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Abstract

Organizations worldwide face significant challenges in corporate governance, audit quality, transparency and creative accounting practices, despite the presence of enhanced regulatory frameworks and oversight mechanisms. Creative accounting remains widespread globally, with 46% of organizations reporting accounting fraud and median losses of \$593,000 per case, undermining financial reporting integrity and stakeholder trust. In Kenya specifically, despite standardization efforts since 2014, persistent obstacles include limited technology adoption, inadequate legal frameworks, and a shortage of trained personnel, leading to low confidence in financial statements. The study used a comprehensive literature review to examine conceptual and empirical studies on corporate governance, audit quality, transparency, and creative accounting, integrating key theories to develop a cohesive framework and identify gaps in current research and practice. The empirical literature reveals mixed findings regarding the effectiveness of board composition and independence in preventing creative accounting practices. While some studies suggest that board size and independence can significantly influence creative accounting, others indicate no significant impact. However, internal audit functions, when properly implemented, significantly reduce creative accounting practices. The study identifies significant gaps in understanding the effectiveness of governance frameworks, measuring actual compliance with transparency standards, and examining the interrelationships between different governance elements. The study concludes that a comprehensive and integrated approach to corporate governance, audit quality, and transparency is essential to combat creative accounting practices. The study recommends that organizations and policymakers undertake a comprehensive review of existing literature to synthesize fragmented knowledge and develop a cohesive framework integrating key theories. Empirical literature should be reviewed to understand the practical implications of governance mechanisms and to tailor governance structures effectively. Collaborative efforts between organizations and researchers are essential to address emerging gaps and develop an integrated theoretical framework. A suitable framework incorporating audit quality as a mediator and transparency as a moderator should be proposed and validated through empirical testing. Organizations should prioritize implementing governance mechanisms such as diverse boards, robust internal and external audit functions, and enhanced transparency practices.

Keywords: *Corporate Governance, Audit Quality, Transparency, Creative Accounting, Theoretical Framework*

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1.0 Background to the Study

Organizations worldwide are faced with uncertainties and risks associated with corporate governance, audit quality, transparency, and creative accounting practices. As a result, there is a need to mitigate these risks through effective governance mechanisms and robust audit processes to maximize organizational performance and achieve stakeholder objectives. According to Debbarma and Roy (2023), most organizations across the globe have embraced corporate governance mechanisms in creating value for their business operations. The business environment is constantly evolving due to increased governance complexities, audit quality concerns, and transparency requirements. This results in organizations having to adapt their governance and audit structures to operate effectively in such circumstances (Sani & Owoade, 2021). In the competitive business environment, organizations need to embrace effective corporate governance and audit quality measures to stay ahead of emerging challenges. Governance mechanisms and quality audits have been implemented by numerous organizations globally to enhance their business objectives. Olojede and Erin (2021) emphasize that strong corporate governance and high audit quality are regarded as essential mechanisms for value creation by most organizations worldwide. These entities operate in environments characterized by increasing uncertainty, complexity, competition, and rapid changes in regulatory demands and stakeholder expectations. Governance requirements are not only evolving rapidly but also remain in a constant state of flux.

In response to these challenges, as highlighted by Bala, Sani, Al-Absy, Khatoon, Nusrathunnisa, and Benbelgacem (2024), organizations are compelled to reevaluate their governance structures and audit processes. This adaptation is essential for survival and relevance in today's highly competitive and dynamic market environment. Corporate governance mechanisms are very important in organizational growth and sustainability. This is because effective governance creates competitive advantage and enhances survival prospects (Paul, Francis & Ben-Caleb, 2020). while fostering synergy, improving market position, and reducing uncertainties through enhanced risk management and audit quality. Several theoretical perspectives explain the importance of corporate governance and audit quality in organizations. These include agency theory and stakeholder theory, as highlighted by Al-Olimat and Al Shbail (2021). The agency theory developed by Jensen and Meckling (1976) explains how organizations manage the relationship between principals and agents through governance mechanisms, while stakeholder theory explains how organizations balance various stakeholder interests through transparency and accountability. Additionally, the policeman theory emphasizes the crucial role of auditing in maintaining organizational integrity and preventing creative accounting practices, suggesting that organizations must maintain strong audit functions to ensure sustainable profitability and stakeholder trust (Qawqzeh, Endut & Rashid, 2021).

Hence, the study aimed to address the multifaceted challenges associated with corporate governance, audit quality, transparency, and creative accounting practices by pursuing several key objectives. First, the study undertook a comprehensive review of the conceptual and theoretical literature on these constructs to synthesize fragmented knowledge and develop a cohesive framework integrating key theories such as agency theory, policeman theory, stakeholder theory, and positive accounting theory. This review was essential for developing a more holistic understanding of the interconnectedness of these constructs and their impact on financial reporting integrity. Secondly, the study examined relevant empirical literature to understand the practical implications of corporate governance mechanisms, audit quality, transparency, and creative

accounting practices. This examination focused on identifying mixed findings and inconsistencies in the literature, such as the varying impacts of board composition and independence on creative accounting practices. By examining these empirical studies, the study gained insights into the specific attributes of governance mechanisms that are most effective in reducing creative accounting practices.

Thirdly, the study identified emerging gaps in conceptual, theoretical, and empirical research to inform targeted interventions and policies. This identification was crucial for recognizing the limitations of current knowledge and practice, which could then guide the development of more effective governance structures and audit processes. Lastly, the study proposed a suitable theoretical framework incorporating audit quality as a mediator and transparency as a moderator to guide future research. This framework was designed to provide a structured approach to examining the effectiveness of governance mechanisms in different contexts, ensuring that future research and practical applications are informed by the latest findings and are better equipped to deter manipulative accounting practices. These objectives collectively contributed to enhancing financial reporting integrity and stakeholder trust, providing valuable insights for organizations, policymakers, and the academic community.

1.1 Statement of the problem

Organizations globally face significant challenges with creative accounting, which remains widespread despite increased regulations. A 2023 survey by PricewaterhouseCoopers covering 5,000 organizations across 99 territories found that 46% of organizations reported experiencing accounting fraud, with creative accounting being a primary method (PwC Global Economic Crime Survey, 2023). The Association of Certified Fraud Examiners (ACFE) Report to the Nations (2022) indicates that creative accounting and financial statement fraud cause median losses of \$593,000 per case globally, more than double the median loss from other forms of fraud. These practices continue to undermine financial reporting integrity and stakeholder trust worldwide. Several African countries including Nigeria, Ghana, Tanzania, Kenya, Uganda, Rwanda and Burundi have shown increased interest in adopting International Public Sector Accounting Standards (IPSAS) to enhance the uniformity and transparency of financial reporting (D'Amore, 2015). However, the quality of financial reporting varies significantly across these African nations, with Isibor and Ebere (2018) noting that non-disclosure remains a common issue in many developing countries due to underdeveloped accounting practices. Organizations familiar with accounting standards often exploit the flexibility within International Financial Reporting Standards (IFRS) to manipulate financial reports and reduce tax liabilities (Okpara, Eke & Ajabor, 2023). This challenge is particularly prevalent across African nations, where weak regulatory frameworks and limited enforcement capacity create opportunities for creative accounting practices. Studies indicate that across these countries, income smoothing and earnings management remain common practices despite enhanced reporting standards.

In Kenya specifically, efforts to standardize financial reporting began in 2014 through the collaborative work of the Institute of Certified Public Accountants of Kenya (ICPAK), the Treasury, the Auditor General, and Ernest & Young (Nderitu & Koori, 2021). Despite these initiatives, Hamisi (2021) identified persistent obstacles including limited technology adoption, inadequate legal frameworks, and a shortage of trained personnel. These challenges are compounded by unclear classification of Public-Private Partnerships (PPP) projects in financial

reports and ongoing debates about representing budgetary data in financial statements (Hassan, 2021). The situation has led to low confidence in financial statements due to corruption and resource mismanagement, with debt levels reaching 69% of GDP by 2021 (National Treasury, 2021). Furthermore, the Capital Markets Authority (2023) reported that 41% of listed companies showed indicators of creative accounting in their financial statements between 2021-2023.

Given these challenges, understanding the relationship between corporate governance mechanisms, audit quality, and transparency becomes crucial in addressing creative accounting practices. Studies show mixed results regarding how these factors interact to influence financial reporting quality. While strong corporate governance structures can help deter creative accounting, their effectiveness varies significantly (Debbarna & Roy, 2023). Audit quality plays a vital role in detecting and preventing creative accounting practices, yet the International Forum of Independent Audit Regulators' (IFIAR) 2023 Survey found that 31% of audits globally had significant deficiencies that failed to detect creative accounting. Additionally, transparency serves as a critical moderating factor in this relationship, though its impact varies across different organizational contexts (Abed, Hussin, Haddad, Al-Ramahi & Ali, 2022). These varying findings highlight the need for comprehensive research examining how these factors collectively influence creative accounting practices.

1.2 Objectives of the study

The objectives of the study included;

- i. To review the extent of conceptual and theoretical literature on the constructs of corporate governance, audit quality, transparency, and creative accounting and their connected phenomenon.
- ii. To review relevant empirical literature on the constructs of corporate governance, audit quality, transparency, and creative accounting.
- iii. To identify emerging conceptual, theoretical and empirical gaps from the relevant literature on corporate governance, audit quality, transparency, and creative accounting.
- iv. To propose a suitable theoretical framework in response to the gaps to be identified for guiding future research on corporate governance, audit quality, transparency, and creative accounting.

2.0 Literature Review

The literature review explores corporate governance, audit quality, transparency, and creative accounting through theoretical and empirical perspectives, emphasizing agency theory, policeman theory, stakeholder theory and positive accounting theory. It highlights how governance mechanisms, internal and external audit functions, and transparency measures influence financial reporting integrity while identifying inconsistencies in prior studies on board composition and audit effectiveness. The review underscores the mediating role of audit quality and the moderating effect of transparency in reducing creative accounting practices, proposing an integrated framework to enhance financial accountability. This section is crucial as it synthesizes fragmented knowledge, identifies research gaps, and provides a foundation for improving governance policies, audit standards, and financial transparency to strengthen stakeholder trust and organizational credibility.

2.1 Theoretical Review

Corporate governance, audit quality, transparency, and creative accounting have been explained through various theoretical frameworks. Agency theory highlights conflicts between managers and shareholders, necessitating governance mechanisms to align interests and minimize agency costs. Policeman theory emphasizes the auditor's role in fraud detection, reinforcing the need for strong audit functions to uphold financial integrity. Stakeholder theory advocates for transparency and ethical practices to create value for all stakeholders, while positive accounting theory explains how economic incentives influence accounting choices. The following sections provide an in-depth discussion of these theories.

2.1.1 Agency Theory

The proponents of the theory include Jensen and Meckling (1976), who built upon earlier work by Berle and Means (1932). The theory was developed to explain the conflicts of interest that arise when ownership is separated from control in organizations (Berger & Di Patti, 2006). The theory states that in principal-agent relationships, managers (agents) may prioritize their self-interests over those of shareholders (principals), leading to agency costs (Laffont & Martimort, 2009). This divergence of interests necessitates monitoring mechanisms and governance structures to align both parties' interests and protect shareholder value. Agency theory has been widely applied in corporate governance and creative accounting studies. Sani and Owoade (2021) used it to examine how corporate governance mechanisms mitigate creative accounting practices, while Paul et al. (2020) and Ogoun and Atagboro (2020) applied it to analyze the impact of internal audit functions on creative accounting. The theory is relevant in explaining corporate governance's role in preventing creative accounting, as it provides a framework for understanding managerial motivations and how governance mechanisms, including monitoring and control systems, can curb unethical financial practices.

2.1.2 Policeman theory

The theory, introduced by Stuart Chase in 1942, provides a foundational understanding of the auditor's role in detecting and preventing fraud. According to Ittonen (2010), the theory limits the auditor's responsibilities to these specific areas. It outlines stakeholder expectations, emphasizing that auditors are relied upon to safeguard against fraudulent activities, provide warnings about potential insolvency, and offer general assurance regarding an entity's financial health. This theory emphasizes auditors' role as watchdogs of financial integrity and corporate accountability. The theory has been extensively applied in audit quality research. Yousefi Nejad et al. (2024) employed policeman theory to examine how audit quality affects financial statement fraud detection. Adekoya et al. (2023) applied the theory to study internal audit's role in fraud detection, demonstrating the importance of auditor vigilance. Tjeng and Nopianti (2021) used the theory to investigate how auditor technical abilities influence financial statement quality, while Mawutor et al. (2019) applied it to examine factors affecting audit quality in listed companies. Odek and Oyugi (2021) utilized the theory to study governance indicators' influence on performance audit reports. The theory is relevant in explaining audit quality by highlighting the critical role of comprehensive evaluations and professional skepticism in upholding rigorous audit quality standards.

2.1.3 Stakeholder Theory

Stakeholder theory, developed by Edward Freeman in 1984, advocates for organizations to deliver value to all stakeholders rather than focusing solely on shareholders. The theory stresses the ethical responsibility of organizations to consider stakeholder interests in decision-making, particularly regarding transparency and disclosure (Laplume et al., 2008). Widely applied in corporate governance and transparency research, the theory has been used in multiple contexts. For instance, Hamad et al. (2020) examined its role in understanding how corporate governance and sustainability reporting influence integrated reporting practices, while Ndungu (2013) explored its relevance in linking transparency, disclosure, and financial performance. Karpoff (2021) developed a stakeholder-based corporate governance model using the theory, and Shakir et al. (2021) applied it to study transparency's moderating effect on financial and social performance. Additionally, Umirzakovich (2024) utilized the theory to analyze how corporate governance builds trust and transparency. The theory is particularly relevant to transparency, as it provides a framework for understanding the importance of clear communication and ethical practices in engaging stakeholders, reducing creative accounting, and enhancing accountability in corporate governance.

2.1.4 Positive Accounting Theory

The theory, developed by Ross Watts and Jerold Zimmerman in 1978, explains why managers make specific accounting decisions. It posits that these decisions are influenced by three key hypotheses: the bonus plan hypothesis, where managers select accounting methods to enhance reported earnings; the debt covenant hypothesis, which suggests managers aim to avoid breaching debt covenants through their accounting choices; and the political cost hypothesis, where managers adopt methods to reduce political scrutiny (Deegan, 2011). This framework provides a foundation for understanding the economic incentives that shape accounting decisions and financial reporting practices. The theory has been widely applied in corporate governance and creative accounting research. For instance, Shukla et al. (2020) used it to examine how board size affects accounting returns, while Bhaskoro and Suhardianto (2020) studied the relationship between corporate governance and income smoothing practices. Firmansyah and Saksessia (2020) investigated how corporate governance impacts earnings quality, and Debbarma and Roy (2023) explored the influence of corporate governance on creative accounting practices. The theory is particularly valuable in explaining creative accounting, as it emphasizes the economic motivations behind managerial accounting choices and helps predict situations where creative accounting may arise. This understanding supports the design of effective governance mechanisms and controls to mitigate such practices.

2.2 Empirical Review

Debbarma and Roy (2023) found that board composition, including board size, positively influences creative accounting practices, while board independence has no significant impact. Sani and Owoade (2021) found that board size and board independence have no significant impact on mitigating creative accounting practices. Olojede and Erin (2021) found that board composition, including board size and independence, became more effective in reducing creative accounting practices. Bala et al. (2024) found that female board competence and audit committee attributes significantly reduce creative accounting practices, with board age diversity further enhancing this relationship. Paul et al. (2020) found that board size and board independence have no significant

impact on creative accounting practices, while audit committee independence and gender diversity negatively influence and reduce such practice. Ogoun and Atagboro (2020) found that an efficient internal audit function significantly reduces creative accounting practices, emphasizing the need for enabling environments, qualified audit staff, and stronger regulatory regimes to curb financial manipulations. Jarrah et al. (2022) indicated that internal audit functions, including independence, objectivity, verifiability, professional care, and neutrality, play a significant role in reducing the effects of creative accounting on the reliability of financial statements. Masli and Elshahoubi (2023) established that the internal audit function plays an effective role as a corporate governance mechanism in reducing creative accounting practices. Alwan (2023) found that auditing significantly reduces creative accounting practices in financial statements, ensuring accounting information is more reliable and suitable for stakeholders. Ismeal et al. (2021) found that external auditing dimensions, including general standards, fieldwork standards, and reporting standards, significantly reduce creative accounting practices.

Abdulrahman (2022) revealed that external auditing, when aligned with international standards, plays a significant role in limiting creative accounting practices. Madmoud and Alastal (2024) established that external auditing significantly curbs creative accounting practices by enhancing financial reporting integrity and reliability, emphasizing the importance of audit quality and regulatory frameworks. Al-Shehri et al. (2021) found that judicial auditors play a significant role in reducing creative accounting practices in financial statements by ensuring the suitability of accounting information and emphasizing the importance of auditor independence. Fekir et al. (2023) found a significant positive relationship between audit risk assessment—including inherent risks, control risks, and detection risks—and the detection of creative accounting methods in accounting estimates, with inherent risk assessment having the highest impact. Al Astal et al. (2024) found that external audits effectively mitigate creative accounting practices, with their success significantly influenced by regulatory rigor, auditor independence, and adherence to international accounting standards. Al-Hamdani et al. (2024) indicated that external auditing profession plays a significant role in limiting creative accounting practices by verifying the fairness and reliability of financial statements through rigorous auditing procedures. Thus, corporate governance can play a crucial role in reducing creative accounting by implementing strong oversight mechanisms and ethical standards. Effective governance structures can deter manipulative financial practices by promoting accountability and transparency. By aligning organizational practices with stakeholder interests, corporate governance can significantly enhance the credibility of financial reporting.

Al-Olimat and Al Shbail (2021) found that external audit quality mediates the relationship between corporate governance principles and the reduction of creative accounting practices, highlighting a positive complementary relationship that strengthens the effectiveness of governance in limiting such practices. Usman and Usman (2022) established that the audit committee mediates the relationship between board dynamics such as gender diversity, ethnicity, reputation, nationality, and risk management and creative accounting practices, while no mediating effect was observed for board capability. Qawqzeh et al. (2021) revealed that audit quality, as indicated by audit fees, partially mediates the relationship between board components and financial reporting quality, emphasizing the positive impact of board size, independence, and directors' remuneration on audit quality, while board expertise negatively influences it. Islam et al. (2023) established that internal audit function (IAF) quality mediates the relationship between firm size and financial reporting

quality (FRQ), while no mediation effect was observed for audit committee (AC) quality, emphasizing the significant role of IAF in enhancing FRQ. In addition, Hidayat et al. (2024) established that audit quality mediates the relationship between company complexity and audit fees, demonstrating that higher complexity increases audit fees through enhanced audit quality, while company size and independent commissioners showed no significant effects on audit fees. Moreover, Gardi et al. (2023) revealed that IFRS adoption positively mediates the relationship between corporate governance and financial reporting quality, emphasizing its role in enhancing reporting quality, regulatory compliance, and decision-making.

Aziz et al. (2023) established that audit quality significantly mediates the relationship between auditors' independence, audit firm size, auditors' financial expertise, and earnings quality, highlighting its critical role in enhancing financial reporting integrity. Alqam et al. (2021) revealed that key audit matters (KAMs) significantly mediate the relationship between audit quality and earnings management, demonstrating that higher audit quality enhances KAMs, which in turn reduces earnings management. Qawqzeh et al. (2020) established that audit quality partially mediates the relationship between external auditor effectiveness and financial reporting quality (FRQ), with industry specialization positively impacting FRQ and audit quality, while auditor tenure negatively influences FRQ. Ganesan et al. (2024) revealed that audit quality mediates the relationship between audit characteristics such as audit tenure, audit fees, and audit firm size and financial reporting quality, with audit fees and firm size positively influencing both audit quality and financial reporting quality. Thus, audit quality can mediate the relationship between corporate governance and creative accounting by enhancing the transparency and reliability of financial reporting.

Abed et al. (2022) demonstrated that transparency and disclosure significantly moderate the relationship between creative accounting determinants and financial reporting quality, enhancing the ability of governance mechanisms to mitigate creative accounting practices and improve reporting integrity in commercial banks. Mohammed et al. (2024) established that firm transparency significantly moderates the relationship between IFRS adoption and financial statement comparability, amplifying the positive effects of IFRS adoption by making it easier for stakeholders to compare financial statements across firms. Ouattara (2019) revealed that financial transparency significantly moderates the relationship between accounting information and share prices for non-financial companies listed at BRVM, demonstrating that higher transparency enhances the transmission of accounting information. Li et al. (2023) demonstrated that information transparency moderates the relationship between supply chain collaboration (SCC) and supply chain finance (SCF) adoption, with information quality positively strengthening this relationship, while information quantity weakens it. Razzak et al. (2024) demonstrated that financial transparency moderates the relationship between digital accounting, digital zakat, and corporate sustainability, strengthening the positive impact of these digital practices by providing stakeholders with clearer insights into financial commitments toward sustainability initiatives.

Efunniyi et al. (2024) highlighted that transparency moderates the relationship between corporate governance and financial compliance, enhancing accountability by fostering trust, improving risk management, and ensuring stakeholder alignment through ethical conduct, robust audits, and advanced technological integration. Neifar et al. (2020) demonstrated that the Shariah Supervisory Board (SSB) quality positively moderates the relationship between board effectiveness, operational risk transparency, and bank performance, highlighting that high SSB quality enhances

compliance with operational risk disclosure and strengthens governance in Islamic banks. Hence, transparency can moderate the relationship between corporate governance and creative accounting by strengthening the effectiveness of governance mechanisms in reducing manipulative practices. It can act as a buffer that ensures accountability and ethical conduct, even in complex organizational environments.

2.3 Emerging Gaps and Proposed Model

The section on emerging gaps and the proposed model aims to identify key deficiencies or gaps that have emerged from the literature on corporate governance, audit quality, transparency, and creative accounting. These gaps highlight areas where current theories, models, or practices fail to address important issues, particularly in evolving environments like financial reporting, audit processes, and governance mechanisms. By analyzing these gaps, the chapter lays the groundwork for developing a new or adapted model that addresses these shortcomings. The proposed model seeks to integrate theoretical insights with practical solutions, providing a framework to enhance understanding of how corporate governance, audit quality, and transparency interact to influence creative accounting practices. It also aims to address specific gaps identified in earlier sections, offering a comprehensive and forward-looking approach to understanding how organizations can strengthen their governance structures, improve audit quality, and enhance transparency to mitigate creative accounting practices and advance the field.

Emerging knowledge gaps in corporate governance, audit quality, transparency, and creative accounting call for further exploration. In corporate governance, gaps persist regarding the effectiveness of governance frameworks, particularly in enforcement and their impact on organizational performance. The influence of board composition and leadership on mitigating governance failures remains under-researched. Regarding audit quality, a better understanding is needed of audit independence, quality, and the role of audit committees in minimizing interference in audit processes. Transparency also remains a key issue, with limited insight into actual compliance with transparency standards and how this affects stakeholder trust and investor confidence. The persistence of creative accounting practices exposes significant gaps, as research on the mechanisms used to manipulate financial reports and the effectiveness of internal and external controls in addressing these issues is lacking. Moreover, studies have not fully explored how stakeholders interpret and respond to transparency initiatives or how different levels of transparency influence organizational behavior and decision-making. Addressing these gaps is crucial to improving governance, financial integrity, and accountability within organizations.

The model, derived from theoretical and empirical analysis, explores and explains the connection between corporate governance, audit quality, transparency, and creative accounting practices. It proposes examining how corporate governance mechanisms, including board composition, internal audit functions, and external auditors, influence creative accounting practices, while considering the mediating role of audit quality and the moderating effect of transparency. The model recognizes that audit quality, measured through audit committee size and accounting knowledge, plays a crucial intermediary role in translating governance efforts into reduced creative accounting practices. Additionally, transparency, assessed through independent audit committee members and audit committee diligence, is positioned as a key moderating factor that can strengthen or weaken these relationships. This comprehensive framework incorporates insights from agency theory, policeman theory, stakeholder theory, and positive accounting theory to better

understand how organizations can effectively combat creative accounting through enhanced governance structures, improved audit processes, and increased transparency. The model is summarized in the figure 1 below.

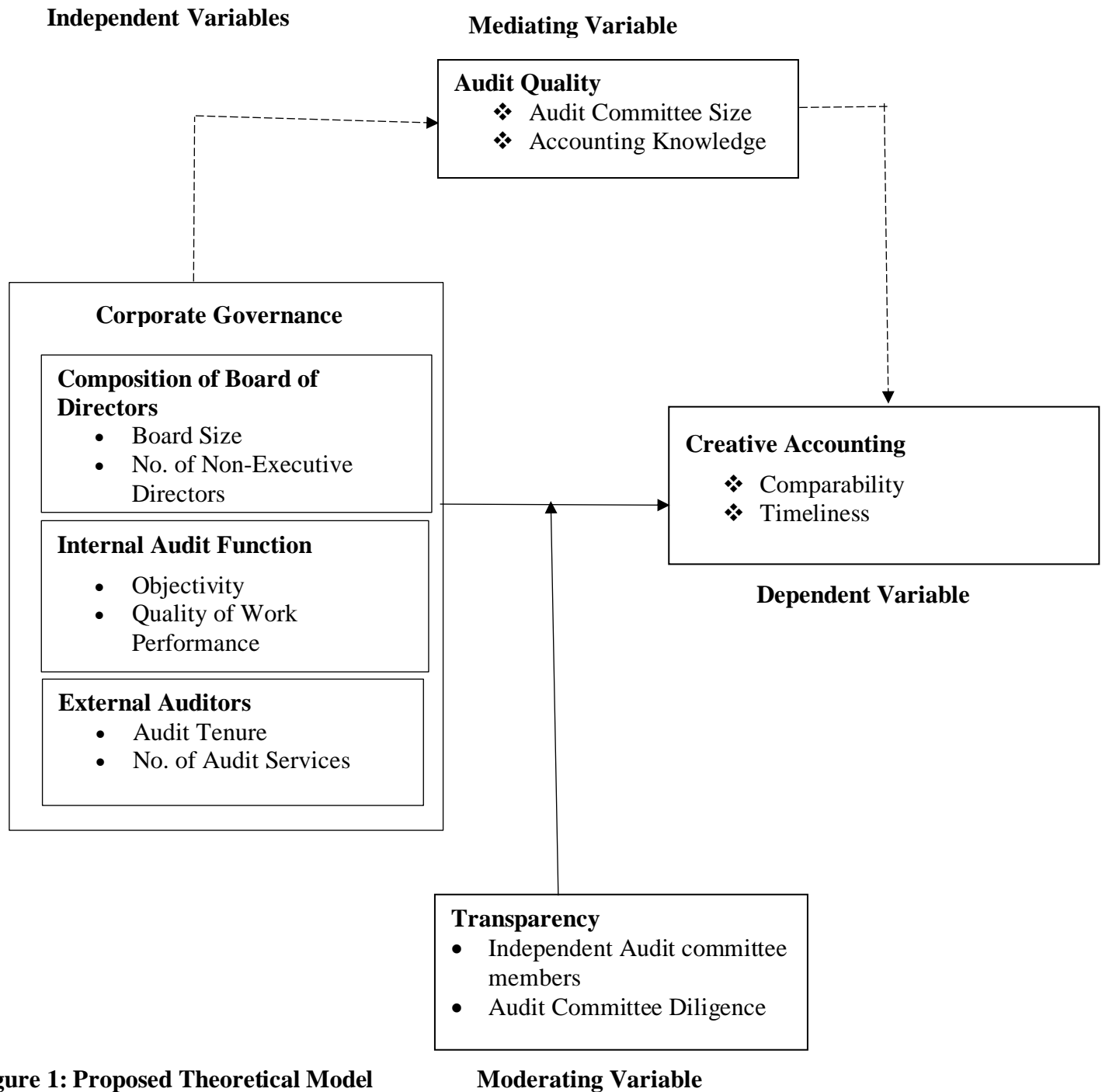


Figure 1: Proposed Theoretical Model
 Author (2025)

3.0 Research Methodology

The study was literature-based, conducting a comprehensive review of existing research and theoretical frameworks to explore the relationship between corporate governance, audit quality, transparency, and creative accounting. It identified gaps in current knowledge and proposed a theoretical model integrating insights from agency theory, policeman theory, stakeholder theory, and positive accounting theory, with a focus on audit quality and transparency. This methodology provides a foundation for future research to empirically test the model and address gaps in understanding the impact of governance mechanisms on financial reporting integrity.

4.0 Findings

Based on the literature review, the study found that the conceptual and theoretical literature on corporate governance, audit quality, transparency and creative accounting is extensive. Theories such as agency theory, policeman theory, stakeholder theory, and positive accounting theory provide valuable insights into the motivations and mechanisms behind creative accounting practices. However, these theories often focus on specific aspects of the problem, and their integration into a comprehensive framework is limited. The study can leverage these theories to develop a more holistic understanding of the interconnectedness of corporate governance, audit quality, transparency, and creative accounting. This suggests that while there is a wealth of theoretical knowledge available, there is a need to synthesize these theories into a cohesive framework that can better address the complex dynamics of creative accounting practices. The objectives of the study are to review the extent of conceptual and theoretical literature on these constructs and their connected phenomenon, review relevant empirical literature, identify emerging gaps in the literature, and propose a suitable theoretical framework to guide future research.

The review of empirical literature indicates that the relationship between corporate governance mechanisms and creative accounting practices has been extensively examined, yielding mixed results. Some studies suggest that board composition, including board size, positively influences creative accounting practices, indicating that larger boards may not effectively deter such practices. Conversely, other research indicates that board size and independence have no significant impact on mitigating creative accounting, suggesting that the mere presence of independent directors does not necessarily enhance governance effectiveness. However, further evidence reveals that when board composition, including both size and independence, is optimized, it becomes more effective in reducing creative accounting practices. This highlights the complexity of board dynamics and the need for a balanced approach to board structure. Additionally, the presence of female directors and diverse audit committees has been found to significantly reduce creative accounting practices, with age diversity among board members further enhancing this relationship. These findings underscore the importance of diverse and competent board members in promoting ethical financial reporting.

Internal audit functions have also been identified as critical in reducing creative accounting practices. Efficient internal audits, characterized by qualified staff, enabling environments, and robust regulatory frameworks, significantly mitigate creative accounting. Key attributes of effective internal audit functions include independence, objectivity, verifiability, professional care, and neutrality, all of which play a significant role in enhancing the reliability of financial statements. Similarly, external auditing dimensions, including general standards, fieldwork

standards, and reporting standards, have been found to significantly reduce creative accounting practices. When aligned with international standards, external auditing plays a crucial role in limiting creative accounting by enhancing financial reporting integrity and reliability. The importance of audit quality and regulatory frameworks in this context cannot be overstated, as they ensure that financial information is suitable and trustworthy for stakeholders. Overall, corporate governance mechanisms, including both internal and external audit functions, play a crucial role in reducing creative accounting practices. Effective governance structures can deter manipulative financial practices by promoting accountability and transparency. By aligning organizational practices with stakeholder interests, corporate governance can significantly enhance the credibility of financial reporting. The findings suggest that a combination of diverse board composition, competent audit committees, and robust internal and external audit functions is essential for effective governance. Future research should focus on identifying specific attributes of board composition and audit functions that enhance governance effectiveness, particularly in diverse contexts such as emerging markets.

Audit quality plays a critical role in enhancing financial reporting reliability and mitigating creative accounting practices. High audit quality has been found to improve the transparency and accuracy of financial reports, acting as a safeguard against manipulative practices. Audit quality enhances key audit matters, which in turn reduce earnings manipulation, and positively impacts financial reporting by ensuring compliance with ethical standards and regulatory requirements. Factors such as audit firm size, auditor independence, and financial expertise significantly contribute to higher audit quality, which leads to improved earnings quality. Audit fees, often indicative of audit effort and thoroughness, also positively influence audit quality and the resulting financial reporting quality. Furthermore, audit quality mediates the relationship between organizational complexities, such as firm size or industry specialization, and audit fees, where greater complexity often requires enhanced audit efforts. Despite its critical role, factors like auditor tenure can negatively impact audit quality, suggesting the importance of maintaining fresh perspectives in audit processes. Collectively, audit quality serves as a fundamental mechanism for fostering accountability and integrity in financial reporting, thereby reducing the risks associated with creative accounting practices.

Transparency plays a pivotal role in moderating the relationship between corporate governance and creative accounting, serving as a key mechanism for enhancing accountability, ethical conduct, and financial reporting integrity. Transparency and disclosure strengthen the ability of governance mechanisms to mitigate creative accounting practices by improving reporting quality and providing stakeholders with clearer insights into financial processes. Firm transparency has been shown to amplify the positive effects of IFRS adoption, enabling better comparability of financial statements across firms and reinforcing stakeholders' confidence in financial disclosures. In non-financial firms, greater financial transparency enhances the relationship between accounting information and share prices by improving the transmission and reliability of accounting data. Similarly, information transparency in supply chain contexts positively strengthens collaborative efforts and financial adoption, demonstrating its role in enhancing operational and financial integration. In the microfinance sector, transparency enhances the relationship between loans and social performance outcomes, such as health and education, while simultaneously improving trust and alignment among stakeholders. Additionally, transparency strengthens the positive impacts of digital accounting and sustainability practices by providing clarity on financial commitments and

fostering better stakeholder engagement. It also enhances corporate governance by improving compliance and risk management through ethical audits and advanced technological integration. High levels of transparency make financial processes more visible and verifiable, reducing the likelihood of manipulative accounting practices. By fostering trust, reinforcing regulatory compliance, and improving the effectiveness of governance mechanisms, transparency significantly curbs creative accounting practices and promotes a culture of accountability and ethical financial management.

5.0 Conclusion

The study concludes that corporate governance, audit quality, transparency, and creative accounting are intricately interconnected, with each element playing a crucial role in shaping financial reporting integrity. The findings emphasize the complexity of these relationships, underscoring the need for a comprehensive and integrated approach to address the challenges posed by creative accounting practices. Robust corporate governance mechanisms, including diverse and competent boards, independent internal audit functions, and high-quality external audits, are essential to promote accountability, transparency, and to deter manipulative financial practices. Furthermore, the study highlights the critical role of audit quality in enhancing financial reporting reliability and mitigating creative accounting. High audit quality, characterized by independence, technical competence, and adherence to international standards, improves the transparency and accuracy of financial reports and acts as a safeguard against manipulative practices. Transparency is identified as a pivotal factor in moderating the relationship between corporate governance and creative accounting, enhancing accountability, ethical conduct, and financial reporting integrity. Greater transparency strengthens governance mechanisms by improving reporting quality, providing stakeholders with clearer insights, and reinforcing confidence in financial disclosures. The study proposes a comprehensive theoretical framework to address gaps in the existing literature, integrating corporate governance mechanisms with audit quality as a mediator and transparency as a moderator. This framework can guide future research and offer practical insights for policymakers, regulators, and corporate leaders seeking to enhance financial reporting integrity and stakeholder trust. The study emphasizes the importance of continuously improving governance structures, audit processes, and transparency initiatives to foster a more accountable and ethical financial reporting environment.

6.0 Recommendations

The study recommends that organizations and policymakers adopt a comprehensive approach to enhancing corporate governance, audit quality, transparency, and reducing creative accounting practices. A thorough review of existing literature should be conducted to integrate key theories and develop a cohesive framework that addresses gaps in current research. Empirical literature should also be reviewed to understand the practical implications of governance mechanisms, and a suitable framework should be proposed, incorporating audit quality as a mediator and transparency as a moderator. Organizations should prioritize robust governance mechanisms, including diverse boards, independent audit functions, and enhanced transparency practices, while actively engaging with regulatory bodies to uphold high standards of governance and audit quality. Furthermore, organizations should focus on establishing effective governance frameworks that integrate internal audit functions, board composition, and external audit processes to prevent creative accounting practices. Management should enhance the quality of internal audit work and

ensure appropriate board size and composition, with qualified non-executive directors. Organizations should carefully consider audit tenure and the scope of audit services to maintain auditor independence and effectiveness. A comprehensive risk assessment system should be implemented to identify potential areas vulnerable to creative accounting, and regular monitoring and evaluation of governance structures, audit processes, and transparency initiatives should be conducted to ensure their effectiveness in preventing creative accounting.

Additionally, organizations should invest in training and development programs to improve the technical competence of their audit committees and financial reporting staff. Robust documentation and reporting systems that promote transparency and accountability should be implemented, and regular reviews of governance policies should be conducted to ensure they remain effective. Open communication channels between the board, audit committees, and external auditors should be maintained to ensure proper oversight of financial reporting processes. Furthermore, organizations should adopt advanced technology and automated systems to enhance the effectiveness of governance and audit processes. Finally, future research should focus on exploring the interrelationships between various governance mechanisms and evaluating their effectiveness in preventing creative accounting practices. Studies should examine how these mechanisms adapt and remain effective in dynamic business environments, particularly with the advancement of technology and evolving financial reporting standards. Research should also focus on new methodologies for measuring the success of governance mechanisms, including both financial and non-financial indicators that are increasingly important in decision-making and performance evaluation.

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