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Tax audits: definition and methods

The article reveals information about the tax audit. Under the audit refers to the independent audit of the accounting statements of the audited entity for the purpose of expressing an opinion on reliability of such reporting. However, the presence of such reporting of a number of tax figures that are generated outside of accounting, and the necessity of their proof in the audit demanded from the auditors of new knowledge and experience. Still not defined the place of tax audit in the structure of services rendered by auditing organizations and individual auditors. So the problem of tax audit lies in the fact that legally this type of audit is not fixed. The article reveals the essence of the tax audit, determined by its position in the control system in General and in the modern system of the Kazakhstan audit in particular, given the definition of the tax audit, formulated its subject, method, functions and also identifies the relationship of the tax audit of efficiency of economic activity.

Key words: Audit, tax audit, audit services, audit practice, tax risks.

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Салық аудиті: анықтамасы және жүргізу әдістері

Мақалада салық аудиті туралы ақпараттар ашылып, көрсетілген. Аудит есептіліктің дұрыстығы туралы пікірін білдіру мақсатында аудиттелетін ұйымның бухгалтерлік есептілігін тәуелсіз тексеру болып табылады. Бірақ мұндай есептіліктерде бухгалтерлік есебінен бөлек құрылатын салық көрсеткіштері бар және аудиторлық тексеру кезінде олардың дұрыстығын растау үшін аудиторларға жаңа білім мен тәжірибе қажет. Қазіргі уақытқа дейін әлі аудиторлық ұйымдар мен жеке аудиторлардың қызметтерінің құрамында салық аудитінің орны анықталмаған. Салық аудитінің тағы бір мәселесі заң негізінде бұл аудиттің түрі бекітілмеген. Мақалада салық аудитінің маңыздылығы анықталып, жалпы бақылау жүйесіндегі және заманауи қазақстандық аудит жүйесіндегі оның орны анықталып, салық аудитіне анықтама беріліп, оның пәні, әдістері, қызметтері тұжырымдалған, сондай-ақ салық аудитінің шаруашылық қызметтің тиімділігін бағалаумен байланысы анықталған.

Түйін сөздер: Аудит, салық аудиті, аудиторлық қызмет, аудиторлық тәжірибе, салық тәуекелділіктер.

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Налоговый аудит: определение и методика проведения

В статье раскрываются информация о налоговом аудите. Под аудитом понимается независимая проверка бухгалтерской отчётности аудируемого лица в целях выражения мнения о достоверности такой отчётности. Однако наличие в такой отчётности ряда налоговых показателей, формируемых за рамками бухгалтерского учёта, и необходимость их подтверждения в ходе аудиторской проверки потребовали от аудиторов новых знаний и опыта. До сих пор не определено место налогового аудита в структуре услуг, оказываемых аудиторскими организациями и индивидуальными аудиторами. Так же проблема налогового аудита заключается ещё и в том, что законодательно данный вид аудита не закреплён. В статье раскрыта сущность налогового аудита, определено его место в системе контроля вообще и в современной системе казахстанского аудита в частности, дано определения налоговому аудиту, сформулирован его предмет, метод, функции, а также определена связь налогового аудита с оценкой эффективности хозяйственной деятельности.

Ключевые слова: аудит, налоговый аудит, аудиторская деятельность, аудиторская практика, налоговые риски.

**TAX AUDITS:
DEFINITION AND
METHODS**

Today the Kazakhstan audit represents the Institute of modern economy plays an important role in providing interested users with reliable information. Under the audit refers to the independent audit of the accounting statements of the audited entity for the purpose of expressing an opinion on reliability of such reporting. However, the presence of such reporting of a number of tax figures that are generated outside of accounting, and the necessity of their proof in the audit demanded from the auditors of new knowledge and experience.

The event of a tax audit generated by the fact that the tax component of a General audit (audit of calculations with the budget) may not include all of the information affecting the tax liability of the organization, which means that the auditor cannot guarantee the entity the absence of claims from tax authorities regarding the validity of the submitted tax statements.

The complex of services rendered by auditing organizations and individual auditors, including check of correctness of calculation and payment of taxes, tax reporting, tax consultation, statement, restoration and conducting the tax account was called a tax audit.

Still not defined the place of tax audit in the structure of services rendered by auditing organizations and individual auditors. So the problem of tax audit lies in the fact that legally this type of audit is not fixed. To solve these problems it is necessary the development and improvement of methodological and organizational-methodical bases of the tax audit, which allows to obtain a conceptual representation about the tax audit and to expand knowledge in the field of tax audit [2].

Tax audit – performance audit special audit consideration the accounting and tax reporting economic entity for the purpose of expressing an opinion on the reliability of and compliance in all material respects to the standards laid down by law, order of formation, accounting and payment of the economic subject of taxes and other obligatory payments in budgets of various levels and extra-budgetary funds.

Based studied scientific papers on the issue of the tax audit, you can give the following definition: the tax audit – a comprehensive independent audit of tax accounting of the enterprise, correctness of calculation and payment of taxes, assessment of tax risks in the enterprise. Tax audit is a service which involves a thorough audit of the tax

reporting of the audited company. Tax audit is conducted in order to identify all inaccuracies that were made in the process of compiling accounting or financial reporting, or eliminate any inconsistencies with the tax legislation of the RK.

The main purpose of tax audit is the prevention of penalties related to violation of legislation on taxes and duties. Tax audit is conducted in the following areas:

- calculation and payment of taxes and fees;
- validity of application of tax benefits;
- the accuracy of tax returns;
- tax risks;
- formation and recognition of tax [3].

In the process of a tax audit, the auditor tries to resolve all the issues associated with optimization and planning of taxation, and to solve them with the interests of the customer. Thus, tax audit involves the exercise of careful control over literacy and informed calculation and payment of taxes and various fees, proper use of the benefits of the company on tax matters, accurately reflect the tax reporting of various operations (which are often not prescribed in the legislation). In addition, the process of tax audit and thorough review of compliance compiled tax returns current tax legislation.

All activities conducted in the framework of tax audit, provide an opportunity to minimize the tax risks. The end result of the action of firms allow the auditor to prevent the risk of involvement of the supervising person to any liability to governmental tax authorities. Currently, the auditing and consulting are not the only services offered by audit firms. In recent years significantly increased the demand for audit-related services, namely, tax consultation; the analysis of financial and economic activity; management consulting, including related to the restructuring of institutions; legal counseling and representation in tax authorities; automation of accounting and introduction of information technologies; valuation of property, appraisal of enterprises as property complexes, and also enterprise risks; development and analysis of investment projects, preparation of business plans and Thus, the customers of audit services is becoming increasingly popular comprehensive tax audit.

The next category of business entities that require tax audit, are organizations in which there was a change of chief accountant. For objective reasons, it very negatively affects the quality of accounting and tax accounting in the organization. The chief accountant, who at times single-handedly deals with all matters related to taxation, is very difficult for a new firm to organize the correct tax

accounting and to correct existing mistakes of its predecessor. He needed help in the form of tax audit. Tax audit in the organization may order the owner or Manager of the organization in order to verify the correctness of calculation and payment of taxes. At the preliminary stage of the tax audit are determined by:

- the basic principles, stages and approaches to carrying out the tax audit
- fundamentals of relationships of the audit organization with the tax authorities in the course of performing of tax audit;
- responsibilities of the parties in the course of tax audit;
- the procedure for performing and documenting results perform special audit assignment tax [4].

Stable financial position of any business entity are closely linked to the amount of its tax liabilities and the materiality of its tax risks, hence the increasing role of tax audit. It is on the tax audit of interested users is assigned the task of obtaining comprehensive, accurate and objective information about the correctness of the calculation of tax liabilities in accordance with tax legislation, which, in turn, often depends on the functioning and development of the organization.

Tax audit is in demand, especially among large and medium-sized companies engaged in several activities. The turnover of such business entities is large, and therefore tax liability, including penalties and interest, accounted for a significant amount.

Tax audit as an independent direction of audit activity represents a system of knowledge about methods and techniques independent of tax control. Tax audit as a practice is a kind of management activity that can be reduced to independent tax control and evaluation of tax statements for completeness, accuracy and objectivity reflected in her information [5].

Independent tax control defines the essence of the tax audit, separates it from other types of control (state financial, municipal, domestic, and social control) and makes it stand out in an independent direction of activity.

The essence of the tax audit is to conduct analysis of tax and accounting reporting of the economic entity to identify errors in the calculation and payment of taxes. In this case revealed not only the hidden underpayments, overpayments of taxes.

Thus, the subject of a tax audit as an independent direction of audit activity is one of the General management functions, provides independent validation of the tax reporting of the audited entity for decision making by users of these statements.

The object of the tax audit is the entity (information) business activities of the organization with which the legislation on taxes and tax collections connects the taxpayer of the duty to pay tax (sales of goods, works, services, property, profit, income, expense, etc.), reflected in tax reporting. Such reporting is the direct object of the tax audit, but should not constrain the auditor in the study of economic activities of the audited entity.

The tax audit method as the General approach to research is based on dialectics. Its main characteristics in relation to the tax audit – the unity of analysis and synthesis, the study of tax figures in their interrelationships, development, and relations with indicators of financial (accounting) statements. Method as a General approach to the study determines the methodology of tax audit.

Audit methodology – a set of special techniques, i.e. specific procedures (logical, analytical, arithmetic, etc.), calculation methods, comparisons used to justify views about the degree of accuracy of tax reporting. It should be noted that under a tax audit should be understood comprehensive study, checking all tax reports to judge the extent of its reliability [6].

Condition for the effectiveness of tax audit is its timeliness. This factor is crucial not only in identifying arrears (the need to submit returns prior to tax audit), but also in detecting overpayments (offset of overpaid taxes is limited to three years).

The identification of underpayments allows the organization in advance, i.e. before the start of tax audits, to protect themselves from penalties by submitting tax authorities revised the Declaration, paying off the arrears and penalties. The identification of errors that resulted in excess payment of taxes, often depending on the qualifications of the accounting Department, and from the variability of interpretation of tax laws that provides the opportunity to either return the money from the budget, either to reduce current and future tax liabilities [3].

Thus, under a tax audit should be understood independently verified the tax reporting of the audited entity for the purpose of expressing an opinion on the degree of its reliability and compliance in all material respects the norms of legislation of order of formation, accounting and payment of the economic entity legally established taxes.

In our view, this definition reflects the essence of the tax audit. Its object is tax reporting, in respect of which expressed the opinion of the auditor about reliability, not «accounting and tax». Financial statements is subject to audit and included in the

composition of the tax audit will lead to a wider interpretation of the goals and objectives of the latter.

Moreover, the conclusion based on the results of the tax audit cannot be considered as an audit report about reliability of the accounting reporting as a whole. In the tax audit data for accounting and reporting are considered as one of the sources of information along with primary documents, tax ledgers and tax reporting, taking into account the higher significance of the latter. In our opinion, assessment of correctness of calculation and payment of other (non-taxes) payments to the budget and extra-budgetary funds (fees, registration fee, excise duty) cannot be the subject of a tax audit in force next.

«Taxes» are understood as mandatory, individually gratuitous payment collected from organizations and physical persons in the form of alienation belonging them on the property right, economic management or operational management of funds for the purposes of financial provision of activity of state and municipal entities and should be distinguished from other payments to the budget and extra-budgetary funds.

Under the collection is understood as the obligatory payment levied from the organisations and physical persons which payment is one of the conditions of Commission in relation to payers of fees by state bodies, bodies of local self-government, other authorized bodies and officials of legally significant actions, including granting of the certain rights or delivery of permissions (licenses). Stamp duty and excise taxes on its constitutional-legal sense are a kind of fees [1] and are of a compensatory nature, because be made by payer for the purpose of purchasing certain services from the state (registration actions, approvals, etc.).

Services for verification of the completeness and timeliness of the audited entity obligations for other payments to the budget and extra-budgetary funds should be included in the scope of a tax audit related and other services.

The current situation of the world economy raises the problem of introduction in the nature of the audit not only assess the reliability of reporting and assessing the effectiveness of economic activity of the audited entities, their ability to continue the activities, at least during the next reporting year. This requirement can be attributed to the tax audit. The main purpose of any commercial organization is to obtain sufficient profit margin. The change in mass of profit directly affects the performance of the enterprise. However the current system of taxation

is forcing companies to hide their income, using all legal, questionable, and sometimes illegal ways of manipulating the tax base.

When conducting a tax audit, it is important to establish the real amount of profit received by the company, to properly evaluate the effectiveness of its operations. The same applies to the establishment of the actual composition and volume of the company's assets and its liabilities. In addition, the auditor should evaluate the effectiveness adopted by the organization of tax accounting system, and also to explain the management implications of the use of certain methods of tax optimization, with emphasis on the fiscal risks that could lead to the suspension or restriction of the activities of the organization in the future. This, in our view, reflected the relationship of the tax audit of the effectiveness of the client company and its ability to continue in the future of its commercial activities.

Thus, the selection of tax audit independent audit activities not only reasonable and prudent but today is the need for auditors, audited entities and the whole Kazakhstani society. Meeting this need would require major modifications of the regulatory framework for audit, and the absence of branch procedures of tax audit should be subject for further research. It is also the sector focus of the tax audit seems to be the key to improving the quality and efficiency of audit procedures.

Continuous inspection while conducting the tax audit requires the establishment of a group consisting of competent professionals and a significant amount of time to work. During the audit of the economic entity shall submit virtually all documents associated with its activities. Perhaps the auditors will have questions that will require discussion with client representatives. Thus, the activity of the audited entity will be blocked or suspended, which will inevitably lead to adverse economic consequences. To ensure full responsibility for the results of the audit, the auditor will still be able not always because the momentum of a large organization may exceed the cost of tens of audit firms that do this work extremely time-consuming.

In this regard, the practice of accepting auditor's responsibility in full at the time of tax audit have not been developed. As a rule, the liability of the auditor is limited to the contract sum, but to assume this limited liability, the auditor needed additional support, as the risk of errors in any case. Such support can provide insurance. It should be noted that liability insurance audit that are required to have auditors on legislation, during a tax audit is not enough. To get from the insurance company reimbursement of expenses of the client resulting from poor quality of a tax audit, the auditor is required to insure audit-related services, namely tax advice. Therefore, the auditor checks albeit selectively, but to check try thus to minimize potential tax risks.

The tax component of the audit, are poorly regulated by existing regulations. Not resolved a number of substantive issues that define the technology of the tax audit, no clear framework of the tax component of the audit. There are no methodological guidelines on the organization and conduct of tax audit. All this gives sufficient relevance to the development of legal, methodological and methodical fundamentals of tax audit.

In domestic practice has not yet solved a number of organizational and methodical problems of audit of the tax reporting; is not defined the nature of the audit of tax reporting, its purpose, objectives, principles, criteria scope of the assessment. There is no uniformity in approaches to verification, tax reporting, there is no description of the planning phase, verification of calculations of taxes and duties is considered from the standpoint of audit of the accounting (financial) statements. To conduct the tax audit bodies, the method including theoretical and practical fundamentals of taxation audit and specific activity of the audited entity, and also peculiarities of taxation.

The result of the tax audit will be the audit report, and the report that is not legally fixed, which means that while conducting tax audit by the tax authorities, the auditor's opinion will not play any role.

Analysis of current practice showed that tax audit helps to organize the effective system of taxation in modern conditions.

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