

Modern Trends in the Tax Audit Market

Alla A. Udovikova* and Irina N. Marchenkova

Belgorod State National Research University 18 Solnechny mkn., Stary Oskol, 309502, Russia

Abstract: As Russia transitioned to market relations, it formed an independent audit service, whose emergence prerequisites were the mutual interest of state bodies, the managing administration of the enterprise and its owners in reliable financial and accounting information. The audit has become an integral part of economic relations and has been recognized by most countries of the world. This was facilitated by the need for means of implementing and protecting property interests, enhancing economic benefits and minimizing entrepreneurial risk. The main aim of the study is to investigate the market economy and tax audit market, which determine the development of new activities for the implementation and regulation of economic relations, predetermined the creation of organizations that regulate the processes of accounting and tax accounting. To accomplish that aim, the methods of deduction, induction, systematization and generalization of theoretical and practical materials are utilized. Based on the outcomes, a new type of activity at that time was an audit, which provided protection of the legal property interests of business entities by means of independent financial control, confirmation of the authenticity of balance sheets and reports on the results of economic activities, and the provision of related services.

Keywords: Tax audit, financial audit, tax accounting, analytical procedures, tax risks.

INTRODUCTION

Constant changes in legislation increase the likelihood of errors made by taxpayers in accounting, which leads to an increase in the number of arbitration disputes with tax authorities, resulting in increased tax risks. All this requires a careful and qualified attitude to the calculations and payment of taxes (Zolotoreva 2020).

Auditing is a multifaceted system for analyzing reliability, or inaccuracy, and accounting. One of the currently significant, as well as promising and effective types of control over the financial and economic activities of economic entities is the independent control of settlements with the budget on taxes and fees (Kazakova *et al.* 2019).

The theoretical and methodological basis of the study was the works by domestic and foreign scientists on financial and tax audit.

A significant contribution to research into tax audit was made by domestic scientists: I. Fedorchenko, G. Zolotoreva (2020), A.D. Sheremet, V.P. Suits (2019). A comparative analysis of the tax audit conducted by audit firms and the tax audit conducted by tax authorities is presented by I. A. Moiseenko, I. N. Emelianova (2018) and V.S. Karagod, O.N. Protasova (2017). A detailed study of financial and tax audit was conducted by such authors as A.F. Akhmetshin (2014) and E.M. Puchkova (2015).

Evaluation of foreign experience in the development of non-state tax audit and tax advice is presented in the works by foreign scientists, such as Arens, Alvin A. (2012), Brink, V. (1941), Sawyer, *et al.*, (2003), Richard F. (2015), Ronell B. (2015) and others.

The research information base was the legislative and regulatory acts of the Russian Federation on the organization of financial and tax accounting, taxation, and audit (<http://www.consultant.ru>; <http://www.consultant.ru>; <http://www.consultant.ru>).

METHODOLOGY

The methodological basis of the study is a systematic approach to the considered processes and phenomena. The authors used methods of deduction, induction, systematization and generalization of theoretical and practical materials, a comparative analysis of approaches to the definition of the tax and financial audit concepts, monographic and graphical methods, etc.

RESULTS AND DISCUSSION

Control over the correct taxation, i.e., a tax audit, is necessary not only for companies, but to a greater extent for the state, because the budget is made up of tax revenues, and accordingly, affects the stability of the development of the state and the maintenance of socially significant projects and programs.

The process of a tax audit in modern conditions objectively requires the attention of scientists and practitioners. Considering the course of qualitative changes in audit theory today, the transition to the ISA

*Address correspondence to this author at the Belgorod State National Research University 18 Solnechny mkn., Stary Oskol, 309502, Russia;
E-mail: a.researcher40@yahoo.com, kiomars.khanii@gmail.com

package system inevitably becomes necessary (<http://www.consultant.ru>).

Despite the fact that audit organizations and individual auditors have been providing tax audit services to their clients for a long time, the concept of “tax audit” still does not have the only true and scientifically sound interpretation (Table 1).

A significant feature of the Federal Law No. 307-FZ of December 30, 2008, “On Auditing” is the adoption for the first time in the international practice of a regulating audit activities mixed system, which is emphasized in this document. At the same time, the types of services themselves provided by audit organizations in practice are not fully represented in Federal Law No. 307-FZ. In particular, the tax law is not reflected in the Federal Law “On Auditing Activities”. It also does not contain

any mention of aspects of checking tax liabilities to the budget in the framework of the audit, with the exception of other services (setting up, restoring, and maintaining tax accounting, and others) (<http://www.consultant.ru>).

In this regard, discussions continue both about the concept of tax audit and its place in the structure of audit activity. The situation has been aggravated as the concept of tax audit appeared in the framework of the activities of tax authorities in connection with the creation of tax audit units in their structure. The latter circumstance was dictated primarily by the huge number of cases in arbitration courts in tax disputes, which in turn testifies to the existing problems both in the activity of tax authorities and in audit activities.

Thus, a comprehensive analysis of the interpretations proposed by domestic scientists has led

Table 1: Analysis of the Conceptual Framework of Tax Audit

Author	Concepts in use	Scope
V.V. Kireeva (2016)	Tax audit	Tax audit is a separate area in the domestic audit system. The author distinguishes it as a comprehensive, thematic and structural tax audit
D.V. Orlov (2011)	Taxation audit, tax audit	Tax audit is an independent expert review of the state of tax and accounting systems, the organization's tax and tax calculations, and the development of a set of measures to protect the company from tax liability. A tax audit is an independent check of the status of accounting and tax accounting, as well as the organization's tax and tax calculations. It is an examination of the client's tax payments in order to identify tax risks and reserves for reducing the tax burden on the business
N.A. Kazakova (2019)	Taxation audit	Tax audit is a complex and time-consuming process, which involves a thorough check of compliance with the legislation on taxes and fees, the correct calculation, completeness and timeliness of payment of taxes and fees, as well as monitoring of the corrective actions
I.B. Shurchkova (2012)	Tax audit	Tax audit is any verification of the calculation and timely payment of taxes, regardless of the focus and nature of the relationship between the subject and the audited organization.
D.S. Zhakipbekov (2012)	Taxation audit, tax audit	The author considers both concepts as identical.
V.S. Karagod, O.N. Protasova (2017)	Budget and extra-budgetary fund settlement audit	The author considers this type of audit as a special audit task performed during the provision of “related tax services”
A.F. Akhmetshin (2014)	Tax audit, taxation audit	The author refers the tax audit to related services, emphasizing its optional (voluntary) nature
G.A. Koroleva, <i>et al.</i> , (2015)	Company tax system audit	The author considers the company tax system audit as a derivative audit aimed at solving a specific problem - “confirmation of the reliability of tax accounting and reporting of an economic entity”
I. Fedorchenko, G. Zolotareva (2020)	Tax auditing services, Tax audit, Taxation audit	Tax audit is a research process based on scientifically sound principles of quality control of audit services, subordinate to the goals of optimizing tax obligations in a strictly defined legal framework
A.D. Sheremet, V.P. Suits (2019)	Consolidated taxpayer audit	Consolidated taxpayer audit is an independent check of the group's book-keeping and tax accounting systems for the correctness of the formation of the tax base for each type of tax, calculation and payment of taxes and fees for a certain period of time; the status of settlements with the budget and extra-budgetary funds; compliance of accounting and tax accounting systems with the requirements of current legislation.

to the conclusion that there are two conceptual approaches to the consideration of the category of “tax audit”:

- Tax audit as an internal control of tax authorities;
- Tax audit as an audit and consulting activity (Rogulenko, 2017).

The main differences in the conduct of tax audits by audit firms and tax authorities are presented in Table 2 (Moiseenko & Emelianova, 2018).

This study defines tax audit as the type of audit activity for the independent verification of the tax reporting of the audited entity to express the achieved risk level of the relevant audit opinion regarding the reliability of such statements.

Despite the steady demand for a tax audit, the regulatory framework for it is virtually non-existent. The only Russian non-regulatory document is the Audit Guidance “Tax audit and other related tax services. Communication with tax authorities” (approved by the Audit Commission under the President of the Russian Federation on July 11, 2000, Protocol No. 1) (<http://www.consultant.ru>).

A tax audit involves verification of the calculation and payment of taxes. It should be noted that the tax authorities are also involved in verifying the accuracy of tax calculation and payment; similar tasks are also solved during the course of the mandatory audit.

However, there are significant differences between tax and statutory audits, as well as tax control, for the purpose of verification, in the formation of the audit program, in the design of audit results and their degree of publicity, in the audit period, etc.

Currently, studies are being conducted on the ratio of general (financial) and tax audits (Table 3) (Akhmetshin, 2014; Puchkova, 2015).

Some authors believe that these two areas of audit intercross, that is, The general audit also includes tax audit. However, this is not quite true. During the audit of financial statements, the auditor verifies the calculation and payment of taxes only in a selective way and the resulting sample size containing information about the reliability of the financial statements is unreliable with respect to tax reporting. Accordingly, this is why, in addition to the mandatory general audit procedures, many organizations separately indicate in the contracts with audit companies the scope of work and tax audit. For

Table 2: Difference in the Tax Audit by Audit Firms and the Tax Audit by Tax Authorities

Feature	Tax audit	Tax (pre-trial) audit
Initiator	An economic entity (organization or individual entrepreneur) in an initiative audit The state in a mandatory audit	A taxpayer (legal entity or individual)
Grounds for auditing	Signing of an audit agreement	Filing an objection and claims by the taxpayer to the tax authority
Auditor	Individual auditor Audit company Internal audit service	Pre-trial audit division of tax authorities
Purpose	Independent expert review of the status of tax and accounting systems, financial reporting documents	Independent expert review of complaints, objections, tax audit materials submitted by the taxpayer
Goals	Expressing an opinion on the degree of reliability and compliance with tax legislation, verification of tax assessment and payment	Expressing an opinion on the legality and validity of the action and the tax authority
Tasks	Verification of the calculation and payment of taxes. Prevention of possible claims and penalties. Assistance in tax optimization. Verification of accounting	Monitoring of compliance with all stages of the tax audit. Pre-trial settlement of tax conspiracy
Final documents	Expert opinion	Expert opinion on the results of consideration of audit materials and objections of the taxpayer
Audit methodology	Developed and approved by the Audit Commission for the President of the Russian Federation on July 11, 2000 (Protocol No. 1)	Not developed and not enshrined in law

Table 3: Comparative Analysis of Financial and Tax Audit

Financial audit	Tax audit
Goal	
Expression of opinion on the reliability of the financial (accounting) statements of the audited entities	Expression of opinion on the reliability of tax statements of audited entities, compliance with the procedure for the formation, recording and payment of legally established taxes
Functions	
1) Providing interested users (owners, shareholders, creditors) with complete, reliable and objective information about economic activities; 2) Analysis of economic activity based on accounting and reporting; 3) Planning and budgeting; 4) Operational management (regulation, coordination and monitoring of plans); 5) Independent financial control	1) Providing interested users (managers, owners, the state represented by authorized bodies) with complete, reliable and objective information on the fulfillment of tax obligations in accordance with the norms of tax legislation; 2) Tax optimization based on a deep analysis of the client's activities; 3) Tax planning; 4) Current tax consulting (assistance); 5) Independent tax control
Subject	
Independent financial control	Independent tax control
Object of research	
The economic activities of organizations, i.e., production relations considered in conjunction with its technical, social and environmental conditions Financial (book-keeping) statements	The party (information about) the economic activity of the organization with the presence of which the legislation on taxes and fees associates the taxpayer with the obligation to pay taxes. Tax statements
Method	
The unity of analysis and synthesis, the study of indicators of financial (book-keeping) statements in their relationship and development	The unity of analysis and synthesis, the study of tax indicators in their relationship and development, as well as relations with indicators of financial (book-keeping) statements
Methodology	
The set of specific procedures, calculation methods, comparisons used to substantiate opinions on the degree of reliability of financial (book-keeping) statements	The set of specific procedures, calculation methods, comparisons used to substantiate opinions on the degree of reliability of tax statements
Analytical procedures	
1. Comparison of actual indicators of financial statements with planned indicators determined by the economic entity. 2. Comparison of actual indicators of financial statements with forecast indicators independently determined by the auditor. 3. Comparison of the indicators of financial statements and related relative ratios of the reporting period with the regulative values established by either the current legislation or the economic entity. 4. Comparison of financial statements with average industry data. 5. Comparison of financial statements with non-accounting data (data not included in the financial statements). 6. Analysis of changes over time in the indicators of financial statements and the associated relative ratios. 7. Other types of analytical procedures, including those considering the individual characteristics of the organizational structure of the audited economic entity	1. General analysis and consideration of the elements of the taxation system of an economic entity. 2. Identification of the main factors affecting tax indicators. 3. Checking the methodology for calculating tax payments. 4. Legal and tax examination of the existing system of economic relations. 5. Evaluation of workflow and the study of the functions and powers of the services responsible for the calculation and payment of taxes. 6. Preliminary calculation of tax indicators of an economic entity. 7. Verification and confirmation of the accuracy of the calculation and the timely payment of taxes to the budget by the economic entity
Relationship with internal audit	
The effectiveness of internal audit reduces the audit risks of external auditors	

relatively small organizations, the lack of work on tax audits entails insignificant tax risks, which cannot be said about larger enterprises (large capital flows, geographically distributed networks of structural

divisions), since full-fledged tax audit procedures are vital for such economic entities (Sheremet 2019; Rogulenko 2017).

Tax audit is more important for a company than a financial one, because, firstly, it is voluntary and its scope is growing, and secondly, management personnel uses this type of audit to minimize tax risks and organize an effective tax management system for the company.

The scientific literature does not provide the classification of tax audit due to the fact that this topic is only considered in articles of young scientists or in dissertations for scientific degrees. We can note the classification by V.V. Kireeva (2016), which suggests classifying the tax audit as classification features: the nature of the order, the frequency of the audit, the timing of the audit, the method of verification, the type of service provided, the object and subject of verification (Table 4).

Table 4: Tax Audit Classification

Classification feature	Types of audit
Nature of the order	Voluntary
	Mandatory
Audit interval	Initial
	Periodic
Duration	Intermediate
	Annual
Method	Confirmation
	System oriented
	Risk based
Type of services	Tax statements
	Individual parts related to calculations of taxes and fees
	An agreed procedure related to calculations of taxes and fees

Regardless of the type of tax audit, its process includes three main stages:

- 1) The initial stage, which includes a preliminary assessment of the existing tax system of the audited organization;
- 2) The main stage - verification of the calculation and payment of taxes to the budget by the economic entity;
- 3) The final stage - documentation of the results of the tax audit (Fedorchenko and Zolotoreva 2020).

In order to collect audit evidence at each stage of the tax audit, auditors carry out certain verification actions and the necessary audit procedures.

As a result of the implementation of these procedures, an audit report is formed and an auditor's report is prepared. In the opinion on the performance results, the auditors formulate their point of view on the level of completeness of reflection and accuracy of calculation, the timeliness of the payment by the business entity of tax payments to extra-budgetary funds and the budget. The auditor's report includes suggestions for correcting the identified major errors and their further avoidance, suggestions regarding the procedure for calculating taxes, including the correct application of benefits, a list of interest issues to the organization's management, recommendations for reducing tax obligations and improving the accounting and tax system in taxation (Rogulenko 2017).

It should also be noted that tax audits can be supplemented by a wide range of other services. For example, a tax audit is very often combined with tax consulting. In addition to the audit conducted as part of the tax audit, the auditor can evaluate the legality of tax payment optimization schemes and tax regimes used by the audited business entity and substantiate the opinion on the appropriateness of their use, make recommendations on optimizing taxation and minimizing tax risks, etc.

CONCLUSION

In this work modern trends in the tax audit market have been studied. The Russian practice of establishing a tax consultancy institution is based on a practical audit, which also has dealt with taxation issues. Undoubtedly, the development of a legislative framework, rules and regulations for establishing the status of a tax consultant in the Russian Federation, considering the international practice of tax audit and consulting, will improve the quality of tax relations in the country.

Having analyzed foreign experience in the development of private tax audit and tax advice, we can state that activities in this area are quite widespread (Arens 2012; Brink 1941; Lawrence *et al.* 2003; Richard 2015; Ronell 2015). The legal standards of many countries establish clear professional requirements for specialists providing tax consulting and audit services. Also one of the mandatory requirements in the legislation of many countries is the liability insurance of tax consultants.

REFERENCES

- Akhmetshin, A.F. 2014. "Tax audit as a separate element in the general audit system," *Economics, Statistics, and Computer Science. Bulletin of UMO* 6: 37-41.
- Arens, A.A. 2012. *Auditing and assurance services: an integral approach.* 12th ed. Upper Saddle River, New Jersey: Pearson Prentice Hall, – 888 p.
- Kazakova, N.A. et al. 2019. "Audit: textbook for undergraduate and specialist's program." under the general. ed. N.A. Kazakova. - 3rd ed., revised - M.: Iurait Publishing House: - 409 p. (In Russian).
- Brink, V.Z. 1941. *Internal auditing: its nature and function and methods of procedure.* Ronald.
- Fedorchenko, I., and G. Zolotareva. 2020. "Audit: a textbook." Moscow: SIC INFRA-M, - 281 p. - (Higher education. Undergraduate).
- Karagod V.S., and Protasova, O.N. 2017. "Audit: a textbook for undergraduate and graduate programs." - 3rd ed., Revised - M.: Iurait Publishing House, - 512 p. (In Russian).
- Kireeva, V.V. 2016. "The essence of tax audit: practical and theoretical aspect." *Taurida Scientific Reviewer* 9(14): 68-86. (In Russian).
- Koroleva, G.A., Novikov, T.Iu., and Demidov, P.G. 2015. "Audit: a textbook." Yaroslavl State University, Yaroslavl: Yaroslavl State University, - 132 p.
- Sawyer, L.B., et al. 2003. "Sawyer's internal auditing: the practice of modern internal auditing." Institute of Internal Auditors, Inc: – 1446 p.
- On auditing [Electronic resource]: Federal Law No.307-FZ of December 30, 2008 (as amended on November 26, 2019 No. 378-FZ) // Reference Legal System "Consultant Plus". Section "Legislation" . – Access mode: http://www.consultant.ru/document/cons_doc_LAW_83311/. (In Russian).
- Orlov, D.V. 2011. "On the concept of "tax audit" Bulletin of Perm University." *Series: Economics* 4(11): 6-17.
- Puchkova, E.M. 2015. Tax audit as a new form of control in the tax administration system. *Scientific Bulletin of the State Autonomous Educational Institution of Higher Professional Education "Nevinnomyssk State Humanitarian and Technical Institute"* 1: 75-80.
- Richard, F. 2015. "Chambers Trusted Advisors: Key Attributes of Outstanding Internal Auditors." Institute of Internal Auditors, Inc: – 548 p.
- Rogulenko, T.M. 2017. "Audit: a textbook for bachelors." chief ed. T.M. Rogulenko. - 5th ed., Revised.- M.: Iurait Publishing House, 541 p. (In Russian).
- Ronell, RB. 2015. "Performance Auditing: Measuring Inputs, Outputs, and Outcomes." Institute of Internal Auditors, Inc: – 312 p.
- Sheremet, A.D., V.P. Suits, Ed. by prof. A.D. Sheremet. 2019. "Audit: a textbook." - 3rd ed., Revised. - Moscow: INFRA-M, - 375 p. (In Russian).
- Shurchkova, I.B. 2012. "Tax audit: theoretical-methodological and organizational-methodological aspects of harmonization in the internal and external environment." *Audit and financial analysis* 2: 216-222.
- Moiseenko, I.A., and Emelianova, I.N. 2018. "Taxation and tax audit: a textbook." Stavropol: "Fabula" Publishing and Information Center: 134 p. (In Russian).
- Zhakupbekov, D.S. 2012. "Tax audit as an independent category." *Audit and financial analysis* 5: 253-256. (In Russian).

Received on 02-11-2020

Accepted on 07-12-2020

Published on 31-12-2020

DOI: <https://doi.org/10.6000/1929-4409.2020.09.331>

© 2020 Udovikova and Marchenkova; Licensee Lifescience Global.

This is an open access article licensed under the terms of the Creative Commons Attribution Non-Commercial License (<http://creativecommons.org/licenses/by-nc/3.0/>) which permits unrestricted, non-commercial use, distribution and reproduction in any medium, provided the work is properly cited.