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Professional approach importance in auditing of financial statements for tax accounting

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Abstract

The present study is aimed at exploring the importance of a professional approach in auditing financial statements for tax accounting purposes via the inductive method to cover the theoretical aspect of the research. The case study from two different organizations has been selected for data collection, analysis, and interpretation. As a result, the company's failure to provide sufficient evidence to support its expenses was the reason for its rejection by the Financial Authority. In conclusion, limited companies must meet through their financial lists provided to the Financial Authority for the purposes of fiscal accounting.

Keywords: Auditing, Financial Statement, Taxation, Commercial.

Importancia del enfoque profesional en la auditoría de estados financieros para la contabilidad fiscal

Resumen

El presente estudio tiene como objetivo explorar la importancia de un enfoque profesional en la auditoría de estados financieros con fines de contabilidad fiscal a través del método inductivo para cubrir el aspecto teórico de la investigación. El estudio de caso de dos organizaciones diferentes ha sido seleccionado para la recolección, análisis e interpretación de datos. Como resultado, la incapacidad de la compañía de proporcionar evidencia suficiente para respaldar sus gastos fue la razón de su rechazo por parte de la Autoridad Financiera. En conclusión, las compañías limitadas deben reunirse a través de sus listas financieras proporcionadas a la Autoridad Financiera a los fines de la contabilidad fiscal.

Palabras clave: Auditoría, Estados financieros, Fiscalidad, Comercial.

1. INTRODUCTION

The auditor's lack of commitment to professional approach leads to the submission of incomplete financial statements that affect the credibility of such data and will therefore question the accounting profession and how to rely on the report issued to beneficiaries such as the General Tax Authority, which relies on the results of such data Finance in the process of tax calculation. Financial statements approved by the comptroller can play a key role in the tax accounting process when the tax administration adopts them and in a way that enhances confidence between the tax administrations on the one hand and taxpayers and auditors on the other hand.

The comptroller is named after several names and has adopted the Iraqi Companies Act and the Egyptian Companies Act (Comptroller) which is the most comprehensive of his job, the work of the auditor is not limited to auditing (ABDEL-HADI, 2003). However, it also includes monitoring the application of regulations and laws to the work of the company and under the amendment, the last article (117) of the Iraqi Companies Law No. (21) of 1997 called the auditors the name of independent Financial Auditors. The Arab Association of Chartered Accountants has defined the Comptroller as a natural or moral person who practices the profession of audit, has the competence, the quality of competence, and the high mental queen who collects measurable evidence for the purpose of producing a report on the degree of conformity between this measurable information and between the legislative or established criteria that are not outside their framework and writing (AL-KHADASH, 2015). The auditor is the one who audits and prepares the reports for his impartial technical opinion on financial statements.

Through the previous financial presentations, it can be said that the auditor is a qualified, impartial and independent person who assures the users of financial statements, including the tax administration, the honesty, and fairness of these data auditing (ABUD ALHADI, 1999). It indicates the reality of the financial position of the companies and their business results and the reliability of them in determining a tax pot. Income Article (7) of the 1999 Practice of the Practice of Auditing and Auditing System (3) states: Must have one of the following qualifications (ALSAMARAAEE, 2002).

- A higher diploma in accounting control from The University of Baghdad or its equivalent.

- A postgraduate degree in accounting (Master's or Ph.D. or equivalent).

- Conducted audits for a period of at least two years after obtaining a certificate at the Financial Supervisory Office or under the supervision of an auditor (AMIN, 2000).

- An auditor must have worked under exercise in the financial supervisory office or under the supervision of a person authorized to practice the profession for a period of not less than two years from the date of receipt of the scientific qualification stipulated in section (a) of this article or from the date of passing the test stipulated in (2) of the second paragraph of the second clause (a) From this (AMIN, 2007).

- To take the following oath:

I swear to Almighty God that I respect the rules of professional conduct and abide by the rules of professional conduct in letter and spirit in the performance of my professional duties or through my relationships with my colleagues in the profession and God, As I say a martyr (AL-KAABI, 2003: 18).

The rest of the paper is organized as, the next section of the paper is designated to explain the rights and duties of the auditor, followed by the section on the importance of adherence to basic norms of conduct. The preceding section is about the theoretical background of the present research. The subsequent part is regarding the analysis of the data from two companies, observations from the auditors and some of the highlighted points from the researchers. The final two sections provide some recommendations for the academic community and policymakers and conclude the paper.

2. THEORETICAL BACKGROUND

As financial reports prepared in a certain format based on the established accounting and financial rules and foundations, these reports include financial statements that can be adapted to reveal the historical performance of the establishment and be used as a basis for future performance and is considered the disclosure of the balance sheet and income disclosures (AL-KAABI, 2008).

The objectives of the financial statements in commercial and non-commercial units include (AL-SAMARRAI, 2006).

- Providing the necessary information for the purpose of making and evaluating decisions regarding the allocation of economic resources.

- The administration prepares financial statements of general-purpose for the purpose of disclaiming its responsibility.

- Financial statements should disclose the necessary information such as performance assessment, financial position assessment, financing and investment assessment, compliance assessment of limits, laws, and regulations.

Financial statements are made up of international standard No. 1, in which economic units are required to prepare periodically and regularly from the following (ABUNASSAR & HAMIDAT, 2010).

- Balance Sheet: This means a representation of the current situation or financial situation of the accounting unit at a time. The contents of the financial center list are real-time elements and are known accountability as stocks in distinguishing them from flows (AL AMERI, 2013).

- Income list: The income list is one of the most important basic financial statements where the result of the operations of the establishment during a certain period of time shows it shows the total income during the period minus the total expenses during that period down to net income (surplus or deficit) for the period of time (AL ALI, 2011).

In summary of the aforementioned, in order for the financial authority to rely on the financial statements provided to it by the limited companies in determining the tax base, these statements must meet the

requirements of the financial authority, which can, therefore, be determined resources (AL-HAJJ, 1999).

- The financial statements submitted must be audited by the auditor and approved by the Association of Accountants and auditors.

- To attach with the financial statements, the report of the auditor indicating his opinion about those statements and the extent to which they express honestly and fairly the financial position of the company and the results of its business.

- To attach with the financial statements, the report of the Authorized Director indicating all the information concerning the company, the reality of its performance, the factors affecting this performance and its resources during the period in question and the future prospects of its activity with all clarifications relating to financial statements (AL-JAARAT, 2008).

- Compliance with the accepted accounting principles and standards and the applicable legislation and regulations and instructions issued under them when preparing and presenting financial statements as they represent a criterion that is measured or judged on the sincerity and fairness of the presentation of financial statements.

3. METHODOLOGY

The researcher used the inductive method to cover the theoretical aspect of the research by referencing books, periodicals, magazines, Arab and foreign articles, studies, legislation and laws related to the subject of the research, while the applied aspect was based on interviews, please see annexure 1 for further details about the interview. Furthermore, inquiries for some guessers and auditors in the General Tax Authority (Corporate Section) was also performed (ABUHASHISH, 2010). The research aims to achieve the following milestones:

- Clarify the rules of professional conduct and the criteria that govern the work of the auditor in determining profit and show its effect in enhancing confidence between the parties of the tax accounting process.

- To indicate the importance of financial statements approved by the comptroller in the process of taxation.

- Showing the extent to which the General Tax Authority has adopted financial statements approved by the auditor.

The present research attempts to prove the following hypotheses:

- Determining the reasons for the tax authority's lack of trust in the financial statements provided by the taxpayers would often have a significant impact on the fairness of tax accountability.

- The auditor's commitment to the general principles of professional care leads to the submission of credible financial statements and the financial authority's conviction of such data for the purpose of taxation.

The following limits of spatial and temporal research

- Spatial boundaries: The General Tax Authority and the companies section has been selected as a sample for research.
- Temporal limits: The search time range is determined from the year (2010-2015) to the availability of data for this period, which has been definitively estimated.

4. ANALYTICAL STUDY

The company was established under the certificate of incorporation issued by the Registrar of Companies department with a capital of (2) million dinars, and the company owns shares in other companies that exceed 10% of its capital.

The company aims to contribute to the development of the national economy by investing capital in the field of communications and general trade and trading all materials, products, and goods legally permitted by buying, selling, importing, exporting and opening commercial offices and stores in accordance with Provisions of the laws and legislation in force.

The company's revenues and expenses for the fiscal year 2010
 (Amounts in Dinars):

Items	Amount
Current income	1,039,500,000
Current expenses	(926,896,650)
Surplus of ongoing operations	112,603,350

The company submitted its closing accounts within the legally specified period, which ends on 31/5 of each year, and included the following:

- Financial Center List
- Detecting ongoing operations.
- The report of the auditor.
- The Director-General's annual report.
- Analytical statements attached to each (fixed assets and disappearances, commodity supplies, service supplies, other uses).

The auditor's report included the following observations:

- The book collection used by the company was in accordance with the requirements of the bookkeeping system and included in our assessment the registration of all assets, liabilities, expenses, and revenues of the company.

- The inventory of fixed and cash assets was carried out by the company's management and the results of the inventory were in accordance with the records and these assets were evaluated in accordance with the established principles, assets and principles.
- The director's annual report and the financial and accounting information it contains comprehensively reflect the company's financial career in the year under scrutiny and do not contain any violation of the prevailing laws and regulations.
- The company's final statements and accounts are organized in accordance with the accounting rules and applicable legislation and are fully in accordance with what the records show and are regulated in accordance with the company's law, regulations and instructions issued by it, and the attached general budget reflects the reality of the company's financial position. On 31 December 2010, the result accounts show the profits of its activity for the year ended that date.

The financial authority's position on the company's financial statements can be indicated by the following points:

- The Financial Authority is not satisfied with the results of the financial statements provided by the Company and has not adopted it in determining the tax base for not meeting the basic requirements that are a prerequisite for its adoption.

- The percentage of profits authorized by the company amounted to 8.10% of current revenues while the percentage of profits under the controls is 18%.

- The company adhered to the results of its accounts and was assessed as a precaution in accordance with the results of its final accounts and referred the company to the internal audit and control section for the purpose of examination and the company provided the following records and documents:
 - The record of the general journal.

 - Professor's Record.

 - Box File contains some documents.

5. CONCLUSION

The present study was able to draw some concluding findings from the data analysis, which can be helpful for the academics and policymakers in the area of financial management and auditing working in the area of the current study.

- The Financial Authority is the most important beneficiary of the financial statements prepared by the limited companies where the financial statements are prepared for the implementation of the provisions of the income tax law and the bookkeeping system for

the purpose of adopting the results of the financial statements in determining the tax base after these data are fulfilled, with the requirements of the financial authority.

- Many of the financial statements prepared and approved by many limited companies are biased in their methods of preparation for the management of these companies, which confirms the financial authority's doubts about dealing with the general taxpayers for the purpose of tax evasion.

- Although the auditor has approved the financial statements prepared by the companies, the Financial Authority did not adopt these data in the process of tax accounting due to the poor performance of some auditors and their lack of professional care necessary to perform their work, which affected the overall performance of the monitoring profession. Accounts and their effectiveness give confidence and credibility to the financial statements provided by the financial authorities to the financial authority.

- The absence of a specific and announced list by the Financial Authority indicating its basic requirements that limited companies must meet through their financial lists provided to the Financial Authority for the purposes of fiscal accounting. It was the reason that the financial statements of these companies are subject to the diligence on the one hand Adopted or not in the tax accounting process.

- Obliging the official to submit audited financial statements by the comptroller to the financial authority is a routine process and does not constitute a sign of the financial authority's confidence in these statements.

- The prior conviction of the employees of the Financial Authority that the lack of qualitative characteristics in accounting information leads them not to scrutinize and examine the financial statements and thus not to use them in tax accounting.

- Failure to provide the taxpayer and the auditor in written reasons that led the financial authority to reject the financial statements submitted for the purpose of tax accounting and therefore do not know the real reasons behind not accepting their accounts

- Poor communication between the financial authority and auditors as well as academics reflects negatively on confidence in financial statements where academics are not used to solve problems and benefit from their research in this area and not to hold a meeting with the auditors through which to clarify the requirements of the Authority Finance for tax accounting purposes.

- The lack of mechanisms at the Financial Authority to evaluate the performance of auditors in accordance with their compliance with the standards of audit and the rules of professional conduct.

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