerated by us in the questionnaire have often and very often been identified by our sample. The most encountered ones were the evaluation and recognition of provisions for risks, the amortization and depreciation of assets, the revaluation of tangible assets and stock evaluation and the least – the development costs and financial assets. 13 respondents answered the open answer question, each of them mentioning other creative accounting practice identified over the years: the capitalization of expenses with interests, recognition of expenses recorded in advance, recognition of expenses subsequent to initial evaluation, the adapted use of the transfer prices, the recording of unfinished production, the foregoing dividends, the use within the flows of the procedure to complete the sources with the associates' credits, the overvaluation of the sales revenues, the interpretation of contract clauses, the use of the intermittent inventory, wage unjustified calculations, drawing up the cash flow on budgets having an optimistic choice (based especially on the revenue overvaluation), the omission in

the sales contracts of some fixed calculation percentages of damages in case the contractual clauses are not complied with, the security activity regarding data circulation.

b) Being asked about their opinion on *who benefits from advantages after strategically managing the financial results*, all the 25 auditors in the sample chose “the manager”.

The bivaried analysis. Testing the research propositions

In this stage of our research we tried to validate the research propositions in our sample as well as to generalize the results on the total population. Each research proposition was analyzed using specific statistical calculations, qualitative appreciations and direct observations of data gathered. Regarding the first research proposition, we tried to identify a correlation between the practical experiences of the auditors and the manner in which the qualitative level of the financial information are interpreted. The reference to the auditors' professional experience includes, apart from seniority in the field - expressed in the number of years of activity and number of audit missions carried out - the extent to which these auditors participated to different audit courses. In our research proposition, in order to see the perception they have on the qualitative level of financial statements, we took into account the auditors' years of experience.

RP1: The auditors' professional experience influences the perception on the quality of financial statements.

To test this research proposition, we analyzed the distribution of answers to questions I.2 and II.1, II.2 and II.3:

II.1. Do you consider that the financial statements are transparent enough to be in accordance to reality?

II.2. Is accounting manipulation an often encountered procedure in the financial statements?

II.3. Do you consider that the end users' interests can be “affected” by using creative accounting?

The distribution of answers in the sample is the following:

Table 5. Distribution of answers to questions II.1, II.2 and II.3 given by the auditors

Question Answers Choices	II.1 Abs. Freq.	II.2 Abs. Fre.	II.3 Abs. Freq.	II.1 Relative Freq.	II.2 Relative Freq.	II.3 Relative Freq.
Strongly disagree	0	2	2	0 %	0.08 %	0.08 %
Disagree	11	3	2	0.44 %	0.12 %	0.08 %
Neither agree nor disagree	7	3	1	0.28 %	0.12 %	0.04 %

Answers Choices	Question			II.1 Relative Freq.	II.2 Relative Freq.	II.3 Relative Freq.
	II.1 Abs. Freq.	II.2 Abs. Fre.	II.3 Abs. Freq.			
Agree	7	11	10	0.28 %	0.44 %	0.4 %
Strongly agree	0	6	10	0 %	0.24 %	0.4 %
Total	25	25	25	100 %	100 %	100 %

Thus, most of the auditors (44%) consider that the accounting statements they dealt with were not transparent enough, 68% of them consider that accounting manipulation is a frequent procedure encountered in practice and 68% of the respondents believe that the end-users' interests can be affected by using creative accounting. To analyse the existence of a correlation between the number of years of professional experience of the auditors and their perception on the quality of financial statements, we will use the χ^2 – Chi squared test, which is a non-parametric test, being applied both for numerical, quantitative variables as well as for qualitative characteristics, no matter their probability distribution. Due to the fact that the auditors' perception on the quality of financial statements is measured with the help of several variables (questions II.1, II.2 and II.3), we will associate a score to the answers to each question, and then we will calculate the average score for each respondent. For the answers to the three questions are: *Strongly agree*, *Agree*, *Neither agree nor disagree*, *Disagree*, *Strongly disagree*, the points associated to these answers in case of question II.1 were 1, 2, 3, 4 and 5 respectively 5, 4, 3, 2, 1 to questions II.2 and II.3. Choosing the answers *Disagree* or *Strongly disagree* to the first question or choosing the answer *Agree* or *Strongly agree* to questions II.2 and II.3 indicates a doubtful quality of financial statements.

The bidimensional distribution between the frequencies of answers to the first question and the average scores is presented in Table 6. It can be seen that most of the scores are those over 3.33. Starting from this table a new one is built, that of the recalculated frequencies.

We will apply the χ^2 test to establish whether there is a correlation between the number of years of professional experience of the auditors in our sample and the perception on the quality of financial statements.

For the χ^2 test statistics in our sample is $\chi^2 = 8.95$, higher than 0, we conclude that in the sample there is a correlation between the two variables – the number of years of professional experience of the auditors and their perception regarding the quality of financial statements – the intensity of the correlation being quite weak (the intensity increasing with the value of χ^2).

Table 6. Table of correlation between the number of years of professional experience and the average scores to questions II.1, II.2 and II.3 in the survey addressing the auditors

Professional experience Average scores	Under one year	Between 1 and 5 years	Over 5 years	Total
2.67	0	1	0	1
3.00	0	1	0	1
3.33	0	1	2	3
3.67	1	1	2	4
4.00	0	4	1	5
4.33	1	3	3	7
4.67	0	1	3	4
Total	2	12	11	25

To expand our result on the total population, the following hypotheses are issued:

$H_0 : \chi^2 = 0$ (accepting this hypothesis means the non-existence of a correlation between variables, at the level of total population)

$H_1 : \chi^2 \neq 0$ (accepting this hypothesis means the existence of a correlation between variables, at the level of total population)

To establish which hypothesis is true, the calculated value, 8.95 is compared to the tabular value, for $v = (I-1)(J-1) = (7-1)(3-1) = 12$ degrees of freedom and the probability of 95%, which, in our case, is 21.03⁴. As the calculated value is lower than the tabular value, the H_0 hypothesis cannot be rejected, therefore there is no correlation between the two variables in the total population.

Therefore, the H1 research proposition: *The number of years of professional experience of the auditors' influence their perception on the quality of financial statements does not validate.*

The auditor is required to give an objective opinion on the faithful image. When the auditor expresses his opinion on the statements audited, he considers as element of reference the application of generally accepted accounting principles in the evaluation of the degree of faithfulness of the statements or information analyzed. Without such a criterion, it would be extremely difficult to establish, objectively, whether the financial statements are or not a faithful image of the company's performance. This is generally consistent and applicable for all the auditors, yet within the second research proposition we supposed the auditor has participated to several audit missions, thus the probability to track the accounting practices increased.

RP2: *There is a correlation between the auditors' professional experience and the frequency of creative accounting practices encountered in their audit missions of financial statements.*

The questions based on which we will test the validity of this research proposition are I.2 and II.4, II.6, II.7, II.8, II.9 and II.13. The distribution of answers to question I.2. - referring to the *professional experience* of the auditors has already been presented in the previous sections. The questions reflecting the *frequencies of creative accounting practices* encountered in the audit missions of financial statements are the following:

II.4. State, based on your experience, which of the following elements is targeted by entities through creative accounting practices:

- a) development expenses*
- b) amortization and depreciation of assets*
- c) re-evaluation of tangible assets*
- d) financial assets*
- e) stock evaluation*
- f) evaluation and recognition of provisions for risks and expenses.*

II.6. Is profit maximization practice a procedure often encountered by you?

II.7. Is profit minimization practice a procedure often encountered by you?

II.8. Is the practice to account the prior recorded revenues as current revenues of the period a procedure often encountered by you?

II.9. Is the practice to account the prior recorded expenses as current expenses of the period a procedure often encountered by you?

II.13. Of the companies you audited, how many of them do you consider have used creative accounting techniques?

The distribution of the answers to these questions is synthetically presented in Table 8.

Table 8. Distribution of answers to questions II.4a, b, c, d, e, f, II.6, II.7, II.8 and II.9 in the survey for the auditors – absolute frequencies

Question \ Answers	II.4.a	II.4.b	II.4.c	II.4.d	II.4.e	II.4.f	II.6	II.7	II.8	II.9
Strongly disagree	2	0	0	2	0	0	2	0	3	3
Disagree	4	2	0	3	2	2	7	3	2	0
Neither agree nor disagree	4	0	2	5	0	0	1	0	1	0
Agree	10	12	14	14	13	11	14	16	19	16
Strongly agree	5	11	9	1	10	12	1	6	0	6
Total	25	25	25	25	25	25	25	25	25	25

Empirical evidences of Romanian auditors' behavior regarding creative accounting practices

As can be seen both in the table and in Figure 1, the majority of auditors agree that all the elements enumerated in the survey are targeted through creative accounting practices. Of these, the highest percentage is held by the evaluation and recognition of provisions for risks and expenses, amortization and depreciation of assets and stock evaluation, minimization of profit and accounting of prior recorded expenses as current expenses of the period.

The answers to question II.13. indicate the percentage of companies having been identified when audited as using creative accounting techniques.

The majority of auditors from our sample consider that the percentage of companies using creative accounting techniques is between 0 and 30%, but the percentage of those who believe that it is between 30 and 60% is not to be overlooked – 32%.

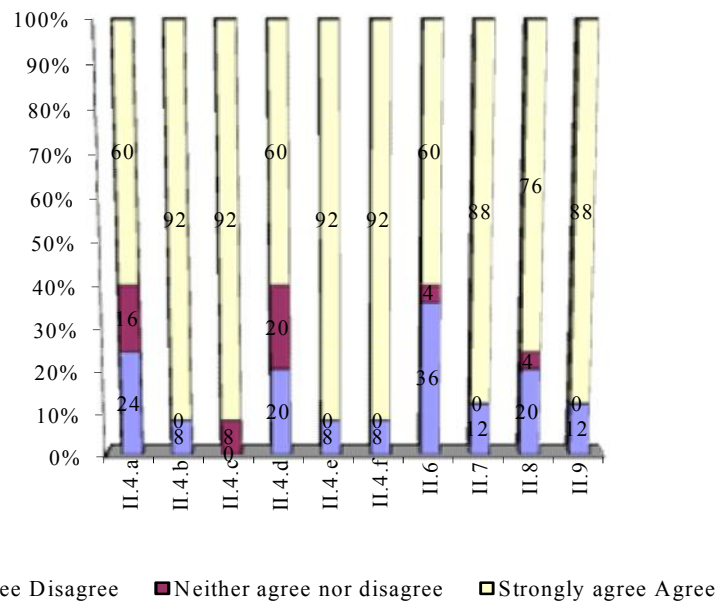


Figure 1. Distribution of answers to questions II.4a, b, c, d, e, f, II.6, II.7, II.8 and II.9 in the survey for the auditors – relative frequencies (%)

We will continue with the *analysis of the correlation between the auditors' professional experience and the frequency of creative accounting practices encountered in their audit missions*. Due to the fact that the two aspects (professional experience and the frequency of creative accounting practices) are emphasised by the answers to several questions of the survey, we will determine some average scores. The *professional experience* is measured considering the seniority as auditor. The importance scores are as it follows: for small, less than one year seniority – 1 point, between 1 and 5 year seniority – 2 points and over 5 year seniority – 3 points. For the answer choices to the first five questions characterising the *frequency of creative accounting practices* are *Strongly agree, Agree, Neither agree nor disagree, Disagree, Strongly disagree*, and the last question has only three choices, we will cumulate the frequencies of *Strongly agree* with *Agree* and *Disagree* with *Strongly disagree* answers. The points associated to these will be 3 for the *Strongly agree* and *Agree* answers, 2 points for *Neither agree nor disagree* answer and 1 for *Disagree* and *Strongly disagree*. Also, we award 1 point the auditors who consider that less than 30% of the audited firms have used creative accounting techniques, 2 points to those who have chosen the 30 – 60% percentage and 3 points to the over 60% percentage. Thus, low scores indicate a small seniority in work and a small percentage of creative accounting practices identified etc.

Table 9. Crosstabulation of the answers to the auditor questionnaire, referring to the experience in the field and the scores associated to the frequency of creative accounting techniques identified – absolute frequencies

Work Creative seniority Accounting techniques identified	1.00	2.00	3.00	Total
1.73	0	2	0	2
1.91	0	0	2	2
2.27	0	1	0	1
2.36	0	2	0	2
2.55	0	0	2	2
2.64	2	1	0	3
2.73	0	3	3	6
2.82	0	1	1	2
2.91	0	2	3	5
Total	2	12	11	25

In order to test the research proposition, we will use, apart from the χ^2 – Hi-squared method, Pearson's correlation coefficient. *Pearson's correlation coefficient* is used to measure the intensity of the linear dependence between two variables. In our case, will suppose that there is a direct linear correlation between the two variables (the

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auditors' consistent experience determines a higher frequency of identified creative accounting practices). The distribution of the answers regarding the two variables is presented in **Table 10**. A first conclusion is that the answers are relatively uniformly distributed, so we can conclude that there is no correlation between the two variables, therefore the auditors' perception regarding creative accounting techniques is not influenced by the auditors' experience in the field.

Table 10. **Pearson's correlation coefficient between work seniority and identified creative accounting techniques**

Correlations			
		Work seniority	Identified creative accounting techniques
Work seniority	Pearson Correlation	1.000	.069
	Sig. (2-tailed)	-	.745
	N	25.000	25
Identified creative accounting techniques	Pearson Correlation	.069	1.000
	Sig. (2-tailed)	.745	-
	N	25	25.000
*. Correlation is significant at the 0.05 level (2-tailed).			

The value of Pearson's coefficient is generally between -1 and 1, its sign indicating the direction of the correlation, and the remoteness from 0, its intensity. In our case, using SPSS v.16 programme, we determined the value of this coefficient as being equal to 0.069. As seen in Table 10, for a significance level of 5%, the value is not significantly different from 0, which rejects the existence of a correlation between the two variables, both in the sample and the total population.

We will try to validate this research proposition using the χ^2 – Hi-squared method as well. In order to study the intensity of the correlation between the two sets of variables presented, we will apply the χ^2 test. The table of recalculated frequencies with the formula $n'_{ij} = \frac{n_{i\bullet} \cdot n_{\bullet j}}{n}$ is presented in Table 11. The statistic of the test in the sample is $\chi^2 = 26.33$.

Table 11. **Table of recalculated frequencies associated to table 10**

Identified creative accounting techniques	Work seniority			Total
	1.00	2.00	3.00	
1.73	0.16	0.96	0.88	2
1.91	0.16	0.96	0.88	2
2.27	0.08	0.48	0.44	1

Identified creative accounting techniques	Work seniority			Total
	1.00	2.00	3.00	
2.36	0.16	0.96	0.88	2
2.55	0.16	0.96	0.88	2
2.64	0.24	1.44	1.32	3
2.73	0.48	2.88	2.64	6
2.82	0.16	0.96	0.88	2
2.91	0.4	2.4	2.2	5
Total	2	8	1	25

Since this value is much higher than 0, our conclusion is that ***there is a correlation at the sample level*** between the auditors' professional experience and the frequency of creative accounting practices encountered in their audit missions of financial statements. To expand our result on our total population – the totality of auditors in Bihor County – we use the following hypothesis test:

$$H_0 : \chi^2 = 0$$

$$H_1 : \chi^2 \neq 0$$

In order to decide whether the H_0 hypothesis can be rejected, the calculated value, 26.33, is compared to the critical one, for 16 degrees of freedom and a probability of 95%, which in our case is 26.3. As the calculated value is higher than the critical one, hypothesis H_1 is accepted, therefore, there is a correlation between the two variables at the level of total population, but its intensity is not high as the difference between the two values is extremely small.

Therefore, regarding research proposition RP2: There is an association between the auditors' experience and the frequency of creative accounting practices encountered in their audit missions of financial statements – due to the contradictory results of the two test and, also, the extremely small difference between the critical value and the calculated value of the χ^2 test, ***it cannot be confirmed by the auditors' answers.***

As we have already mentioned, it is the management, not the auditor that is in charge with drawing up the financial statements in accordance to the generally accepted principles, this being fully in accordance to the fact that the management must define and apply the control mechanisms of the entity.

A company should define internal control mechanisms providing a reasonable, not absolute, assurance of the fact that the financial statements present a faithful image of its performance. Yet many times, the management prefers to employ a few extra people in the accounting department to bring some improvement in the reliability of

accounting data, due to the fact that many times it is much cheaper to employ auditors to perform more detailed audits than to have higher expenses with the internal control.

The auditors' main objective is to provide reasonable guarantees (certifications) on the faithfulness of information. They do not usually intend to track frauds and errors but to evaluate the efficiency of internal control, making recommendations meant to lead to its contribution increase to prevent and track frauds and errors.

Starting from Arens and Loebbecke (2003), according to which “*a good internal control prevents more frauds than an auditor could ever discover*”, we decided to test the following research proposition:

RP3: The existence of an efficient internal control system influences the financial auditors' perception on the tendency to use creative accounting practices.

We tested the validity of this research proposition using the answers from questions II.11 and II.4, II.6, II.7, II.8 and II.9. The distribution of answers to questions II.4, II.6, II.7, II.8 and II.9 referring to *the use of creative accounting practices* has already been presented in the previous sections.

Regarding question II.11, this is:

II.11. Do you consider that a consolidated control can diminish the tendency to use creative accounting?

Therefore the answers to question II.11. indicate the percentage of the auditors considering that a consolidated control can diminish the tendency to use creative accounting. Their distribution is presented in Figure 2.

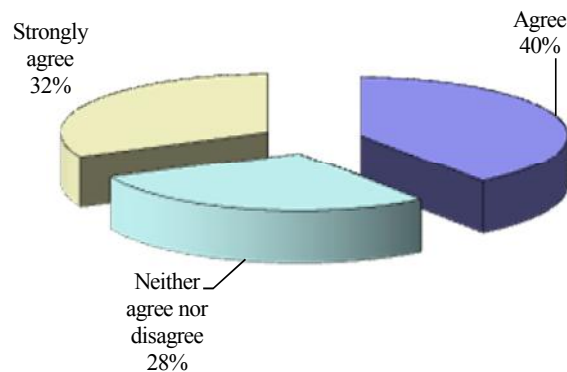


Figure 2. Percentage of auditors considering that a consolidated control can diminish the tendency to use creative accounting

Therefore, 72 % of the auditors consider that a consolidated control can diminish the tendency to use creative accounting. We will proceed with the validation of this hypothesis with the help of the χ^2 – Hi-squared method. The cross tabulation between the scores determined using on the answers in the survey for the auditors, referring to the frequency of identified creative accounting techniques and the auditors’ perception regarding the role of a consolidated control in diminishing the tendency to use creative accounting is presented in Table 12.

Table 12. Cross tabulation between the answers afferent to variables used in validating the RP 3 – the survey for auditors

Consolidated control diminishes the tendency to use creative accounting techniques Identified creative accounting techniques - scores	Neither agree nor disagree	Agree	Strongly agree	Total
1.80	0	2	0	2
2.00	0	2	0	2
2.40	1	0	0	1
2.50	0	0	2	2
2.60	2	0	0	2
2.70	2	0	0	2
2.80	2	0	2	4
2.90	0	3	2	5
3.00	0	3	2	5
Total	7	10	8	25

The table of recalculated frequencies is the following:

Table 13. Table of recalculated frequencies associated to Table 12

Consolidated control diminishes the tendency to use creative accounting techniques Identified creative accounting techniques scores	Neither agree nor disagree	Agree	Strongly agree	Total
1.80	0.56	0.8	0.64	2
2.00	0.56	0.8	0.64	2
2.40	0.28	0.4	0.32	1
2.50	0.56	0.8	0.64	2

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Consolidated control diminishes the tendency to use creative accounting techniques	Neither agree nor disagree	Agree	Strongly agree	Total
2.60	0.56	0.8	0.64	2
2.70	0.56	0.8	0.64	2
2.80	1.12	1.6	1.28	4
2.90	1.4	2	1.6	5
3.00	1.4	2	1.6	5
Total	7	10	8	25

We first determined the $\chi^2 = 29.08$ value in the sample. For this value is much higher than 0, we can say that there is a correlation between the analysed variables, therefore the auditors' perception is that the existence of an efficient internal control system represents a factor influencing the financial auditors' perception on the tendency to use creative accounting practices. To generalize our result on total population – the totality of auditors in Bihor County, the following hypothesis test is used:

$$H_0 : \chi^2 = 0$$

$$H_1 : \chi^2 \neq 0$$

In order to establish whether H_0 hypothesis can be rejected, the calculated value, 29.08, is compared to the critical one, for 16 degrees of freedom and a probability of 95%, which in our case is 26.3. Since the calculated value is higher than the critical one, H_1 hypothesis is accepted, therefore there is a correlation between the two variables at in the total population, but its intensity is not very high, because the difference between the two values is not significant.

Therefore, the RP3 research proposition: The existence of an efficient internal control system influences the financial auditors' perception on the tendency to use creative accounting practices is validated.

During his missions, the auditor may notify whether certain transactions have been carried out so that to the financial statements would present a beneficial image of the enterprise, but not a faithful image. This way they are able to identify accounting manipulation tendencies and to suggest adjustments of financial statements. In the fourth research proposition, we investigated whether the efficiently carrying out of this skill is strongly related to the frequency of creative accounting practices encountered in the work previously performed by that particular auditor.

RP4: The possibility of identifying the accounting manipulation tendencies is in strong correlation with the frequency of creative accounting practices encountered in the audit missions of financial statements.

The questions based on which we tested the validity of this research proposition are II.10 and II.4, II.6, II.7, II.8 and II.9. The distribution of the answers to questions II.4, II.6, II.7, II.8 and II.9 referring the *use of creative accounting practices* has already been presented in the previous sections. Regarding question II.10, it is:

II.10. Can creative accounting practice be tracked down easier by the financial auditors?

The answers to question II.10. show that 72 % of the auditors consider that creative accounting practices can be easily tracked down.

Table 14. Distribution of answers afferent to the variables used in validating RP 4 – survey for auditors

Creative accounting practices can be easily tracked down	Disagree	Neither agree nor disagree	Agree	Strongly agree	Total
1.80	0	0	2	0	2
2.00	0	0	2	0	2
2.40	0	0	1	0	1
2.50	0	0	0	2	2
2.60	0	0	2	0	2
2.70	2	0	0	0	2
2.80	2	0	2	0	4
2.90	0	0	5	0	5
3.00	1	2	2	0	5
Total	5	2	16	2	25

We will proceed with the validation of RP 4 with the help of the χ^2 – Hi-squared method. The bidimensional distribution of the scores determined based on the answers of the survey for the auditors, referring to the manipulation tendencies and the frequency of creative accounting practices encountered in the audit missions of financial statements is presented in Table 15.

Table 15. Table of recalculated frequencies associated to Table 14

Creative accounting practices can be easily tracked down Frequency of identified creative accounting techniques scores	Disagree	Neither agree nor disagree	Disagree	Strongly agree	Total
1.80	0.4	0.16	1.28	0.16	2
2.00	0.56	0.8	0.64	0.16	2
2.40	0.28	0.4	0.32	0.08	1
2.50	0.56	0.8	0.64	0.16	2
2.60	0.56	0.8	0.64	0.16	2
2.70	0.56	0.8	0.64	0.16	2
2.80	1.12	1.6	1.28	0.32	4
2.90	1.4	2	1.6	0.40	5
3.00	1.4	2	1.6	0.40	5
Total	5	2	16	2	25

We have determined the $\chi^2 = 55.26$ value in our sample. As this value is much higher than 0, we can say that there is a correlation between the variables analysed in our sample, therefore the auditors' perception is that the possibility to identify the accounting manipulation tendencies is in significant correlation with the creative accounting practices encountered in their audit mission of financial statements. The inference of our result at the total population level – the totality of auditors in Bihor County, is accomplished using the following hypothesis test:

$$H_0 : \chi^2 = 0$$

$$H_1 : \chi^2 \neq 0$$

In order to establish whether the H_0 hypothesis can be rejected, the statistic of the test, 55.26, is compared to the critical one, for 24 degrees of freedom and a probability of 95%, which in our case is 36.42. As the calculated value is higher than the critical one, the H_1 hypothesis is accepted, therefore there is a correlation between the two variables in the total population, its intensity being sufficiently high as the difference between the two values is significant.

Therefore the H4 research proposition: The possibility of identifying accounting manipulation tendencies is in significant correlation with the frequency of creative accounting practices encountered in the audit missions of financial statements is validated at the sample level and the total population level.

CONCLUSIONS

This paper focused on determining the perception of auditors on the users' interests and the existence and frequency of creative accounting practices and also on emphasizing the main creative accounting practices that auditors have identified in their professional experience. As we have noticed the most encountered creative accounting practices are the evaluation and recognition of provisions for risks, the amortization and depreciation of assets, the revaluation of tangible assets and stock evaluation and the least – the development costs and financial assets. Also, most of the auditors (44%) consider that financial statements prepared by companies are not transparent enough, 68% of them consider that accounting manipulation is a frequent procedure encountered in practice and 68% of the respondents believe that the stakeholders' interests can be affected by using creative accounting; 72 % of the investigated auditors consider that a consolidated control can diminish the tendency to use creative accounting.

As we have presented above, in order to validate our research propositions we used χ^2 – Hi-square method as well as Pearson's Correlation coefficient. We will synthetically present our conclusions regarding the four research propositions referring to the auditors' perception of the users' interests and the existence and frequency of creative accounting practices:

RP1: The number of auditors' years of professional experience influences their perception regarding the quality of financial statements.	The research proposition is not validated.
RP 2: There is a correlation between the auditors' professional experience and the frequency of creative accounting practices encountered in their audit missions of financial statements.	The research proposition is not validated.
RP 3: The existence of an efficient internal control system influences the financial auditors' perception on the tendency to use creative accounting practices.	The research proposition is validated.
RP 4: The possibility to identify the accounting manipulation tendencies is in significant correlation with the frequency of creative accounting practices encountered in auditing mission of financial statements.	The research proposition is validated.

The limits of our study are related especially to the elaboration of the questionnaire, the formulation of the questions as well as the choice of the sample. We intend to continue our study in future researches by extending the sample as well as investigating the auditors' behavior regarding creative accounting practices in several European Union Countries.

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¹ Chamber of Financial Auditors of Romania (n.t.)

² Romanian Association of Chartered and Certified Public Accountants (n.t.)

³ National Association of Romanian Valuers (n.t.)

⁴ The annex with the tabular values of χ^2 distribution can be found at the address <http://home.comcast.net/~sharov/PopEcol/tables/chisq.html>