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DETECTING CREATIVE ACCOUNTING PRACTICES AND THEIR IMPACT ON THE QUALITY OF ACCOUNTING INFORMATION

Abstract: *This paper aims at presenting some methods of motivating, identifying and decreasing manipulation mechanisms in financial accounting data. Based on a research undertaken with Slovak environment, there has been produced a range of defining elements concerning the approach on creativity in accounting. Initially, we focused on the way business individuals perceive manipulation in accounting, the level of risk taking and the desire to identify such risks.*

According to our study undertaken, there is a high percentage likely to reveal the need of identifying creative practices in accounting and for becoming acquainted with the methods of achieving they should be structured according to the underlying interests and benefits. Subsequently, relying on the data gathered there has been produced a series of strategies for limiting the financial accounting misleading data, considering all those involved in the economic activity.

The conclusions largely confirm the initial hypotheses, an aspect otherwise revealing the need for security in accounting in the future, for generating trust through an accurate image instead of substantial increases, reinforcing thus the idea according to which a transparent company is a safe one, where anticipations are likely to become reality.

The papers spreads from quite "old" references, because the point of view about this problem has been changed a lot in 21-st century, and the author would like to evaluate "historical" aspects of fraud and creative accounting in accounting industry nowadays with the aspects related to Slovak environment.

Keywords: *creative accounting, manipulation, fraud, regulation, prevention, accounting practices.*

Introduction. The accountants of joint stock companies prepare financial statements and accounting reports, which have taken on a public character; they have become basic data for the investors, employees, consumers, financial institutions, regulators and the Government. The accountant must ensure that all material information about which an average prudent investor ought to reasonably be informed and which will not mislead the users of information, must be disclosed fully, fairly and in very clear terms. Due to many reasons, the books and ledgers presented by accountancy may have errors. It was thought that the fraud both internal as well as external has to be detected by the auditors through their periodic audit. Now it is clear that auditors can only check for the compliance of a company's books to generally accepted accounting principles, auditing standards and company policies.

In this era of cutthroat competition, it becomes very important for every business to find new and innovative ways of running the business and one of the new ways is creative accounting as this assist management in accomplishing personal goals. In this new system of accounting, the preparers of accounts and reports try to find out the loopholes in accounting rules to reflect what the management wants to tell the stakeholders. Managers may choose to exploit their privileged position by managing financial reports in their own favour.

This paper aims: to make creative accounting as clear as possible with the help of review of studies conducted, to study major scandals for „tactics to follow‟ and „lessons learned‟., to highlight the motives and techniques used for falsifying accounts, and also to show the mail problems related to accounts manipulation in Slovakia.

Literature overview. Naser (1993) considered that freedom in the choice of methods regarding various accounting entries like calculation of depreciation, valuation of stock etc. allows the managers to temper with the results by taking advantage of the rules.

Schipper (1989) found that creative accounting practice involves the intervention in financial reporting by concealment of various data about the company so it is not giving true and fair view about the performance of the company. He suggested that in long run this kind of practice will reduce the confidence of investors and they can switch off from the company.

Jameson (1988) proved that certain entries in accounting procedure involve an unavoidable degree of estimation, prediction and judgement. Therefore, preparers of accounts can select any approach for misrepresentation and manipulation of accounts.

Dilip (2006) conducted a research on failure of world giant Enron and found that the company's audit committee, board of directors and the auditing firm Arthur Andersen totally failed to meet their responsibility which led to an historical collapse at international level.

Griffiths (1986) observed that every company under study involved in manipulating its profits. It is the biggest con trick, which has been used by the companies, and this deception is very legitimate but it is very unethical conduct of companies.

Barnea et al. (1976) observed that with the help of creative accounting companies could manage their earnings in short run which appears to be attractive but it will have long-term implications, which may lead to the collapse of the company.

Above studies show that creative accounting can be considered positive as well as negative tool or just like a weapon. When the new techniques are introduced to refine the existing accounting system it can be of great benefit to the users but mishandling can cause harm also. Thus, it is not that creative accounting solutions are always wrong; it is the intent and the magnitude of the disclosure, which determines its true nature and justification. Present study conceptually reviews this innovative concept; critically examines this new tool, and highlights examples of Indian companies and companies from international arena, which used this practice to get benefit during difficult time or to manipulate their accounts.

Creative accounting definition. A trick by which purposeful intervention is done in reported figures to obtain the predestined results can be termed as creative accounting.

In the words of L. Griffiths (1986), "Every company in the country is fiddling its profits. Every set of published accounts is based on books, which have been gently cooked or completely roasted. The figures, which are fed twice a year to the investing public, have all been changed in order to protect the guilty. It is the biggest con trick since the Trojan horse.... In fact, this deception is all in perfect good taste. It is very legitimate. It is creative accounting".

According to K. Naser (1993), "Creative accounting is the transformation of financial accounting figures from what they actually are to what preparer desires by taking advantage of the existing rules and/or ignoring some or all of them".

Collingwood (1991) defined creative accounting as something that "Involves the repetitive selection of accounting measurement or reporting rules in a particular pattern, the effect of which is to report a stream of income with a smaller variation from trend than would otherwise have appeared". Thus, Creative accounting is considered an art to manipulate the financial accounts, while remaining within the jurisdiction of accounting laws and rules to reflect what the management wants to tell the stakeholders instead of showing the actual position of the company.

Many terms has been used to describe this practice of changing in facts from what they actually are like cooking the books, massaging the numbers, financial engineering, cosmetic accounting, big bath accounting, window dressing etc. Some of the common labels are explained as follows (Mulford, Comiskey, 2002):

1. **Aggressive Accounting**: A forceful and intentional choice and application of accounting principles done in effort to achieve desired results, typically higher earnings, whether the practices followed are in accordance with GAAP or not.
2. **Earning Management:** The active manipulation of earnings toward a predetermined target, which may be set by management, a forecast made by analysts or an amount that is consistent with a smoother more suitable earnings stream.
3. **Income Smoothing:** A form of earnings management designed to remove peaks and valleys from a normal earnings series, including steps to reduce and „store" profits during good years for use during slower years.
4. **Fraudulent Financial Reporting:** Intentional misstatement or omissions of amounts or disclosures in financial statements, done to deceive financial statements users, which are determined to be fraudulent by an administrative, civil, or criminal proceeding.
5. **Creative Accounting Practices:** Any and all steps used to play the financial numbers game, including the aggressive choice and application of accounting principles, fraudulent financial reporting and any steps taken towards earnings management or income smoothing.

Creative accounting in practice. Financial statement fraud has significantly increased vagueness and instability in safety and liquidity of both capital and debt market. Top-level management commits accounting fraud to obscure true financial performance, to safeguard personal status and boost personal income and gain. Middle and lower level management misrepresent statements to hide their poor performance or to get bonus and increment. Excessive use of creative accounting led to the downfall of numerous high profile companies.

Collingwood (1991) reported on how a change in accounting method boosted K –Mart's quarterly figure by some $ 160 million, by a happy coincidence, distracting attention from the company slipping back to being the largest retailer in the USA. Grover gave an example of US film industry, which claimed huge expenses against successful movie to lower the remuneration of writers, producers and actors. US SEC fined Microsoft heavily for using manipulative revenue recognition policy. To hide substantial profits, to avoid complacency and to report smoothed earnings to its shareholder it recognized only a small percentage as revenue at the time of sale and remaining amount was kept as provision for further after sales service. Thus, major scandals must be studied for „tactics to follow" and „lessons learned" to lessen the incidents of such scandals in future. We have taken following examples to show that the use of creative accounting practices lead to the collapse of the company:

World Com Scandal. World Com was one of the biggest success stories of the 1990s. World Com admitted in March 2002 that it would have to restate its financial results to account for billions of dollars in improper bookkeeping. Company overstated its cash flow by booking $ 3.8 billion in operating expenses as capital expenses and its founder received $400 million in off-the-books loans. It agreed to pay $ 500 million to SEC, the highest fine ever imposed by the regulator. The original figure of $ 1.5 billion was scaled down as company declared itself bankrupt.

Enron Scandal. Enron Corporation was formed in July 1985. In just 15 years, it grew to be America's seventh largest company, employing 21 000 staff in more than 40 countries. Fortune magazine named it the most innovative company in America six years in a row. Its scandal was discovered in 2001. Enron used creative tactics to lie about its profits (earnings manipulation), used off-the-books partnerships to conceal $ 1 billion in debt and to inflate profits, imposed quarterly earnings targets for each of the company's business unit based on EPS goals and not on true forecasts, manipulated reserve accounts to maintain the appearance of continual earnings, structured earnings through fraudulent inflation of assets values, manipulated California energy market, bribed foreign governments to win contracts abroad, used make-to-market accounting and created Special Purpose Entities to move assets and liabilities of the balance sheet. Apart from this, senior managers were charged with insider trading and indicted. Company filed for chapter 11, bankruptcy, its auditor Andersen was convicted of obstruction of justice for destroying Enron documents.

Parmalat. Parmalat was founded in 1961. It was a leading multinational Italian dairy and food corporation company. However, in 2003 its frauds came under scanner, when it failed to place bonds worth up to EUR 500 million with investors. The company had made several investment disasters and fake transactions, used a scanning machine to forged Bank of America document, showed net profit of EUR 252 million by not complying with accounting standards and to hide these facts it performed accounting fraud of $ 20 billion. The company had taken some debts, which were not disclosed in the account books, and to pay off the debt liabilities, it had no funds and subsequently went into administration in December 2003.

Health South Corporation. Health South Corporation, a leading healthcare service provider was founded in 1984 in Alabama, USA. What was the scandal here? In 2003, it was discovered that to meet investor's expectations the company overstated its income by some $ 1.4 billion. It was also revealed that from 1996, the company was engaged in fraudulent accounting practices and overstated its revenues by as much as 4 700 percent.

Xerox Corporation. In June 2000, it was discovered that Xerox Corporation has falsified its financial statements for five years to boost income by some $ 6.4 billion and improperly posted revenues before they were actually made.

Kanebo Japan. Kanebo was a cosmetics and textile giant incorporated in 1887. In 2003, a major accounting fraud of Kanebo was revealed which was measured as the largest fraud in Japan. Over a period of five years, using creative tactics the profit was inflated by $ 2 billion.

Waste Management Inc. Waste Management Inc., a foremost U.S. company offering environmental services and services for waste management, was founded in 1894 in Houston, Texas. In 2002, company's scandal came into exposure. The tactics used by the company was understatement of depreciation expense on the company's property and equipment and thus income was inflated by $ 1.7 billion.

Bank of Credit and Commerce International. Bank of Credit and Commerce International was founded in 1972. It was a major international bank operating in 78 countries with 30000 employees. In 1991, it was closed as it was involved in the largest scandal in the financial history with more than $ 20 billion. More than $ 13 billion funds were unaccounted. Other allegations against bank imposed include use of bribery, money laundering and smuggling, sale of nuclear technology and support of terrorism.

Satyam Computer Services Limited. Satyam Computer Services Limited, once a „rising star" in Indian outsourcing IT industry was founded by Raju brothers in Hyderabad in 1987. It was an example of India's growing success. Satyam won many prestigious awards like Global Peacock Award, Leader in India in Corporate Governance and Accountability etc. In 2007 Ernst & Young awarded, Mr. Raju with the „Entrepreneur of the year award. From 2003-2008 the company grew measurably. Its compound growth rate was 35%, earning per share grew with more than 40% compound rate and share price grew by over 300% over that period.

On 7th January 2009, Ramalinga Raju confessed a fraud, consequently they were arrested for cheating, breach of trust, forgery and criminal conspiracy as criminals under IPC. Mr. Raju and the company's global head of internal audit used a number of fraudulent tactics. They overstated assets, overstated income to meet analyst expectations, used deceptive accounting practices, falsified bank accounts to inflate balance sheet, created fake accounts of customers to generate fake invoices to inflate revenues, issued ESPOs to those who helped in preparing fake bills , obtained loans with forged documents and used many more tricks to satisfy their greed and ambitions. Interesting fact is that global auditing firm PWC audited firm's books for nearly 9 years but did not uncover the frauds, while Merrill Lynch discovered the fraud in merely 10 days. Thus, loopholes in accounting policies and rules, unethical conduct of Raju brothers, questionable role of auditors, inactive board of directors, diligent role of bankers and ineffective whistle blower policy are the major reasons for collapse of Satyam.

Table 1.

Summary of companies with nature of creativity used

	Nature of Creativity
World Com	Inflated revenue by using improper bookkeeping, charged operating expenses as capital expenses, received off-the-books loans
Enron	Lied about its profits (earnings manipulation), used off-the-books partnerships, imposed quarterly earnings targets based on EPS goals and not on true forecasts, manipulated reserve accounts, structured earnings through fraudulent inflation of assets values, manipulated California energy market, bribed foreign governments, used make-to-market accounting and created Special Purpose Entities to move assets and liabilities of the balance sheet, used insider trading.
Parmalat	Entered fake transactions, used scanning machine to forged documents, showed increased net profit by not complying with accounting standards, performed accounting fraud.
Bank of Credit and Commerce International	Unaccounted funds, used bribery, money laundering and smuggling, sale of nuclear technology and support of terrorism.
Health South Corporation	Overstated income, engaged in fraudulent accounting practices, overstated revenues by as much as 4 700 percent.
Xerox Corporation	Falsified financial statements for five years to boost income and improperly posted revenues before they were actually made.
Kanebo Japan	Over a period of five years, using creative tactics the profit was inflated by $ 2 billion.
Waste Management Inc.	Understated depreciation expense on the company's property and equipment and thus income was inflated by $ 1.7 billion.
Satyam Computer Services Limited	overstated assets, overstated income to meet analyst expectations, used deceptive accounting practices, falsified bank accounts, created fake accounts of customers to generate fake invoices, issued ESPOs to those who helped in preparing fake bills , obtained loans with forged documents.

Due to the increasing level of competition, dearth of sustain in the market, loopholes in accounting standard and other regulations creative accounting practice is prevailing in companies. Teoh, Welch and Wong (1998) found in their study that firms manage earnings prior to seasoned equity offers and IPOs, According to Healy and Whalen (1999) major motivations for managing earnings are public offering, executive compensation and financial liabilities. Beidleman (1973) discussed the positive effects of income smoothing on expectations, securities valuation and some element of risk reduction. Burgstahker and Eames (1998) proved that firms manage earnings to meet financial analysts‟ forecasts. Stolowy and Breton (2000) suggested that minimization of cost of capital, minimization of political cost and maximization of manager's wealth, are the major objectives for earning management. Mulford and Comiskey (2002) summed up objectives and benefits of using this practice as follows:

Table 2

The Financial Number Game by Charles W. Mulford & Eugene E. Comiskey, 2002 (J. Wiley & Sons)

Category	The objectives and benefits companies trying to achieve
Share-Price effect	Higher share price Reduced share price volatility Increased firm value Lower cost of equity capital Increased value of stock options
Borrowing Cost effects	Improve credit rating Lower borrowing costs Relax or less stringent financial covenants
Management performance evaluation effects	Increase in bonuses based on profits/ share price
Political cost effects	Decrease in regulations Avoidance of higher taxes

The outputs of creative and fraud accounting in Slovakia from global point of view. Creative accounting, corruption and fraud, is a problem also for businesses in Slovakia. Companies cite the lack of transparency and inefficient government bureaucracy as the largest impediments to business. The Slovak Penal Code, the Criminal Procedure Code and the Specialised Criminal Act provide for the criminalisation of most forms of corruption, including active and passive bribery, bribery of foreign officials and extortion. However, insufficient law enforcement negatively affects foreign companies in Slovakia. Companies report the possibility of facilitation payments and bribes in the customs, public utilities, public procurement and judicial sectors. Facilitation payments and gifts are illegal under Slovak law, but officials in some sectors expect to receive gifts and irregular payments. From our point of view, these areas are a result of creative accounting and fraud in Slovakia with all macroeconomic aspects mentioned below.

Judicature. Slovakia's judicial system is corrupt and subject to high levels of political influence (BTI, 2014). Businesses investing in Slovakia complain about the country's functioning judiciary (ICS, 2015), and most citizens believe the judiciary is corrupt (GCB, 2013). A lack of integrity and accountability, inefficiency and the intimidation of judges are the main factors undermining the institution, leading to low-levels of trust by businesses and the public (HRR, 2014). Reportedly, businesses have complained about the private sector's influence on judicial decisions and claim that court proceedings have become a contest between people with vested interests and those with judicial connections (HRR, 2014). Property and contractual rights are generally enforceable in the courts, but the process may take years, limiting the effectiveness of proper dispute resolution. Companies demonstrate a low-level of trust in the judiciary and do not perceive the legal framework to challenge government regulations or to settle disputes to be effective (GCR, 2015-2016). Foreign companies have reported cases of USD multi-million losses suffered because of the inability of the judicial system to offer reliable legal protections (ICS, 2015). Slovakia has ratified the International Centre for Settling International Disputes (ICSID), the World Bank's Commercial Arbitration Tribunal and the New York Convention on the Recognition and Enforcement of Foreign Arbitrage Awards.

Police. Slovakia's police force carries a low corruption risk for business. Even though most Slovaks perceive the police to be corrupt (GCB, 2013), the special anti-corruption unit within the police investigates corruption and effectively prosecutes corruption cases (HRR, 2014). More than half of the surveyed firms pay for security in Slovakia (ES, 2013); the police does not reliably protect companies from crime (GCR, 2015-2016). In 2013, authorities charged 146 police officers for 187 crimes, 65 of which involved abuse of office, and eight police officers were charged with bribery and two with indirect bribery (HRR, 2014).

Public Services. Corruption represents a high risk for businesses dealing with public services in Slovakia. An overwhelming majority of surveyed businesses believe that bribery and the use of connections to be the easiest way to obtain certain public services (European Commission, Dec. 2015). Almost two in ten companies expect to give gifts to public officials to 'get things done' (ES, 2013), and the same number of households believe that abuse and bribery are widespread among officials issuing business permits (European Commission, Feb. 2014). Businesses also complain of inefficient government bureaucracy in Slovakia (GCR, 2015-2016). Starting a business is less costly but more time consuming than the OECD average (DB, 2016). Nonetheless, Slovakia eased the process by introducing court registration of businesses at a one-stop shop (DB, 2016).

Land administration. Corruption represents a low risk for businesses dealing with Slovakia's land administration. Businesses complain about burdensome procedures in the process of buying land and obtaining building permits (ICS, 2015), but only a very small percentage of surveyed businesses report to have given gifts to obtain a building permit (ES, 2013). Almost a third of households perceive that giving and taking bribes and abusing positions for personal gain are widespread among public officials issuing building permits (European Commission, Feb. 2014). Property rights are well defined under Slovak law (BTI, 2014), but companies demonstrate little trust in the protection of property rights (GCR, 2015-2016). Registering property in Slovakia is less time-consuming and less costly than the regional average (DB, 2016). In 2013, nepotism and cronyism were revealed to be widespread within the Ministry of Agriculture as friends and relatives of the Minister of Agriculture were being recruited to senior positions (NiT, 2014).

Tax Administration. Companies face a moderate corruption risk when dealing with the tax administration in Slovakia. Almost half of businesses perceive tax fraud to be widespread, and almost a quarter of citizens believe abuse of office and bribery are widespread among tax officials (European Commission, Feb. 2014). Tax rates and regulations are among the most problematic factors to business (GCR, 2015-2016). Dealing with tax payments in Slovakia is more time consuming than the OECD average (DB, 2016). Nonetheless, the government recently introduced an electronic filing and payment system for VAT and reduced the corporate income tax rate (DB, 2016).

Customs Administration. Slovakia's border administration carries a low corruption risk for business. Trading across borders in Slovakia does not require any time and only one document (DB, 2016). Few businesses report irregular payments in relation to exporting and importing being likely to occur (GETR, 2014), while almost half of citizens believe abuse of power and bribery are widespread among custom officials (European Commission, Feb. 2014).

Public Procurement. Corruption in public procurement is a serious challenge for companies operating in Slovakia. Almost half of business managers think it is common practice to use bribery to win contracts in their sector, while one quarter expect to give gifts to officials to secure a government contract (FS, 2013; ES, 2013). Likewise, more than half of businesses report losing contracts due to corruption (European Commission, Dec. 2015). Opaque tendering processes are an area of concern for foreign investors (ICS, 2014). Other risks include tailor-made specifications for particular companies, collusive bidding, conflicts of interest and unclear selection or evaluation criteria (EUACRS, 2014).

Slovakia's Office for Public Procurement (PPO) is not sufficiently protected from political interference (NiT, 2014); the Slovak Information Service (SIS) found that cronyism and nepotism are widespread among national, local and regional governments and state entities involved in procurement (EUACRS, 2014). Indeed, companies believe favouritism is very widespread among procurement officials (GCR, 2015-2016) and complain that local companies are often favoured in public tenders (ICS, 2015). All government contracts for public tenders are now published on the Central Registry of Contracts. Mandatory disclosure of contracts has been acknowledged to have contributed towards reduced levels of corruption, but public tendering still suffers from an overall lack of transparency and integrity (ICS, 2015).

Several corruption cases relating to public procurement have surfaced in recent years (ICS, 2015). Perhaps the most important of which is the case connected to the purchase of a greatly overpriced CT scanner for the Piešťany hospital won by a shell company. The case spurred public protests and resulted in the resignation of the Speaker of Parliament Pavol Paška, who is publicly perceived as the beneficiary of the shell company; the Deputy Speaker Renáta Zmajkovičová, serving also on the Piešťany hospital board; and the Minister of Health Care Zuzana Zvolenská (*Tax Justice Network,* Jan, 2015). To date, no prosecutions have been launched (NiT, 2015). Companies are strongly advised to use a specialised public procurement due diligence tool to mitigate corruption risks associated with public procurement in Slovakia.

Natural Resources. In one of the most important corruption cases in the natural resources sector in Slovakia, the Ministry of Environment sold Slovakia's surplus carbon emissions at significantly below market price – at a loss of approximately EUR 47 million (HRR, 2014). The quotas were sold to a US-based company, Inter-blue Group, which then sold the quotas to Japanese companies for EUR 8 per tonne (*Slovak Spectator*, Aug. 2013). The case eventually led to a closing of the Ministry of the Environment (HRR, 2014). In June 2014, the prosecutor general claimed that the damages could not be connected to the sale and closed the investigation (HRR, 2014).

Legislation. Important anti-corruption legislation in Slovakia includes the Penal Code, the Criminal Procedure Code, and the Specialised Criminal Act, which criminalise attempted corruption, extortion, active and passive bribery, bribery of foreign officials, conflicts of interest, facilitation payments, giving and receiving gifts and money laundering. The government does not implement anti-corruption laws effectively (HRR, 2014), and the number of prosecutions of corruption cases is low (EUACRS, Feb, 2014). The Conflict of Interest Law mandates public officials to annually disclose their assets and income. The punishment for receiving a bribe is up to eight years in prison and up to three years for giving a bribe (up to five years for bribery of a foreign public official), and companies face confiscation of property (GABCL, Feb, 2014). The Public Procurement Law provides for streamlined tender procedures, fair competition and transparency, and bans companies with unclear ownership or those owned by public officials from taking part in public procurements (*Slovak Spectator*, Mar. 2015). The compulsory disclosure of ownership does not apply to companies and subsidiaries listed on stock exchanges in the European Union, the European Economic Area or the OECD. Bidders providing false information on company ownership are subjected to fines ranging from EUR 1 000 to 10 000 (*Tax Justice Network*, Jan, 2015). The law has been criticised for violating European regulations as they ban companies residing in countries where laws do not require the disclosure of owners, and firms are not forced to reveal the ultimate recipient of profits (*Slovak Spectator*, Mar, 2015). The Whistleblowing Act provides for the protection of persons reporting on corruption. Access to information is provided for under the Act on Free Access to Information.

Slovakia has ratified the OECD Convention (see here for the 2014 OECD Phase 3 report on Slovakia), the Criminal Law Convention of Corruption, the Civil Law Convention on Corruption of the Council of Europe, and the United Nations Convention against Corruption (UNCAC).

In 2014, and as a response to several unfolding corruption cases, the government adopted a Rule of Law initiative. The initiative has been launched by a broad coalition of fourteen business associations and chambers of commerce, which have produced a white paper addressing the main challenges facing Slovakia: an inefficient judiciary, weak enforcement of the law and high corruption levels (White Paper: Rule of Law Initiative).

Civil Society. Freedoms of speech and press are protected by the Constitution, and the government generally respects these rights (HRR, 2014). In some cases, the government imposed restrictions on speech and criticism it considered extremist (HRR, 2014). Journalists face libel suits and verbal abuse, and judicial and government officials have been criticised for the lawsuits and the compensations sought (FotP, 2015). Media restrictions in the name of privacy protection are reportedly imposed only in favour of politicians and business tycoons (BTI, 2014). Journalists have revealed significant cases of corruption (BTI, 2014). Slovakia's media environment is described as 'free' (FotP, 2015). Freedoms of assembly and association are guaranteed by the Constitution and are respected in practice (HRR, 2014). NGOs play an important role in the state administration: Transparency International drafted the Open Municipal project, which was designed to detect and compare levels of transparency, the quality of anti-corruption mechanisms, and municipalities' openness towards citizens (BTI, 2014). Another NGO initiative was the establishment of the White Crow award, which is dedicated to individuals involved in the fight against corruption (BTI, 2014). Despite some successes, civil society leaders are sceptical of the government's willingness to cooperate, particularly when it comes to drafting legislation (NiT, 2015). A lack of financial funding is a concern for NGOs in the country (NiT, 2015).

Conclusion

Creative accounting means finding loopholes in the accounting regulations and using them to manipulate the accounts. As you can see in Slovak case mentioned above, it all works as a puzzle game spreading from pieces to the whole chain. This practice has emerged as a serious problem for the regulators as it distorts the reality and does not depict true and fair view about the financial performance of the company. Companies are forced and under pressure of performing well and lack of awareness of investors are the major motivators of creative accounting. However, these frauds affect organizations in financial, operational as well as in psychological areas. In fact, devastating impacts like financial loss, loss of goodwill and reputation and hammered customers relations can be seen. In short, run it appears to be attractive and beneficial but it has long-term implications. Through the case studies, we come to know that excessive use of creative accounting practices can lead to the serious corporate failure. All the parties like stockholders, creditors, employees, investors, depositors and auditors suffer in one way or other.

In the end, we give following suggestions to curb the impact of fraudulent accounting: However, it is not possible to control the use of creative accounting practice completely because of involvement of managers as well as auditors and due to loopholes in regulatory framework but misuse of creative accounting can be reduced by using corporate governance practices. Jean (2011) studied the impact of corporate governance on Slovak companies and showed a decrease in earning management after the regulation of code of corporate governance.

By making CSR compliance as mandatory provision, by prohibiting political funding, by installing efficient whistle-blowers system the use of creative accounting practices can be diminished. Auditor can play an important role in detection and prevention of creative accounting practices. If they find excessive interference by dominant owner, lack of sound internal control, high degree of centralisation in the hands of CFO such conditions must be mentioned in their report. Secondly, involvement of auditors can be reduced by appointing more than one auditor in rotation. Making ethics for auditors and giving complete freedom to them, use of creative accounting can be minimised.

Changes in regulations as well as in accounting standards, compulsory appointment of independent director, use of new reporting practices like forensic accounting or triple bottom line reporting and fixation of responsibility of managers for bad position are the ways by which impacts of fraudulent accounting can be reduced.

By carefully checking existence of artificial entities, close examining related party transactions, imposing heavy duty in case of not following government regulation, introducing quick trial and fast investigation, stiff penalties and exemplary punishment, use of fraudulent practices can be curbed. Finally, proper system for investor's education about financial terms which companies can use in different situations/circumstances and its impact on financial position of the company must be introduced.

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