

## A SUGGESTION ON COOPERATION BETWEEN TAX REVIEW AND INDEPENDENT AUDIT: RISK ANALYSIS MODELS

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### Abstract

The subject of the audit, financial reporting of Turkey Accounting Standards (IAS), according to the audit whether conforms to the principles of financial statements is directed to the presence of significant inaccuracies risk (errors, true contradiction reasons such as cheating). And this audit is done based on International Audit Standards. In this case, the independent auditing of the financial statements, which are evaluated in terms of the principles taken apart from the tax legislation, is not completely excluded from the taxation and tax reviews.

Structural and control risk, which is defined as the material misstatement risk in the International Audit Standards (fraud in the financial statements, carrying risk elements, improper transfer of resources to the partners, transfer pricing, irregular stock count, undocumented or irrelevant expense / cost, real the fact that the assets are in a position to be reflected, such as the existence of the assets and different from the intended use), will be used as an instrument to prevent the tax loss and to be used in the tax inspection of the audit and the taxation. Therefore, the results and process of audits should be used by tax review organizations in risk analysis models.

At the same time, the fact that the taxpayers who are subject to tax reviews is required by the independent auditors to have access to this information objectively and the transfer of information will contribute to the coordination between tax reviews and audits. Thus, auditors can widen their plan by benefiting from tax reviews.

**Keywords:** tax review, tax investigations, audit, international audit standards, risk analysis model

**JEL Code:** H20, H26, H29.

### 1. Introduction

With the Resolution of the Council of Ministers published in the Official Gazette dated 19 March 2016, these criteria were determined as 40 million TL and above, net sales revenue was over 80 million TL and the number of employees was 200 persons and above. Therefore, in 2016 and 2017, companies which provide either of the three criteria will be subject to independent audit in 2018.

According to the Procedures and Principles to be followed in the Tax Investigations (Review) and our other regulations, the arithmetical average of the asset size in the large-scale taxpayer class with net sales is determined to be over 50 million TL. Therefore, independent audit will be possible in terms of all groups (large, small and medium scale) and will constitute a high capacity (in taxation).

Independent Audit, Turkey Auditing Standards (BDS)<sup>2</sup> is performed according to standards Public Oversight, Accounting and Auditing Standards Agency (KGK) by formed in accordance with international standards and has been adopted in the Official Gazette published.

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<sup>2</sup> These standards are translated from IAS and IFRS by international standards.

## 2. Linkage of Independent Audit and Tax Review

### 2.1. Scope of Independent Audit Report and Audit Opinion

An independent audit, in addition to whether the entity's financial report complies with the relevant standards; whether it is true, whether it is actually declared (whether the receivables really exist, if there is any, as much as it is declared, whether the inventory is counted, whether the sales are the same or not, if the discounts are declared correctly, examines the bank's reconciliations. Therefore, it is not only the provisions of the TAS / TFRS for valuation purposes; the nature and reality of the event are also audited. As a result of this audit, certain opinions arise and are publicly disclosed in the independent audit report.

As a result of the Independent Audit, four types of opinions can be given about the entity's financial statements: Positive, negative, limited positive opinions and avoidance of providing opinions.

In our article, it will be examined mainly under two headings and classified as a positive opinion and a view other than a positive opinion.

**Positive Opinion:** It is given when sufficient evidence has been gathered and the financial statements are taken as a result of the collective valuation of these evidence and reflected in the fact that the financial statements are accurate.

Audit opinions other than positive opinions are specified in the Independent Audit Standard (BDS-705). These are limited positive opinion (conditional opinion), negative opinion and avoidance of opinion. It is explained that these opinions are given due to the failure to collect errors, fraud or sufficient evidence in the financial statements.

### 2.2. The Relationship of the Independent Audit Report with the Tax Reviews

Giving an opinion other than positive opinion within the scope of auditing standards means that the financial statements that reflect the results of the operations of the business are inaccurate and do not reflect the truth. A mistake in the financial statements may be due to both error and fraud. In both cases, a tax is a risk factor in terms of tax revenue of Treasury.

Within the scope of the inaccuracy yerinde stated in the Independent Auditing Standards, independent audit reports, if there is transfer pricing, the stocks are not counted correctly or their counts are not reliable, the discounts do not reflect the reality, the bank reconciliations cannot be made, property rights are not appropriate if such as taxation will affect the process. In fact, the valuation provisions in terms of some issues overlap with accounting standards (TMS) and tax legislation.

In this case, it will be understood that there is an important risk factor for the determination of the direct tax base. Therefore, the content, scope and reason of the opinions, except the positive opinion given in the independent audit report, should be analyzed and analyzed as to what kind of risk it carries in terms of taxation and it can be determined by examination.

On the other hand, independent audit reports which have positive opinions can be examined in the examinations. Because, as stated, although the audits are performed in terms of the valuation and principles in accordance with the provisions of TAS / TFRS, the fact that the

statements in the financial statements are determined in terms of existence, completeness and classification, can be used as data in the investigations. In the independent audit reports, reasonable assurance is provided, however, the evidence obtained and the result of the audit are clearly stated.

In addition, the examination of the subject matter directly in the audit report or the relevant evidence may be reached. In this case, it will be possible to conduct the examination more quickly. For example, information on investment bonds or the review of evidence and research collected in the audit report on the ownership of depreciable economic assets and use by tax authorities for reviewing the tax shall provide speed in terms of shaping or comparing the data to be collected in the review.

### 2.3. Statistics on Independent Audit Reports

In the study conducted on KAP (Public Disclosure Platform) website, it has been determined that the opinions given about the independent audit reports submitted to the Public Disclosure Platform in the last years are as follows.

Opinions in Independent Audit Reports			
Type of opinion	2016	2017	2018
Positive	2.000	992	1.044
Limited Positive	468	148	190 <sup>3</sup>
Avoidance Of Providing Opinions	27	12	14
Negative	3	0	0
<b>Toplam</b>	<b>2.498</b>	<b>1.152</b>	<b>1.248</b>

Therefore, by analyzing the risk of taxation by examining the companies that do not have a positive opinion, the risk of tax loss is high and whether the examination will be effective and whether the taxpayers can take the opinion of the taxpayers in favor of an opinion other than the positive opinion. The decision to discontinue is required. Because this error in the financial statement may also have caused a tax loss.

## 3. Benefiting from Independent Audit Reports in Tax Review

### 3.1. Knowledge and Contribution to Tax Analysis

For the reasons explained above, it is possible and necessary to benefit and use the independent audit activities in tax reviews.

For example, in an audit report with conditional opinion, *“there is not enough evidence about the existence and existence of companies related to the tangible fixed asset balances included in*

<sup>3</sup> For example, one of them is owned by A Bank and it is stated that there is not sufficient evidence that TL 1,475,000.00 of expenditure is fair.

*the financial statements of sahip a subsidiary of the Group mevcudiyet A.Ş. dated 31.12.2015.*” This statement indicates that there is no evidence that the fixed assets are the property of the entity and that the amount stated is fixed; that is, there is no proof that the entity is not a property owner; if this situation is evaluated in terms of ownership in terms of taxation, it can be deduced that depreciation allocation is not possible if it is determined that the entity does not have ownership. It will therefore need to be analyzed as a risk factor and referred to this aspect of the review.

In another audit opinion, *“in Holding’s financial statements dated 31.12.2014, the Holding has a total receivable of TL 11.727.794.00 from the group companies, affiliates and related companies, and accrues any interest at the end of the year by the Holding regarding these receivables. It was avoided. No payment plan has been provided from the Holding regarding the collection of these receivables.”* This situation constitutes the risk of tax loss through transfer pricing as a whole.

### **3.2. The Decision on Dispatching to Tax Review by Audtt Reports**

In accordance with the aforementioned findings, it can be decided by the Tax Inspection Board (related unit) whether the tax evasion stated in the report as a result of the fact that the deficiencies mentioned in the report contain irregularities in terms of tax legislation.

As a result of the independent audit reports of the companies which are subject to independent audit by the Tax Inspection Board (VDK) by the Public Oversight, Accounting and Auditing Standards Authority (KGK) and Public Disclosure Platform (KAP), data should be provided within the scope of continuous information in the form of classification of opinions given out of positive opinion and positive opinion. In this context, it is possible to collect the data to be requested in the form of başlık positive opinion and opinions other than positive opinion under two headings.

1- Positive Opinions: In the Tax Inspection Board (VDK) Information System, in the Tax Inspection Board Analysis (Risk Analysis), which is a taxpayer basis, there is an independent audit report and the website (which will publish on the website of each company) a sample of the report should be given. Thus, the inspection staff will be able to see which tax payer is an independent audit report, and will be able to obtain the available data in its own review by examining the relevant report.

2- Opinions Other Than Positive Opinion: Independent audit reports (conditional, negative and avoidance of opinion) should be directly classified and classified by the PDP and the POA.

Within the VDK, it should be determined that a unit to be formed within the risk analysis unit or as a separate unit and the independent audit reports to be analyzed should be analyzed (those considered to be disruptive in terms of tax legislation). In this way, the issues identified and which constitute a risk in terms of tax legislation should be referred for examination in terms of issues that lead to opinion other than positive opinion. Here, it is natural to consider the effectiveness of the assessment as the amount. Thus, with the assignments to be established, the matter which is directly seen as a risk factor is determined and the investigator will be concentrated on this point and an efficient tax examination will be carried out.

Thanks to this method, independent audit reports will be utilized and a new criterion will be introduced to the risk analysis system and the scope of high-risk tax loss, as in the above example, will be quickly, effectively and efficiently replaced by tax inspection.

### **3.3. Particular Situation Disclosures**

Companies that are obliged to notify the Public Disclosure Platform have obligations to make material event disclosures when they encounter certain situations, other than independent audit reports.

**Material Disclosures:** All information required to be disclosed in accordance with the in Communiqué on the Principles Regarding Public Disclosure of Special Cases lar which may affect the value of the capital market instrument and investment decisions of investors.

These special circumstance announcements should be continuously monitored by the relevant department of the SCM and used in the risk analysis model and the determination of possible tax risks should be ensured. Thus, it will be ensured to detect important tax losses such as a media tracking system or notice.

## **4. Benefiting from Tax Reviews in Independent Audit Reports**

Comprehensive and supportive of the independent audit in transparent and investable markets will increase the quality and confidence of the audit.

### **4.1. Notification of Tax Reviews/Investigations to the Public Oversight Authority(KGK)**

In the case of the protocol, as mentioned in Chapter 3, transfer of information from KGK and KAP to VDK should be accompanied by transfer of information from VDK to KGK. The subject of this information is that the companies subject to independent audit are subject to tax inspection at the moment. In this way, independent auditors will be provided with sufficient information to ensure they have detailed information about the tax review and the scope of tax review.

In the protocol between the KGK and the VDK, if this point is addressed and requested by the KGK, the scope of this information should be given by the VDK to the KGK. This will be possible by informing the KGK of the tracking number given in the minutes of review for companies subject to independent audit.

This issue does not constitute a drawback in terms of the tax privacy stipulated in Article 5 of the Tax Procedure Law. Because it is necessary for the statutory auditors to reach this information within the scope of the Turkish Commercial Code and it will be considered as internal information and not the disclosure of the secret. Also, Tax Procedure Law in Turkey, Article 5 It is stated that with the new provision set forth in 5, the information requested by public institutions will not be covered by tax privacy.

### **4.2. Disclosure to Possible Risks in Tax Review Reports**

In the reviews/investigations, even if there is no tax loss or risk for the period examined, the risk factors will be included in the tax review report even though it is not subject to review in the following periods. Because, independent auditors should take this into account in the independent audits and prevent the risk of material misstatement. In this respect, the issues identified by the investigator will be taken into consideration by the independent auditors.

For example, in the case of an exemplary Tax Technique Report, *“If the expenses for the new product obtained as a result of R & D expenses are in accordance with the tax legislation, it is possible to take into account the tables classified in the annex to the 12th Report in the evaluation stage according to the accounting standards.”* It will be efficient to use the tables which are already ready in the auditing of the audits by the independent auditors according to the standards.

Although it is not an obligation in terms of the tax review purpose, it will be beneficial to show the necessary sensitivity by the inspectors.

## 5. Conclusion

Contributing to the Tax Reviews and Independent Auditing processes by making use of each other; In particular, the negativities identified in the independent audit reports should be subject to a tax assessment in order to assess whether tax loss is caused or not.

For this purpose, with the protocol to be made between the Tax Inspection Board (VDK) and Public Oversight, Accounting and Auditing Standards Authority (KGK) and the Public Disclosure Platform (KAP), the companies subject to independent audit from these institutions and the following independent audit report information will be provided:

A sample of the report should be provided on the website (on every website of the company) where the independent auditor report is an independent audit report and the independent audit report can be accessed. Independent audit reports containing opinions other than positive opinion, within the risk analysis unit within the VDK, or a unit to be formed as a separate unit, the analysis of the said independent audit reports is required to undergo a tax investigation (the opinion is considered to be a defect in terms of tax legislation) should be determined and sent to the tax inspection.

It is useful to inform the Public Oversight Authority of the companies subject to independent auditing in case they are shared with the public institutions in order to be able to benefit from the tax inspection process by the independent audit parties in order to be able to benefit from independent audit parties and to ensure that they have access to transparent information about the scope of the review. On the other hand, in cases where it is deemed necessary by the inspection staff in the Tax Inspection Reports, a separate chapter should indicate the situations that may cause events that would not reflect the reality in the future or that would constitute compliance risk.

## References

Tax Procedure Law No. 213

Turkish Commercial Code No. 6102

Independent Audit Regulation

Implementing Regulation on Procedures and Principles to be Followed in Tax Investigations

Number of Decisions of the Council of Ministers: 2016/8549

Independent Auditing Standards, Public Oversight, Accounting and Auditing Standards Authority

Turkey Accounting Standards / Turkey Financial Reporting Standards, Public Oversight, Accounting and Auditing Standards Agency

<http://www.vdk.gov.tr>

<http://www.kap.org.tr>

<http://www.kgk.gov.tr>