Modern Applied Science; Vol. 13, No. 6; 2019
ISSN 1913-1844 E-ISSN 1913-1852
Published by Canadian Center of Science and Education

The Impact of Audit Committee Characteristics on the Creative Accounting Practices Reduction in Jordanian Commercial Banks

Khalil Suleiman Abu Saleem[1]

[1] Faculty of Business & Finance, The World Islamic Sciences & Education University (W.I.S.E)., Jordan

Correspondence: Khalil Suleiman Abu Saleem, Associate Professor, Faculty of Business & Finance, The World Islamic Sciences & Education University (W.I.S.E)., Jordan. E-mail: kalilabosaleem@yahoo.com

Received: April 27, 2018 Accepted: May 5, 2019 Online Published: May 30, 2019

doi:10.5539/mas.v13n6p113 URL: https://doi.org/10.5539/mas.v13n6p113

Abstract

This study aimed at determining the impact of the characteristics of the Audit Committee (The effect of Activity of the Audit Committee, the size of the Audit Committee, and Independence of the Audit Committee) in reducing creative accounting practicesin Jordanian commercial banks.The study population is composed of all Jordanian banks listed on the Amman Stock Exchange (16), during the period from 2011 to 2017. The study sample is represented by all Jordanian commercial banks. The current study is based on panel data since the data combine one-time and cross-section data for a period of time. The data was composed of a set of indicators for 13 Jordanian commercial banks for the period from 2011 to 2017, and data have been collected from the banks' annual reports. The adoption of the study on the analysis of time-series data comes from the increase in degrees of freedom.

The results of the hypothesis test indicate that there is a significant effect of Audit Committee characteristics on the reduction of creative accounting practices in Jordanian banks at a level of significance of 0.05 except for variable (size of the Audit Committee).

Keywords: creative accounting, audit committee, earnings management

1. Introduction

The conflict of interest between the various parties involved in the company is the main reason that led to the emergence of creative accounting, which is one of the most important means used by the administration to achieve its goals and objectives. While the interest of managers in reducing taxes and dividends, the interest of shareholders and the interest of employees is to increase Maximize the return on their investments and increase their administrative compensation respectively (Sayed, 2013).

It has been noticed over time that there are a series of companies that have lost money or been bankrupt as managers' resort to different practices of creative accounting, as many investors, shareholders, and creditors lost a lot of money because their decisions were made based on information that was subjected to various forms of creative accounting practices.

Since the primary purpose of the audit committees is to ensure that financial statements are free of errors and fraud, to seek to detect fraud and fraud, and to support the credibility of annual audited financial statements to ensure the safety of disclosure and comprehensiveness of these lists (Goodwin & Seow, 2002) Auditors play an active role in reducing the effects of creative accounting.

1.1 Importance of the Study

The importance of the study stems from the role that the Audit Committee's role can play in reducing creative accounting practices that violate the spirit of good accounting practice and are intended to provide misleading information that serves the interests of the Company and its management.

1.2 Study Problem

The study problem can be framed by the following main question:

Is there an impact of audit committee characteristics on the creative accounting practices reduction in Jordanian commercial banks?

This question is divided into the following sub-questions:

1. Does the activity of the audit committee affect the reduction of creative accounting practices in Jordanian commercial banks?
2. Does the size of the audit committee affect the reduction of creative accounting practices in Jordanian commercial banks?
3. Does the independence of the audit committee affect the reduction of creative accounting practices in Jordanian commercial banks?

1.3 Objectives of the Study

The aim of this study is to answer its main question by answering its sub-questions and thus aims to:

1. Determine the impact of the audit committee's activity in reducing creative accounting practices in Jordanian commercial banks.
2. Statement of the impact of the size of the audit committee's activity in reducing creative accounting practices in Jordanian commercial banks.
3. Statement of the impact of the independence of the audit committee's activity in reducing creative accounting practices in Jordanian commercial banks.

1.4 Hypotheses of the Study

To answer the study questions, the researcher adopted the following hypotheses:

Ho: There is no statistically significant impact of audit committee characteristics on the creative accounting practices reduction in Jordanian commercial banks.

This main hypothesis divides into the following sub-hypotheses**:**

Ho1: There is no statistically significant impact of activity of the audit committee in reduction of creative accounting practices in Jordanian commercial banks.

Ho2: There is no statistically significant impact of the size of the audit committee in reduction of creative accounting practices in Jordanian commercial banks.

Ho3: There is no statistically significant impact of independence of the audit committee in reduction of creative accounting practices in Jordanian commercial banks.

2. Theoretical Framework and Previous Studies

2.1 Definition of the Audit Committee

There are different views in the definition of the Audit Committee, defined by the Public Company Accounting Oversight Board (PCAOB, 2012) as a group consisting of members of the Board of Directors, not less than three members of the non-executive members, have financial or accounting experience operating within a written manual, clearly showing their responsibilities and methods of performing, their functions are to review the financial statements before being submitted to the Board of Directors, Between the external auditor and the board of directors, and performs the functions of appointing the external auditor, reviewing the audit plan, its results and the control system therein.The Audit Committee is also defined as “a committee formed in large enterprises that contributes to the strength of corporate governance. It is composed of independent members of the management, has an appropriate degree of financial knowledge and performs functions and powers to enhance confidence in financial reports and maintain audit quality” (IFAC, 2014, p: 34).Whereas, Arens et al. (2015) define the Audit Committee as a select number of persons from among the Board of Directors of the Company, which is responsible for maintaining the auditor's independence from management and may consist of three, five or seven members of the Board of Directors other than the Executive Directors.

Hence, the researcher can define the audit committees according to their characteristics and exercise their functions and powers as a committee emerging from the Board of Directors, consisting of non-executive members of not less than three who have the financial expertise and independence exercise their powers according to a manual and written technique. In order to ensure that the written schema and procedures are implemented and predestined to ensure proper operation and control, enhance shareholder confidence in financial reporting and increase the Board's responsibility.

2.1.1 Audit Committee Characteristics

The international and local legislation have unanimously agreed that the board of directors of the public shareholding company should form an audit committee and determine its characteristics in such a way as to maximize the expected benefit and perform its supervisory regulatory role. Several studies have pointed to these characteristics and their importance as controls to be observed when they are formed. The characteristics of the members of the audit committees that serve the purposes of this study as presented in some studies as follows:

2.1.2 Activity of the Audit Committee

The laws and legislations provide for meetings of the Audit Committee to discuss issues related to the company. It must meet periodically so that the number of its meetings is not less than four meetings annually, and the increase in the number of meetings indicates that the audit committees perform their duties effectively and maintain the control function on the financial reports (Rustam, et. al, 2013, p: 704). While Ismail et al. (2008, p: 187) pointed out that the meetings of the Audit Committee are an important tool to verify that the members of the Committee fulfill the tasks entrusted to them by the Company. Bedard et al. (2004, p: 27) believes that the audit committees should perform their tasks efficiently by increasing frequency of meetings in order to maintain the control function.

2.1.3 The Size of the Audit Committee

The Board of Directors have to appoint sufficient number of members of the Audit Committee to achieve a mix of expertise and capabilities in a way that will enable it to carry out its tasks and achieve its objectives, taking into account the fact that the number of members does not increase in a way that affects their decision-making rapidly and ranges from three to seven non-executive members Of the Board of Directors (Arens et al., 2015, p: 135).

2.1.4 Independence of the Audit Committee

Independence is one of the most important characteristics of the audit committees because of its key role in supervision and financial control. Klein (2002, p: 39) suggests that independence reduces the likelihood of management manipulating earnings. Carcello et al., (2000, p: 457) indicates that there is a positive relationship between audit committees and audit fees, indicating that the independence of the Audit Committee leads to a better quality of the financial report. While Ali et al. (2009) found that companies with independent audit committees have better institutional governance, so it is prohibited to act as a member of the Audit Committee, both the CEO, the CFO and any other member of the Board of Directors Company.

The importance of the Audit Committee is that it is a means to assist the Board of Directors in accomplishing its oversight duties on the internal control systems, audit procedures and financial reporting processes and to ensure that the Company carries out its duties in accordance with applicable laws, rules and codes of conduct and that the Commission has the authority to investigate any matters falling within its responsibilities, With independent consultants from all disciplines required to provide advice and obtain all the information required to achieve its objectives from outside or within the company (Sawyer et al., 2005).

Coletti et al. (2005. p: 496) believes that the main objective of the Audit Committees is to implement strong control systems based on feedback and exchange of information with different departments and departments in order to achieve cooperation and increase confidence among all employees and other parties in Company.

2.2 Creative Accounting

2.2.1 The Concept of Creative Accounting

Although several researchers have studied and published papers in creative accounting, it does not as yet have any universally accepted conceptual definition. Leuz et al (2013) argues that the difficulty in accepting a unified definition of the concept of creative accounting lies in the existence of different insights and opinions regarding operationalization of the concept. According to Shah (2008) argues that creative accounting enables the management of companies to present biased picture of the company’s financial performance by exploiting gaps or ambiguities in the accounting standards. While this practice may not be unlawful, it obviously breaches the spirit of good accounting practice because its purpose is intended to misrepresent information to benefit the company and its management. The foregoing views determined creative accounting as a poor or fraudulent practice, however, this view was refuted by Schipper and Vincent (2015) who stated that creative accounting to an extent expresses the profits of a company in the financial reports honestly without fraud. This view was against the view of Schipper (2008) which stated that creative accounting is a “deliberate intervention in the external financial reporting process” in order to obtain private benefits which may not be dishonest or fraudulent but misrepresents facts for investors and deny them, full disclosure“ as defined by the international financial reporting standard (IFRS).Creative accounting is defined as "accounting manipulation to take advantage of gaps in accounting rules and measurement and disclosure practices (Hussein et al. 2015). Creative accounting involves the adoption of a legal and optional option between different accounting methods to address a specific case in cases where the relevant accounting standards or principles do not refer to a direct way of solving a problem or do not suggest alternative methods (Hołda and Staszel, 2016). Essien and Ntiedo (2018) argue that creative accounting indicates that accounts become based on what managers want, rather than as they should be, by not applying accounting rules in a neutral manner

From the above it can be concluded that creative accounting is an exercise that the management deliberately uses to prepare and report the company's profits to reflect the Wishes and interests of the company rather than to provide a reflection of the company's real economic or financial performance. Creative accounting typically shows either increasing profits in the current period at the expense of prior or future periods or reducing profits in the current period at the expense of prior or future periods.

2.2.2 The Motives of Creative Accounting

Mulford and Comiskey (2011) pointed out that the motives behind creative accounting are to influence the prices of shares of companies and compensation management. Gosh (2010) further reaffirming on the determinants of creative accounting which included the impact on share prices, minimize corporate scrounge costs as a result of improving credit rating, and incentive compensation plans for corporate management and key employees which are based on performance. Sawicki & Shrestha (2008) described trading of an insider as a factor that contributes significantly to creative accounting among firms. The most important motivations of creative accounting can be as follows:

2.2.3 Managers Compensations

Busaule (2014) established that executive compensation is directly related to the firm's financial performance in Kenya. Managers in several companies are compensated directly in terms of salary and bonus as well as indirectly in terms of prestige, future promotions, and job security (Xie, Davidson & Da Dalt, 2003). Xie et al. (2003) further states combination of management's discretion over reported earnings and the effect these earnings have on their compensation and benefits may be incentives for creative accounting. A study conducted by Petroni and Yanyan (2010) indicated that Chief Finance Officer (CFO) has primary responsibility in financial reporting, therefore CFO equity incentives may play a stronger role than those of the Chief Executive Officer (CEO) in earnings management. This implies that CFOs are more likely to engage in creative accounting as compared with CEOs. Petroni and Yanyan (2010) discovered that the size of receivables and the likelihood of overcoming analysts' expectations are more sensitive to the CFO's incentives than the CEO's. However, there are cases where the CFO and CEO meet both to participate in creative accounting to protect their compensation interests.

2.2.4 Contractual Obligations

Healy and Wahlen (1999) explains creative accounting takes place when managers exercise judgment in financial reporting and in structuring transactions to adjust financial reports with an aim to either mislead some stakeholders about the underlying economic performance of the company or to influence contractual outcomes that depend on reported accounting numbers. In some cases they may be avoiding to pay dividends while in other instances they need to borrow some loans from financial institutions. DeAngelo et al., (2014) showed that the most popular reason for firms engaging in creative accounting in Greece was to borrow funds from the banks. On the other hand Ramadan (2015) was of the view that "External creditors are considered to be an external control of management performance", which reduces the cost of the agency and reduces the likelihood of creative accounting or profit management, which will positively affect the quality of profits.

2.2.5 Share Prices

Creative accounting may possibly help maintain or increase the share price both by reducing the level of borrowing, thus making the business appear subject to less risk, and by creating the appearance of a favorable profit trend. This subsequently helps the company to raise funds from issue of new shares, takeover bids, and resist takeover by other companies (Amat & Gowthorpe, 2004; Effiok & Eton, 2012). Thereforethere is a direct relationship between share price volatility and reported or predicted earnings (Muchina, Namusonge and Sakwa, 2015).

2.2.6 Capital Market Pressures

The firms accounting decision is usually affected by the expectations of investors and business analysts. This is because if these firms fail to meet the expectations of these key players in the capital market, their reputation will be negatively affected, which would lead to loss of current and future investments (Bergstresser and Philippon, 2016).Therefore managers will either engage in income-enhancing measures in order to achieve or surpass predictions, or engage in income reducing practices in times when earnings are considerably beyond predictions (Beatty et al., 2016).

2.2.7 Income Smoothing

The literature has indicated that a main motive for earnings management is profit smoothing, achieved by reducing the reported fluctuations in earnings. Where income smoothing reduces the perceived instability of a firm's income streams over time. Goel and Thakor (2013) argue that there are limitations to the practice of income smoothing by company managers because the companies will have to finalize their financial reports at the end of each financial year. Companies may not pass accounting entries to recognize all relevant expenses when profitability is low and in the same way; companies can postpone the reporting of huge profits, as a type of reserve for the future years (De Angelo et al., 2014).

2.2.8 Insider Dealings

Insider trading refers to a situation in which a person trades from an insider or a related party based on non-public price sensitive information obtained during the performance of specific duties in the company, and involves an infringement of confidence and trust or where confidential information has been embezzled from the company (Bewaji, 2012). In banking sector for example management may be issued with loan facilities, but they have a higher rate of default which is incorrect application of the accounting principle of prudence (Waweru, 2014).

2.2.9 Tax Management

Income taxes are one of the factors that stimulate creative accountability (Mucai et al., 2014; John et al., 2018) Creative accounting practices are increased in cases where taxable profit is calculated based on accounting figures (Cotlet et al., 2012).

2.2.10 Tools and Methods of Creative Accounting

There are several ways in which firms practice Creative accounting, which would serve managers in achieving their goals. These include: The early recognition of revenues which arises where the management deliberately recognizes future revenues that do not belong to the reporting period (Arnold and Lange, 2014). The company recognizes the full amount of the revenue during the current financial period in order to maximize profits even though the profits are yet to be earned. The postponing of the recognition of expenses which arises where the managers are working to delay recognition of certain capital expenditures during the current financial period and then pass the relevant accounting entries in the coming financial periods (Ball et al. 2013). Non-Recurring Expenses: this is where expenses that do not occur constantly are deliberately placed within the normal expenses in the income statement in order to reduce operating profit (Ball et al. 2013). Provision for doubtful debts and contingent liabilities: where managers may deliberately reduce provisions for doubtful debts under the pretence that they are optimistic estimates of realizable customers‟ debtsinstead of using the net realizable value. Again managers can deliberately make provisions for contingent liability in pretence that it is provision for doubtful debt (Coppens and Peek, 2015). The last tool is the depreciation and useful life of the asset: managers can supply optimistic estimates of useful of asset life in order to minimize depreciation expenditure for the period. Rather than amortizing the assets over a short period of time, the managers can extend the period over which they amortize the asset leading to increase in the reported profits by reducing depreciation expense (Alam and Makar, 2008).

Although these tools have been mentioned here, they are generic; hence this research will develop empirical information on the tools for creative accounting as an outcome of the research. This research will robustly explore the tools and methodologies for creative accounting in Jordan. This information will then be compared with the literature information to determine relationships and discrepancies where they exist.

2.3 Literature Review

The literature which has been reviewed indicates that much has been documented in creative accounting. Dechow et al. (2011) in elaborate research expanded on the techniques utilized in engaging creative accounting like how to detect such exercise; the researchers utilize a time series methodology and the earnings management model to assessment misstatements in the accounting data. Gosh (2010) alsoparticolored a number of factors that encourage creative accounting; his study employed literature reviewed mode, not measurements were used to search the creative accounting motives specified.

Shah and Butt (2011) explained several of creative accounting motivations to like: to meeting the internal targets, meeting the external expectations, providing the income smoothing, windowing the dressing for an IPO or the loan, taxation, and the changing in the management. They used the discussion-based model. And not using a measurement were made to further investigate the link between the governance and the creative accounting.

Kassem (2012) efforts to supply a uniqueness between fraud and creative accounting and reoffered to as an earnings management. Fraud is a material false statement whose target is to deceive and persuade reliance on the false statement by the victim. Earnings management use the elasticity in the accounting regulations to manage the accounts in order to deliver a Pre-defined profit or attain a particular objective. The research was based in the literature and not in measurement of variables. Effiok and Eton (2012) reach that creative accounting influence firms share price and capital market as a result of financial statements jugglery. And its influences the management decided to obtain new assets and replace existing assets. Creative accounting also leads to tax evasion and cause lose their hard earned money from investors.

3. Methodology of the Study

The study population is composed of all Jordanian banks listed on the Amman Stock Exchange (16), during the period from 2011 to 2017. The study sample is represented by all Jordanian commercial banks. The Islamic banks are excluded from the sample (3) Due to the existence of its own instructions regarding the institutional governance and the composition and functions of the Audit Committee, and due to the overlapping of the functions of the Audit Committee with the functions of the Sharia Supervisory Committees in these banks, thus the final sample size (13) becomes a bank.

3.1 Sources of Data Collection

The current study is based on panel data since the data combine one-time and cross-section data for a period of time. The data was composed of a set of indicators for 13 Jordanian commercial banks for the period from 2011 to 2017, and data have been collected from the banks' annual reports. The adoption of the study on the analysis of time-series data comes from the increase in degrees of freedom, which leads to more accurate estimation and obtain more accurate results.

3.2 Measurement of Study Variables

First: the dependent variable (creative accounting practices)

Creative accounting practices were measured by profit management, measured using Modified Jones Model (1995). This method is called the discretionary accruals method. In order to measure optional receivables, total accruals are measured by the cash flow method in which the total accruals are calculated as the difference between net operating profit and cash flow from operating operations through the following model:

$$\mathrm{TACC}_{i,t} = \mathrm{ONI}_{i,t} - \mathrm{OCF}_{i,t}$$

Where:

$\mathrm{TACC}_{i,t}$: Total accruals for bank (i) in period (t).

$\mathrm{ONI}_{i,t}$: Net operating profit for bank (i) in period (t).

$\mathrm{OCF}_{i,t}$: Cash flow from operations for bank (i) in period (t).

The regression model, which estimates the coefficient of the model through which to calculate non-Discretionary Accruals ($\mathrm{NDACC}_{I,t}$) through the following regression equation, which is done for the group of sample banks each year separately.

$$\frac{\mathrm{TA}_{i,t}}{\mathrm{A}_{(i,t-1)}} = \propto_1 \left(\frac{1}{\mathrm{A}_{(i,t-1)}}\right) + \propto_2 \left[\frac{\Delta\mathrm{REV}_{i,t} - \Delta\mathrm{REC}_{i,t}}{\mathrm{A}_{(i,t-1)}}\right] + \propto_3 \left(\frac{\mathrm{PPE}_{i,t}}{\mathrm{A}_{(i,t-1)}}\right) + \mathrm{e}_{i,t}$$

Where:

$\mathrm{TA}_{i,t}$: Total accruals for bank (i) in period (t).

$\mathrm{A}_{(i,t-1)}$: Total Assets for bank (i) in period (t).

$\Delta\mathrm{REV}_{i,t}$: Change in revenues for bank (i) in period (t).

$\Delta\mathrm{REC}_{i,t}$: Change in accounts receivable for bank (i) in period (t).

$\mathrm{PPE}_{i,t}$: Property, plant & Equipment for bank (i) in period (t).

$e_{i,t}$: Random error (residuum),the portion of the total accruals that are not explained by the regression model variables and is used as an indicator of discretionary accruals.

The parameters of the model are estimated ($\propto_1$ ، $\propto_2$ ، $\propto_3$) through which to calculate the values of non-Discretionary Accruals.

Normal non-discretionary Accruals ($\mathrm{NDACC}_{I,t}$) are then determined through the following regression equation, which is done for the group of sample banks each year separately:

$$\mathrm{NDACC}_{I,t} = \propto_1 \left(\frac{1}{\mathrm{A}_{(i,t-1)}}\right) + \propto_2 \left[\frac{\Delta\mathrm{REV}_{i,t} - \Delta\mathrm{REC}_{i,t}}{\mathrm{A}_{(i,t-1)}}\right] + \propto_3 \left(\frac{\mathrm{PPE}_{i,t}}{\mathrm{A}_{(i,t-1)}}\right) + \mathrm{e}_{i,t-1}$$

Then the Discretionary Accruals are then calculated($\mathrm{DACC}_{i,t}$) for each bank with the difference between total Accruals and non-Discretionary Accruals.

$$DACC_{i,t} = TACC_{i,t} - NDACC_{i,t}$$

Finally, the average number of discretionary accruals for each of the sample banks during the years of study is calculated for the purpose of classifying them into practice and non-profit management banks.

Classification of banks: Practice and non-practice for earnings management,the Bank shall practice for earnings management if the value of the discretionary accruals in the year is equal to or greater than the average value of its discretionary accruals, whereas the bank does not practice earnings management if the value of its discretionary accruals in the year is less than the average value of its discretionary accruals and if the absolute value of the discretionary accruals of the bank during the period of the study is greater than the average of its discretionary accruals. The bank practice for earnings management, and if it is less than the average of its discretionary accruals, the bank does not practice for earnings profit management.

Second: Independent Study Variables (Audit Committee Characteristics)

Activity of the Audit Committee (AAC): The Audit Committee's activity was measured by the number of Audit Committee meetings of each bank.

The size of the Audit Committee (SAC): The size of the Audit Committee was measured by the number of members of the Audit Committee at the end of each financial year.

Independence of the Audit Committee (INAC): The independence of the Audit Committee was measured by the percentage of independent members of the Audit Committee of each bank.

3.3 Test the Suitability of the Model

Before estimating the panel data model, we have to make sure that the standard forms used are statistically relevant, and the following table shows the test results.

Table 1. Multicollinearity test and best-estimated model

Independent variables	The dependent variable (earnings management)			
	VIF	Tolerance	Berush-Pagan LM Test	Hausman Test
Activity of the Audit Committee (AAC)	1.086	0.921		
The size of the Audit Committee (SAC)	1.191	0.840		
Independence of the Audit Committee (INAC)	1.114	0.898	Chi^2= 511.843 p-value = 0.000	Chi^2= 141.130 p-value = 0.000

The VIF values indicate that the data is free from the multicollinearity problem, where all parameter values, in all independent variables, are greater than (1) and less than (5). To determine whether the Pooled Regression model or the Fixed & Random Effect Model was the most suitable for the study data, the Berush-Pagan LM Test was used. The value of the Chi-square (Chi2 = 511.843) Which is significant value at a level of significance less than 0.05, indicating the suitability of static and random effects models of the study data.

To determine which model is better, the Hausman Test was used, with a value of Chi2 = 141,130, a significant value at a mean level of less than 0.05, indicating the suitability of the static effects models of the study data.

3.4 Hypothesis Testing

To determine the impact of the characteristics of the Audit Committee represented by Activity of the Audit Committee (AAC), the size of the Audit Committee (SAC), and Independence of the Audit Committee (INAC) on the level of Jordanian banks' practice of creative accounting represented by earnings management, the regression test of the fixed effect model was carried out as follows:

Table 2. Results of the test of the study model based on the fixed effects model

The dependent variable	Independent variables	Regression coefficient	Calculated t value	Probability Level
	Activity of the Audit Committee (AAC)	**1.128**	**3.818**	**0.000**
	The size of the Audit Committee (SAC)	**0.044**	**1.723**	**0.085**
Earnings Management	**Independence of the Audit Committee (INAC)**	**0.782**	**30.848**	**0.000**
R^2		**0.737**		
Adj R^2		**0.732**		
calculated F value		**146.332**		
Probability Level F		**0.000**		
Number of Views		**546**		

The effect of Activity of the Audit Committee (AAC), the size of the Audit Committee (SAC), and Independence of the Audit Committee (INAC) on the earnings management of the banks had a significant effect. The value of F (146.332) (R^2 = 0.737), indicating that the independent variables combined explained (73.7%) of the variation in profit management for Jordanian banks.

3.4.1 The Results of the First Sub-Hypothesis Test

Ho1: There is no statistically significant impact of activity of the audit committee in reduction of creative accounting practices in Jordanian commercial banks.

Table (2) show that the value of the regression coefficient at the variable (the activity of the Audit Committee) reached (1.128), and with a significance level (Prob = 0.000), which is less than 0.05, therefore possible to say that there is a significant impact of the Audit Committee's activity in reducing creative accounting practices.

3.4.2 The Results of the Second Sub-Hypothesis Test

Ho2: There is no statistically significant impact of the size of the audit committee in reduction of creative accounting practices in Jordanian commercial banks.

Table (2) show that the value of the regression coefficient at the variable (the size of the Audit Committee) reached (0.044), and with a significance level (Prob = 0.085), which is greater than 0.05, therefore possible to say that there is no significant effect on the size of the Audit Committee in limiting creative accounting practices.

3.4.3 The Results of the Third Sub-Hypothesis Test

Ho3: There is no statistically significant impact of independence of the audit committee in reduction of creative accounting practices in Jordanian commercial banks.

Table (2) show that the value of the regression coefficient at the variable (independence of the Audit Committee) reached (0.782), with a significance level (Prob = 0.000), which is less than 0.05, therefore possible to say that there is a significant impact of the independence of the Audit Committee in reducing creative accounting practices.

3.4.4 Results of the Main Hypothesis Test

Ho: There is no statistically significant impact of audit committee characteristics on the creative accounting practices reduction in Jordanian commercial banks.

The results of the hypothesis test indicate that there is a significant effect of all the characteristics of the Audit Committee on the reduction of creative accounting practices in Jordanian banks at a level of significance of 0.05 except for variable (size of the Audit Committee) where the significance level is less than (0.10).

The results of Table (2) indicate that the value of the coefficient of determination (R2 = 0.737) which means that the independent variables combined explained (73.7%) of the variation in Earnings Management with other factors remaining constant.The value of (F) has reached (146.332) at the level of confidence (Sig = 0.000) and this confirms the significance of the regression at the level (α 0.05 0.05). Therefore, we reject the first null hypothesis, and accept the alternative that reads: “There is a statistically significant impact of audit committee characteristics on the creative accounting practices reduction in Jordanian commercial banks”.

4. Conclusion

This study aimed at showing the impact of the characteristics of the Audit Committee (The effect of Activity of the Audit Committee, the size of the Audit Committee, and Independence of the Audit Committee) in reducing creative accounting practices, by testing the hypotheses, the study found that there is a statistically significant impact of audit committee characteristics on the creative accounting practices reduction in Jordanian commercial banks. And there is a significant impact of the Audit Committee's activity in reducing creative accounting practices. And there is a significant impact of the independence of the Audit Committee in reducing creative accounting practices. But there is no significant effect on the size of the Audit Committee in limiting creative accounting practices

References

Alam, P., & Makar, S. (2008). Earnings management and antitrust investigations: political costs over business cycles. *Journal of Business Finance and Accounting, 25*(5), 701-720. https://doi.org/10.1111/1468-5957.00208

Ali Shah, S. Z., Ali Butt S., & Hasan, A. (2009). Corporate governance and earnings management an empirical evidence form Pakistani listed companies. *European Journal of Scientific Research, 26*(4), 624-638.

Amat, O., & Gowthorpe, C. (2004). Creative accounting: nature, incidence and ethical issues, Universitat Pompeu Fabra Economics and Business. Working Paper No. 749. Universitat Pompeu Fabra, Barcelona.

Arens, Alvin A., Elder, Randal J., & Mark S. B. (2015). *Auditing and Assurance Services: An Integrated Approach* (15th ed.).

Arnold, B., & Lange, P. (2014). Enron: an examination of agency problems. *Critical Perspectives on Accounting, 15*(6), 751-765.

Ball, R., Robin, A., & Wu, J. (2013). Incentives versus standards: properties of accounting income in four East Asian countries. *Journal of Accounting and Economics, 36*(1-3), 235-270.

Beatty, A., Ke, B., & Petroni, K. (2016). Earnings management to avoid earnings declines across publicly and privately held banks. *The Accounting Review, 77*(3), 547-570. doi.org/10.2308/accr.2002.77.3.547

Bedard, J., Chtourou, S. M., & Courteau, L. (2004). The effect of audit committee expertise, independence, and activity on aggressive earnings management. *Journal of Auditing, 23*(2), 23-36. https://doi.org/10.2308/aud.2004.23.2.13

Bergstresser, D., & Phillppon, T. (2016). CEO Incentives and Earnings Management. *Journal of Financial Economics, 80*(3), 511-529.

Bewaji, W. (2012). Insider trading in developing jurisdictions. New York: Rout ledge.

Busaule, D. M. (2014). The relationship between financial performance and executive compensation of commercial banks in Kenya. Unpublished PHD thesis, Nairobi: University of Nairobi.

Carcello, J. V., & Neal, T. L. (2000). Audit Committee Composition and Auditor Reporting. *The Accounting Review, 75*(4), 453-467. https://doi.org/10.2308/accr.2000.75.4.453

Coletti, A. L., & Sedatole, K. L. et al. (2005). The Effect of Control Systems on Trust and Cooperation in Collaborative Environments. *Accounting Review, 80*(2), 477-500.

Coppens, L., & Peek, E. (2015). An analysis of earnings management by European private firms. *Journal of International Accounting, Auditing and Taxation, 14*(1), 1-17. https://doi.org/10.1016/j.intaccaudtax.2005.01.002

Cotleţ, B. N., Nagy, C. M., Megan, O., & Cotleţ, D. U. (2012). Creative techniques for modeling performance reported in financial statements. Anale. Seria Stiinte Economice. Timisoara, 18, 406-410.

DeAngelo, H., DeAngelo, L., & Skinner, D., (2014). Accounting choice in troubled companies. *Journal of Accounting and Economics, 17*(1), 113-143.

Dechow, P. M., Ge, W., Larson, C. R., & Sloan, R. G. (2011). Predicting material accounting misstatements. *Contemporary Accounting Research, 28*(1), 17-82. https://doi.org/10.1111/j.1911-3846.2010.01041.x.

Effiok, S. O., & Eton, O. E. (2012). Creative accounting and managerial decision on selected financial institutions in Nigeria. *International Journal of Business, Research and Management (IJBRM), 3*(1), 35-47.

Essien, E. A., & Ntiedo, J. U. (2018). The influence of creative accounting on the credibility of accounting reports. *Journal of Financial Reporting and Accounting, 16*(2), 292-310. https://doi.org//10.1108/jfra-08-2016-0064

Goel, A., & Thakor, A. (2013). Why do firms smooth earnings? *The Journal of Business, 76*(1), 151-193.

Goodwin, J., & Seow, J. L. (2002). The Influence of Corporate Governance Mechanisms on the Quality of Financial Reporting and Auditing: Perceptions of Auditors and Directors. *Singapore, Accounting and Finance,* *42*(3). 195-223. https://doi.org/10.1111/1467-629X.t01-1-00074

Gosh, S. (2010). Creative accounting: A fraudulent practice leading to corporate collapse. *Research and Practice in Social Sciences, 6*(1), 1-15.

Healy, P. M., & Wahlen, J. M. (1999). A review of the earnings management literature and its implications for standard setting. *Accounting Horizons, 13*(4), 365-383.

Hołda, A., & Staszel, A. (2016). Definitions, Perception and Functioning of Creative Accounting in the Theory and Practice of Different Languages, Countries and Parts of the World. *China-USA Business Review, 15*(5), 205-225. https://doi.org/10.17265/1537-1514/2016.05.001.

Hussein, H. N., Kasim, N., & Arumugam, V. (2015). A Review of Creative Accounting Practices and Its Area, Technique and Ways of Prevention. *International Journal of Science and Research (IJSR), 4*(10), 1377-1381.

International Federation of Accountants (IFAC). (2014). International Standard on Quality Control ISQC 1 "Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements.

Ismail, H., Mohd. Iskandar, T., & Mohid Rahmat, M. (2008). Corporate reporting quality, audit committee and quality of audit. *Malaysian Accounting Review, 7*(1), 21-42.

John, H. R., Kamau, J. G., & Nzioki, P. M. (2018). Influence of Creative Accounting Practices on Tax Evasion among Small and Medium Enterprises in Nakuru, Kenya. *International Journal of Business Management and Processes (IJBMP), 4*(2), 127-135.

Jones, M. (2011). Creative accounting, fraud and international accounting standard. England: John Wiley & Sons.

Kassem, R. (2012). Earnings management and financial reporting fraud: Can external auditors spot the difference? *American Journal of Business and Management, 1*(1), 30-33.

Klein, A. (2002). Economic determinants of audit committee independence. *Accounting Review, 77*(2), 35-52.

Leuz, C., Nanda, D., & Wysocki, P. (2013). Earnings management and investor protection: an international comparison. *Journal of financial Economics, 69*(3), 505-527.

Mucai, G. P., Kinya, G. S., Noor, A. I., & James, E. R. (2014). Tax Planning and Financial Performance of Small Scale Enterprises in Kenya. *International Review of Management and Business Research, 3*(2), 1236-1243.

Muchina, S. W., Namusonge, G. S., & Sakwa, M. (2015). Effect of Dividend on Share Price Volatility in Frontier Exchanges: Kenya‟s Perspective. *Research Journal of Finance and Accounting, 6*(14), 110-121.

Mulford, C. W., & Comiskey, E. M. (2011). The financial numbers game: Detecting creative accounting practices. New York: John Wiley and Sons.

Petroni, K. R., & Yanyan Wang, I. (2010). CFOs and CEOs: Who have the most influence on earnings management? *Journal of Financial Economics, 96*(3), 513-526.

Public Company Accounting Oversight Board (PCAOB). 2012. Information for Audit Committees about the PCAOB Inspection Process. PCAOB Release No. 2012-003. Washington DC: PCAOB.

Ramadan, I. Z. (2015). Earnings Quality Determinants of the Jordanian Manufacturing Listed Companies. *International Journal of Economics and Finance, 7*(5), 140-146. https://doi.org/10.5539/ijef.v7n5p140.

Rustam, S., Rashid, K., & Zaman, K. (2013). The relationship between audit committees, compensation incentives and corporate audit fees in Pakistan. *Economic Modeling, 31*, 697-716. https://doi.org/10.1016/j.econmod.2013.01.008

Sawicki, J., & Shrestha, K. (2008). Insider trading and earnings management. *Journal of Business Finance & Accounting, 35*(3-4), 331-346.

Sawyer, Lawrence B., & Dittenhoffer, M. A. S. (2005). Sawyer's Internal Auditing the Practice of Modern Internal Auditing, 5th edition, The Institute of Internal Auditors, pp.1115-1116.

Sayed, A. B. (2013). Role of Corporate Governance Application in Practice of Creative Accounting Methods-Applied Study on Listed Companies in Khartoum Exchange. *The Arab Economics and Business Journal, 8*(1-2), 63-73.

Schipper, A. (2008). Earnings management. *Accounting Horizons, 2*(4), 91-106.

Schipper, J., & Vincent A. (2015). Earnings Quality. *Accounting Horizons, 17*(1), 97-110. https://doi.org/10.1561/1400000004

Shah, A. (2008). Exploring the influences and constraints on creative accounting in the United Kingdom. *The European Accounting Review, 7*(1), 83-104. https://doi.org/10.1080/096381898336592

Shah, S. Z. A., & Butt, S. (2011). Creative accounting: A tool to help companies in a crisis or a practice to land them into Crises. *2011 International Conference on Business and Economics Research IPEDR, 16*, 96-102.

Waweru, M. N. (2014). Determinants of quality corporate governance in Sub-Saharan Africa: Evidence from Kenya and South Africa. *Managerial Auditing Journal, 29*(5), 455-485. https://doi.org/10.1108/MAJ-07-2013-0897

Xie, B., Davidson, W. N., & Da Dalt, P. J. (2003). Earnings management and corporate governance: the role of the board and the audit committee. *Journal of Corporate Finance, 9*(3), 295-316. https://doi.org/10.1016/S0929-1199 (02)00006-8