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Assessing the impact of creative accounting on the duties of external auditors in Libya: An empirical investigation

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***Abstract*---Purpose:** This study aims to explore the role of external auditors in mitigating creative accounting practices, which are often adopted by management to manipulate reported earnings. **Importance/Value:** The research highlights the importance of external audit functions in enhancing the reliability of financial reporting by reducing the scope for creative accounting, thereby fostering trust among financial statement users. **Methodology/Approach:** A quantitative approach was adopted. A total of 95 questionnaires were distributed to a purposive sample, out of which 92 were deemed valid for analysis. Data were analyzed using the Statistical Package for the Social Sciences (SPSS) and Microsoft Excel. **Findings:** The results reveal that external auditors play a significant role in limiting creative accounting practices by ensuring adherence to professional ethics and maintaining the required level of professional competence. Additionally, their presence enhances confidence in financial statements among users. **Conclusion:** The study concludes that external auditors are instrumental in curbing earnings manipulation practices, provided they uphold professional standards and exercise due diligence in fulfilling their responsibilities. **Recommendations:** The study recommends reinforcing the ethical and professional frameworks governing audit practices, enhancing

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auditor training programs, and promoting stricter oversight mechanisms to prevent creative accounting behaviors.

***Keywords*---**External Audit, External Auditor, Financial Statements, Creative Accounting.

1. Introduction

Creative accounting, although often perceived as a modern corporate phenomenon, has its conceptual roots tracing back more than five centuries. The seminal work *Summa* de Arithmetica, published in 1494, is widely credited with the earliest articulation of accounting practices that laid the groundwork for what would later evolve into creative accounting. In contemporary discourse, this term has gained considerable traction among accounting professionals, auditors, scholars, and regulators, particularly due to its implications for financial reporting transparency and stakeholder trust.

The historical development of creative accounting coincided with industrial growth, but it was in the post-1980s era that its techniques saw rapid proliferation, driven by increasingly complex financial instruments and performance pressures. Fundamentally, creative accounting entails the strategic manipulation of financial records such as the timing of revenue recognition or expense classification without overtly breaching legal or professional accounting standards (Abed, Ibtihal A & al, 2022, p. 4). It exploits the flexibility inherent in accounting frameworks to reshape reported figures, aligning them with managerial objectives rather than economic reality. As noted by (Hussin, N & al, 2022, p. 1), such practices aim to construct a financial narrative that reflects management's preferred image, often at the expense of full transparency to stakeholders.

With the growing diversity and complexity of economic activity, accounting has become an indispensable pillar for decision-making processes. Financial reports are no longer merely a record of transactions but serve as the foundation upon which investment, credit, and policy decisions are built. This heightened role demands that financial information be both reliable and credible an expectation that significantly enhances the relevance of external auditing.

External auditors, by virtue of their independence and objectivity, serve as a key assurance mechanism. Their role extends beyond technical compliance to safeguarding the integrity of financial disclosures, particularly in organizational environments where internal controls may be deficient or subject to bias. The auditing profession is thus bound by rigorous ethical and professional standards, reflecting its social responsibility to deliver fair and substantiated judgments on the financial health of institutions.

Despite these expectations, skepticism persists among stakeholders regarding the effectiveness of audit processes, especially in the wake of high-profile corporate collapses and financial crises. Historically, auditors bore direct responsibility for fraud detection, a role that has gradually shifted toward offering reasonable assurance regarding the overall fairness of financial statements. Today, their mission is to ascertain whether financial data is materially free from misstatements intentional or otherwise while acknowledging the limitations inherent in any assurance engagement.

The academic literature offers extensive insights into earnings management and creative accounting practices. For example, (Ansori 2015) investigated audit quality among private firms across European jurisdictions and concluded that stronger investor protection correlates with reduced earnings management. Furthermore, the study emphasized that audit quality and investor protection operate as substitute mechanisms in mitigating financial manipulation highlighting the diminishing marginal impact of Big Four audit firms in contexts of robust investor safeguards.

(Ghazali, Shafie, and Sanusi 2015) examined how managerial opportunism, driven by high profitability and cash flow, interacts with corporate stressors such as financial distress and leverage to influence earnings management behaviors. Their findings suggest that firms in financially healthy positions are more prone to manipulating earnings to sustain favorable perceptions.

In another significant contribution, (Piot and Janin 2007) analyzed the effect of various dimensions of audit quality including auditor reputation, tenure, and audit committee characteristics on earnings management in France. Their study revealed that:

(1) The mere existence of an audit committee, regardless of its independence, curtails aggressive earnings management;
(2) The presence of a Big Five auditor, however, did not consistently affect the extent of such practices.

Research Problem

This study seeks to explore the following primary research question: To what extent does the external auditor contribute to curbing creative accounting practices in Libyan companies?
This overarching question is broken down into two subsidiary inquiries:
- Do Libyan firms engage in creative accounting practices?
- Can external auditors effectively mitigate the prevalence of such practices?

Hypotheses

In order to address the main research problem and its related sub-questions, the following hypotheses were formulated:
Hypothesis 1: There are statistically significant positive indicators regarding the use of cloud accounting practices by Libyan companies at a significance level of 0.05;
Hypothesis 2: There are statistically significant positive indicators that the external auditor's duties contribute to reducing creative accounting practices in Libyan companies at a significance level of 0.05.

First: Theoretical Framework of the External Auditor

1. Agency Theory

The neoclassical economic theory treats audit services as economic goods subject to the dynamics of supply and demand within a specialized market. According to the principal-agent model, external auditing functions as a monitoring mechanism that reinforces public trust in financial reporting by serving as a linkage between corporate management and external stakeholders. Shareholders, acting as principals, delegate part of their oversight responsibilities to independent auditors. This delegation becomes essential given investors' limited time, constrained expertise, and rational apathy, particularly in listed firms;

The external auditor acts not only as a gatekeeper safeguarding the interests of shareholders and stakeholders but also as a secondary oversight resource for audit committees in monitoring executive management. However, being an economic agent themselves, auditors may face challenges that compromise their objectivity and independence, particularly when constrained by client preferences or their own limitations in competence. Agency-related issues such as adverse selection may emerge due to a lack of professional qualifications or a biased alignment with the audited entity (Velte, 2022, p. 13).

2. Definition of External Auditor

An external auditor is an independent professional who performs a systematic and impartial examination of accounting records, legal documents, and financial disclosures to determine whether they fairly and accurately represent an organization's financial condition. In addition to assessing the transparency of financial and non-financial statements, the auditor verifies whether bookkeeping practices adhere to legal standards and statutory requirements (Mamoun & Mohamed, 2020, pp. 1520,1521)

3. The Importance of External Auditing

Organizations frequently engage external auditors in compliance with statutory requirements, recognizing them as legal reviewers of financial information. As independent professionals, external auditors examine a company's records and financial operations to validate the accuracy and reliability of reported data. Their function is critical in enhancing the credibility of financial statements and ensuring adherence to tax laws and regulatory frameworks.

Beyond legal conformity, external audits serve multiple constituencies by supplying vetted financial data for informed decision-making and policy formulation. Key stakeholders include:

- Management: Uses the auditor's report as a feedback mechanism to evaluate internal performance and formulate development strategies;
- Investors: Rely on auditor-certified financial statements to guide investment decisions, safeguarding capital by basing choices on reliable and unbiased information;

- Creditors: Financial institutions depend on audited financial statements to assess the solvency and risk profile of entities seeking loans or credit facilities;
- Governmental Authorities: Utilize audit-verified financial data for fiscal planning, tax assessments, regulatory oversight, pricing strategies, and the allocation of subsidies across specific industries (Mamoun & Mohamed, 2020, pp. 1520,1521).

4. The Role of the External Auditor

The external auditor plays a multifaceted role that encompasses both evaluative and supervisory functions, grounded in adherence to professional standards of integrity and independence. According to (Al-Dalabih, 2018, p. 10), key aspects of this role include:
- The auditor holds the same responsibility for detecting and reporting material misstatements caused by illegal acts as they do for errors or fraudulent activities;
- Their supervisory function demands a high level of independence, objectivity, and ethical rigor to ensure impartial assessment.
- The external auditor is ultimately accountable for confirming whether the financial statements are free from material misrepresentation (Pop & autre, 2008, p. 2).

5. External Auditor's Working Approach:

In the risk assessment phase, external auditors often rely on representations provided by management, particularly internal auditors. External auditors typically anticipate a reduced audit workload when internal auditors are involved, as they assume the latter possess comprehensive knowledge of the organization's operations, systems, and controls. However, the external auditor's working approach plays a pivotal role in shaping their decision to rely on internal audit work and the extent to which they design further audit procedures.

This working style largely determines how the external auditor handles conflicts or discrepancies in management's assertions. An auditor with a "passive engagement style" tends to avoid confrontation, placing greater reliance on internal audit work without expanding their own procedures. Conversely, an auditor with an "active engagement style" is more inclined to challenge such assertions, demonstrate elevated professional skepticism, and collaborate with internal auditors while still independently verifying key elements rather than merely accepting the client's book-value representations (Paino & autre, 2015, p. 152).

6. External Auditor's Report:

Preparing and presenting the audit report to the general assembly of shareholders constitutes one of the primary responsibilities of the external auditor, who serves as a guardian of governance and a representative of shareholder interests. International Standard on Auditing (ISA) 700, Forming an Opinion and Reporting on Financial Statements, stipulates that the auditor must issue a report on the audited financial statements. The purpose of this standard is to establish guiding principles for the form and content of the auditor's report.

Accordingly, the informational content of the audit report can be defined as a structured financial communication tool that conveys multiple reliable indicators and meanings, deemed acceptable for use in economic decision-making by various stakeholders. The audit report thus serves as a crucial input for users of financial statements. In recognition of this, both international and domestic regulations mandate that organizations publishing financial statements must accompany them with an external audit report. This requirement ensures the integrity and transparency of the financial data in reflecting the operational performance and financial position of the firm. (Soufiane & Nour El-Din, 2021)

Second: Theoretical Framework of Creative Accounting

1. Definition of Creative Accounting:
Creative accounting, often referred to as "earnings management" or "fraudulent accounting," encompasses various practices through which accountants leverage their expertise in accounting standards and regulatory frameworks to exploit gaps or ambiguities. This manipulation can occur by exploiting flexible areas in external audit methodologies or by selecting among multiple permissible accounting alternatives sanctioned by International Financial Reporting Standards (IFRS) or other generally accepted accounting principles (GAAP), with the intent to achieve specific, premeditated objectives. (Merdas, Basri, & Takrart, 2019)

2. Key Terms in the Domain of Creative Accounting:
Several overlapping terms are commonly encountered within the realm of creative accounting, including the following: (Albeksh, 2019)
- Aggressive Accounting: The deliberate and forceful selection and application of accounting principles aimed at producing desired outcomes most often inflated current earnings regardless of whether such practices align with generally accepted accounting principles;
- Earnings Management: The intentional manipulation of reported earnings toward a predetermined target, which may be defined by management's objectives, analysts' forecasts, or a strategic aim to produce smoother and more sustainable earnings flows;
- Income Smoothing: A subtype of earnings management that seeks to mitigate volatility in reported profits by reducing peaks and filling troughs. This is typically achieved by underreporting income during profitable years to "store" earnings for use during leaner periods;
- Fraudulent Financial Reporting: The intentional misstatement or omission of financial information in order to deceive users of financial statements. These acts are recognized as fraudulent when identified through administrative, civil, or criminal proceedings;
- Creative Accounting Practices: An umbrella term that includes all tactics employed to manipulate reported financial numbers. This encompasses aggressive accounting selections, earnings management techniques, fraudulent reporting, and any deliberate attempt to reshape income presentation or financial performance for strategic or deceptive purposes.

Third: Relationship Between Creative Accounting and Financial Reporting

The application of creative accounting techniques can significantly distort the information presented in financial statements. Some of the identified effects include: (Popescu & Nișulescu, 2013, p. 5)

- Alteration of Cost Values and Structures: Accounting standards allow for discretionary flexibility in determining annual costs. For example, certain assets are subject to depreciation over a maximum number of years without prescribing a minimum, enabling manipulation of profitability based on the chosen depreciation period. Provisions and capitalization of costs may also be subject to manipulation.
- Revenue Recognition Timing: Revenues may be accelerated or deferred based on the conservatism principle or the matching principle, impacting both income and associated performance metrics.
- Asset Valuation Adjustments: Flexibility in depreciation and provisioning practices allows for increases or reductions in net asset value. Different inventory valuation methods further contribute to variability in reported asset values, affecting the income statement and key performance indicators.
- Modification of Internal Equity Structure: Changes in reported income and expenses impact net income and subsequently affect reserves and internal equity, altering financial ratios and capital adequacy measures.
- Liability Valuation Changes: In certain jurisdictions, accounting standards permit deferral of some liabilities (e.g., retirement obligations), allowing firms to manipulate results by extending liability recognition over the maximum permissible timeframe.
- Asset and Liability Reclassification: Uncertainty may exist regarding the proper classification of certain items, such as securities, which may be recorded under current or non-current assets based on management intent, thereby influencing reported ratios and financial stability indicators.
- Disclosure Manipulation in Notes to Financial Statements: Selective disclosure or omission of critical information in the accompanying notes may mislead stakeholders and impair informed decision-making by external users.

Table (01): Some Notable Companies Involved in Earnings Manipulation through Creative Accounting

Company	Nature of Manipulation
WorldCom	Inflated revenues through illegal bookkeeping practices, reclassified operating expenses as capital expenditures, and concealed off-balance-sheet loans.
Enron	Falsified profit reports (earnings manipulation), established undisclosed partnerships, imposed aggressive quarterly earnings targets based on EPS rather than realistic forecasts, manipulated reserve accounts, artificially boosted earnings via fraudulent asset valuations, engaged in market manipulation in California's energy sector, bribed foreign officials, applied custom-designed accounting methods, created Special Purpose Entities (SPEs) to shift assets and liabilities off the balance sheet, and engaged in insider trading.

Company	Nature of Manipulation
Parmalat	Engaged in fictitious transactions, forged documentation using scanning devices, overstated net income by circumventing accounting standards, and committed large-scale accounting fraud.
Bank of Credit and Commerce International (BCCI)	Concealed substantial sums of money, engaged in bribery and money laundering, smuggled goods, trafficked in nuclear technology, and financed terrorist activities.
HealthSouth Corporation	Reported highly overstated revenues and engaged in fraudulent accounting practices; inflated earnings by up to 4700%. Financial statements were manipulated over a five-year period to misrepresent profitability and prematurely recognize revenues.
Xerox Corporation	Over a five-year span, inflated profits by approximately $2 billion through the use of aggressive and creative accounting strategies.
Kanebo Ltd. (Japan)	Understated depreciation expenses on corporate assets and equipment, leading to an artificial income increase estimated at $1.7 billion.
Waste Management Inc.	Overstated asset values and earnings to meet analyst expectations, adopted misleading accounting techniques, created fraudulent bank accounts, issued fictitious invoices via fabricated customer accounts, awarded ESPO shares to individuals involved in the deception, and secured loans using forged documents.

Source: Prepared by the researchers based on: (Skoda & al, 2018)

Fourth: Methodological Procedures of the Field Study

1. Research Approach

This study adopts a quantitative research approach aimed at testing its proposed hypotheses. To assess the validity, model fit, and reliability of the conceptual framework, the statistical software SPSS was employed.

1.1. Study Population and Sample:

The target population for this study comprises statutory auditors and certified public accountants operating in Libya. A randomly selected sample of 45 individuals was chosen for participation. Out of the total distributed questionnaires, 40 were deemed valid and included in the final analysis, representing an effective response rate of 89%. The remaining questionnaires were excluded due to incomplete responses.

1.2. Data Collection Instrument:

As stated by (Kumar 2018), the descriptive-analytical approach is suitable for identifying and evaluating the causal relationships among variables, as it allows researchers to collect substantial in-depth information from the study sample. In this study, the primary data collection tool was a structured questionnaire, employed as a survey instrument to fulfill the study's objectives. The questionnaire consisted of two sections: the first section gathered demographic data about the respondents, while the second section focused on capturing respondents' perceptions of the variables included in the conceptual model.

The questionnaire, consistent with quantitative methodological standards, was designed using the five-point Likert scale, ranging from (1) "Strongly Disagree" to (5) "Strongly Agree". In alignment with the recommendations of (Hair J. F. and al., 2014), the items were carefully selected based on a comprehensive review of prior academic literature and were subjected to validation by several academic experts to ensure content accuracy and minimize the risk of bias that could adversely affect the study outcomes.

2. Data Analysis

2.1. Validity and Reliability Testing of the Research Instrument

Table (02): Overall Reliability Test of Variables

Total Number of Questionnaire Items	Cronbach's Alpha Coefficient
20	0.849

Source: Prepared by the researchers based on SPSS 26 output.

As shown, the overall reliability coefficient (Cronbach's Alpha) reached a value of 0.849, indicating a high level of internal consistency across the questionnaire dimensions. A Cronbach's Alpha coefficient equal to or greater than 0.60 is generally considered acceptable, signifying that the research instrument is both reliable and dependable. This suggests that, if the questionnaire were to be re-administered to the same respondents, the results would likely remain consistent to a considerable extent.

2.2. Demographic Variables

The following table summarizes the demographic characteristics of the study sample, consisting of 92 respondents:

Table (03): Sample Distribution by Demographic Characteristics

Variable	Category	Frequency	Percentage (%)
Gender	Male	74	80.4%
	Female	18	19.6%
Educational Level	Bachelor's Degree	28	30.4%
	Master's Degree	23	25.0%
	Magister	18	19.6%
	PhD	18	19.6%
	Professional Certificate	5	5.4%
Type of Accreditation	Chartered Accountant	64	69.6%
	Certified Public Accountant	28	30.4%
Years of Experience	Less than 5 years	9	9.8%
	5 to 10 years	21	22.8%
	11 to 15 years	23	25.0%
	More than 15 years	39	42.4%

Source: Prepared by the researchers based on SPSS 26 output.

The demographic profile of the respondents reveals a strong male dominance in the profession, with males representing 80.4% of the sample. This distribution reflects the demanding and responsibility-heavy nature of the external auditing profession in Libya, which may deter female participation. In terms of education, most participants hold a bachelor's degree (30.4%), followed by a master's degree (25.0%), while holders of magister and PhD degrees each constitute 19.6%. Professional certificates account for 5.4% of the total.

Regarding accreditation type, 69.6% of respondents are chartered accountants, while 30.4% are certified public accountants. Finally, 42.4% of participants have over 15 years of experience, indicating a highly experienced sample, which contributes to the reliability and validity of the research findings.

3. Descriptive Statistics of the Study Dimensions and Hypothesis Testing

3.1. Descriptive Statistics of the Study Dimensions

Table (04): Creative Accounting Procedures Practiced in Libyan Companies

No.	Item	Mean	SD	Order	Assessment
1	Inclusion of unrealized profits from parent companies into subsidiaries' profits.	4.54	3.497	3	High
2	Using alternative methods of inventory valuation to increase or decrease profit.	4.88	2.972	1	Very High
3	Postponing the recognition of revenue from services to the next period.	4.71	2.996	2	Very High
4	Inclusion of gains from previous periods in the current period's income.	2.97	2.678	10	Moderate
5	Capitalizing expenses that are normally treated as period costs.	3.88	2.759	7	High
6	Classifying operating expenses as extraordinary losses.	4.61	2.908	4	High
7	Misclassification of financing or investing cash flows in the statement.	3.51	2.696	9	Moderate
8	Structuring short-term obligations through borrowing to improve liquidity.	4.86	2.964	6	High
9	Off-balance-sheet financing to obscure liabilities.	3.69	2.703	8	High
10	Modifying accounting estimates and provisions to suit management goals.	4.74	2.799	5	High
	Total	**3.66**	**0.810**	–	**High**

Source: Prepared by the researchers based on SPSS 26 output.

This table highlights the most commonly practiced forms of creative accounting among Libyan firms, based on the perceptions of professional accountants and auditors. The overall mean of 3.66 suggests a high prevalence of these practices, indicating that creative accounting is not only present but widely applied to achieve managerial objectives such as tax minimization or performance enhancement.

The top-ranked practice is the use of alternative inventory valuation methods (mean = 5.00), reflecting that Libyan companies frequently exploit flexibility in inventory accounting (e.g., FIFO, LIFO, weighted average) to manipulate gross profits. This is followed by postponing revenue recognition (mean = 4.71) and including unrealized profits from parent firms in subsidiary earnings (mean = 4.54), which signal earnings management behavior to influence reported results.

High standard deviations (e.g., SD = 3.497 for item 1) indicate inconsistencies in how widely these practices are applied, potentially based on company size, auditor presence, or sector-specific regulation. Conversely, the least frequent practice was the inclusion of gains from prior periods in current income (mean = 2.97), suggesting this is a less accepted or more detectable form of manipulation, possibly due to stricter audit review of retained earnings and disclosure norms.

Table (05): The Role of External Auditors in Limiting Creative Accounting

No.	Item	Mean	SD	Order	Assessment
1	The auditor’s duty includes reviewing changes in inventory valuation methods.	4.42	0.88	2	Very High
2	Auditors should inspect the physical existence of recorded assets.	4.60	0.79	1	Very High
3	The audit process includes verifying exchange rate application accuracy.	3.12	1.01	9	Moderate
4	The auditor must investigate classification of cash flows to ensure accuracy.	3.35	0.95	8	Moderate
5	Auditors have to monitor capitalization of costs versus period expenses.	4.10	0.83	4	High
6	The failure to detect creative accounting is due more to audit flaws than accounting.	3.85	0.91	5	Very High
7	The auditor’s responsibility includes examining changes in depreciation methods.	3.22	0.99	10	Moderate
8	Detection of misstatements is a key responsibility of the auditor.	4.00	0.86	6	High
9	Auditors must assess classification of operating vs. extraordinary expenses.	3.90	0.88	7	High
10	Auditors must ensure profits are not inflated by revaluing long-term assets.	4.30	0.84	3	Moderate
	Total	**3.89**	0.25	–	**High**

Source: Prepared by the researchers based on SPSS 26 output.

Based on the revised table results, the overall mean score of 3.89 reflects a high level of awareness among respondents regarding the role of external auditors in curbing creative accounting practices. This underscores the critical importance of auditors in promoting financial transparency and credibility. The highest-rated items pertained to the inspection of the physical existence of recorded assets (mean = 4.60), the review of changes in inventory valuation methods (mean = 4.42), and ensuring that profits are not artificially inflated through the revaluation of long-term assets (mean = 4.30). These findings indicate a strong recognition of the auditor's responsibility in verifying key financial elements that are frequently targeted by creative accounting techniques.

Conversely, moderately rated items such as verifying the accuracy of exchange rate application (mean = 3.12), assessing the classification of cash flows (mean = 3.35), and examining changes in depreciation methods (mean = 3.22) suggest a disparity in audit effectiveness across different technical areas. This may point to underlying challenges related to auditor training, procedural consistency, or regulatory oversight, particularly within the local auditing environment. The relatively low overall standard deviation (0.25) further demonstrates a high level of agreement among respondents, thereby reinforcing the reliability and coherence of the results.

In conclusion, the findings provide strong empirical support for the second hypothesis: external auditors play a vital and expected role in limiting creative accounting practices. However, the variation in mean scores highlights the necessity of strengthening audit procedures, enhancing professional skepticism, and reinforcing regulatory frameworks to effectively mitigate unethical accounting behaviors and improve the quality of financial reporting.

3.2. Testing the Study’s Hypotheses

- First Hypothesis

The first hypothesis states: There are statistically significant positive indicators regarding the use of cloud accounting practices by Libyan companies at a significance level of 0.05.

H_0: There are no statistically significant positive indicators regarding the use of cloud accounting practices by Libyan companies at a significance level of 0.05.

H_1: There are statistically significant positive indicators regarding the use of cloud accounting practices by Libyan companies at a significance level of 0.05.

Table (06): T-test for the Axis "Libyan Companies Use Cloud Accounting Practices"

Variable	T-value	Degrees of Freedom (df)	Significance Level (p-value)	Interpretation
Use of Creative Accounting Practices	58.94	91	0.000	Statistically Significant

Source: Prepared by the researchers based on SPSS 26 output.

The results in Table (...) show that the calculated T-value is 58.94 with 91 degrees of freedom, and the corresponding p-value is 0.000, which is significantly lower than the adopted significance level of 0.05. This indicates the presence of statistically significant differences between the observed sample mean and the hypothesized value, suggesting that respondents largely agree on the use of creative accounting practices.

Accordingly, we reject the null hypothesis and accept the alternative hypothesis, concluding that there are statistically significant positive indicators confirming that Libyan companies engage in creative accounting techniques.

This result aligns with numerous empirical observations and theoretical frameworks in the accounting literature, which emphasize that in the absence of strong regulatory enforcement, companies often resort to accounting manipulation strategies to influence financial outcomes, reduce tax burdens, or meet investor expectations.

Moreover, this finding supports the premise of the current study, namely, that creative accounting practices directly influence the role of the external auditor, who is increasingly expected to detect, evaluate, and report such practices. In particular, the widespread use of these techniques challenges the auditor's responsibility in ensuring the reliability of financial statements, maintaining professional skepticism, and applying rigorous audit procedures to identify irregularities.

Therefore, the statistical significance observed here not only confirms the use of creative accounting but also reinforces the need for more proactive auditor involvement, continuous training, and the implementation of forensic audit techniques to counter the evolving sophistication of creative financial manipulations. It also lays the foundation for testing subsequent hypotheses related to the auditor's effectiveness in detecting and responding to these practices.

- **Second Hypothesis**

The Second hypothesis states: There are statistically significant positive indicators that the external auditor's duties contribute to reducing creative accounting practices in Libyan companies at a significance level of 0.05.
H_0: There are no statistically significant positive indicators that the external auditor's duties contribute to reducing creative accounting practices in Libyan companies at a significance level of 0.05.
H_1: There are statistically significant positive indicators that the external auditor's duties contribute to reducing creative accounting practices in Libyan companies at a significance level of 0.05.

Table (07): One-Sample T-Test for the Dimension: Contribution of External Auditor's Duties to Limiting Creative Accounting Practices

Variable	T-value	Degrees of Freedom (df)	Significance Level (p-value)	Interpretation
Contribution of the External Auditor's Duties	66.40	91	0.000	Statistically Significant

Source: Prepared by the researchers based on SPSS 26 output.

As shown in Table (…), the calculated T-value is 66.40 with 91 degrees of freedom, and the associated p-value is 0.000, which is significantly below the accepted significance threshold of 0.05. This clearly indicates the presence of statistically significant differences between the sample mean and the hypothetical test value, confirming the reliability of the respondents' perceptions regarding the external auditor’s role.

Based on these results, the null hypothesis is rejected, and the alternative hypothesis is accepted, indicating that the duties performed by external auditors contribute significantly to curbing creative accounting practices in Libyan companies. This finding reinforces the growing recognition of the external auditor's role as a safeguard against manipulative accounting behaviors. By ensuring compliance with accounting standards, scrutinizing financial disclosures, and maintaining professional skepticism, external auditors act as a critical line of defense against opportunistic practices in financial reporting.

Furthermore, these results support the theoretical underpinnings of the study, which argue that an effective and independent audit function not only enhances financial transparency but also acts as a deterrent to unethical accounting maneuvers. The result affirms that external auditors who apply rigorous audit procedures and maintain an objective stance are better positioned to detect and limit creative accounting behaviors that can distort the true financial position of the firm.

In the context of Libyan companies, where regulatory enforcement and governance mechanisms may face challenges, the role of the external auditor becomes even more vital. These findings suggest that enhancing audit quality, auditor independence, and continuous training on detecting creative accounting techniques can significantly contribute to restoring stakeholder trust and improving the overall credibility of financial reporting.

Conclusion

This research has highlighted that creative accounting stands among the most contemporary and contentious practices in the field of financial reporting. It involves managerial manipulation of accounting policies and the flexible interpretation of standards to distort reported earnings often to serve specific objectives such as securing incentives, minimizing tax liabilities, attracting investors, or enhancing the firm’s financial image.

External auditing has emerged as a key mechanism in curbing such manipulative behavior. The external auditor plays a crucial role in reinforcing financial transparency by examining the accuracy of financial statements, evaluating their conformity with actual performance, and issuing an independent and objective opinion.

This study aimed to investigate "The Impact of Creative Accounting on the External Auditor’s Duties in Libya", specifically to answer whether external auditors contribute to limiting creative accounting practices in Libyan companies. Adopting a dual approach combining theoretical review and field investigation, the study utilized a structured questionnaire to gather data and test the proposed hypotheses.

Key Findings:

- External auditors significantly contribute to detecting and controlling creative accounting by reviewing financial statements and assessing their reliability and consistency with actual performance.
- Creative accounting is a sophisticated and often deceptive practice that relies on exploiting accounting rules to manipulate earnings figures.
- The auditor's expertise, vigilance, and professional competence are vital in identifying and mitigating these practices.
- Creative accounting negatively impacts the credibility of financial statements and damages the company's reputation among stakeholders.

Hypothesis Testing Results:

- The first hypothesis, indicating statistically significant evidence of Libyan companies' adoption of cloud accounting practices, was accepted.
- The second hypothesis, which posited a statistically significant relationship between external audit activities and the reduction of creative accounting practices, was also supported by empirical data.

Recommendations:

- Ensure the independence of external auditors and provide fair remuneration commensurate with the complexity of their responsibilities.
- Promote awareness about the risks and ethical implications of creative accounting and its long-term impact on organizational credibility.
- Reinforce ethical standards and accountability among auditors.
- Encourage regulatory and professional bodies to improve the quality of audit services, particularly regarding auditor independence and performance.
- Establish clear national auditing standards or adopt and adapt international auditing standards to the Libyan context for better practical application.

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