
Tax audits of the fiscal administration as tax risk of companies in Algeria

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Abstract:

Taxation has become one of the main pillars of the company and one of its major concerns. Indeed, as taxation was founded to bring order to business, it presented the company with many risks of adjustments and penalties to be borne by companies through the tax control missions carried out by the fiscal administrations. In fact, the tax audit is one of the forms of audit that helps companies to identify and measure the risks that may arise from a possible tax audit by the fiscal administration. In this research, we will study the impact of the number of control missions carried out by the fiscal administrations and the tax risks of companies between the period 2000/2020, through the correlation calculated by the SPSS software.

Keywords: Tax audit; Risk; Tax control; Taxation; Tax risk.

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1. Introduction :

The profound transformation of the modern economy is manifested by international openness, the generalization of international trade as well as the intensification of increased competition within different sectors between the companies, required the latter to mobilize its resources including the legal and tax area.

Since "better manages its taxes means better manages its finances", today taxation is one of the major axes of a company, it lies at the heart of its economic, financial, and managerial life. Indeed, a company is called to deal with taxation on a daily basis, because most of the taken decisions have a tax consequence which inevitably translated into a serious impact on their performance, competitiveness, strategy, governance, management as well as their reputation and continuity. As a result, most companies are now more invested in tax auditing, to better manages different tax risks, especially risks related to compliance that negatively affects the entities existence.

More, in a dynamic environment that bears a cyclic change due to heterogeneous and contradictory rules sometimes, neglecting the tax parameter would firstly, exposes the company to a lot of risks, secondly, generating a devastating impact on the financial and strategic plans of the entity and finally, threatening the company's performances, efficiency and even its survival. Moreover, the increasing development of international relations coupled with the requirements of updating and integrating taxation with business realities have pushed the Algerian government to undergone considerable reforms on tax regulations, to avoid complexity and heaviness on the economic life of the company.

In this context, companies are required, first to have a good knowledge of the legal and fiscal environment in which it operates, and above all it must have a good knowledge of its own legal and fiscal situation. Second, monitor and control tax environment in order to minimize the tax risk. At the end, the company can use the different means provided by the tax law to manage and foresee its taxes.

Like any other legal discipline, the impact of tax law on the company's management is more widely felt because of its directly measurable financial impact on the company's revenues. With this in mind, tax auditing is a tool that allows detecting risk areas that may have a consequence on the company. In fact, tax audit is the in-depth examination of all operations related to the company's tax matters. Hence, there exist two essential criteria that encounter the process of this examination, namely regularity and efficiency. Therefore, the company concern is to comply with the tax regulatory texts, so the auditor must carry out the auditing in the purpose of recommending preventive measurements in order to detect and minimize the impact of potential risks on the company's operations. The aforementioned measures must be adapted to specific characteristics and tax risk factors specific to the company.

In this perspective, the essence of this study is to demonstrate the importance of the tax audit on the improvement of the tax management of a company through the minimization of the adjustments undergone by the companies during a possible tax audit. by tax officials. In addition, to carry out our study, we intend to give a theoretical review on tax audit in addition to giving an overview of the importance of tax risks and how they could affect the operations of the company. Through the differences in penalties and adjustments borne each year by the companies. At the end, we intend to make a correlation between the number of control missions carried out by tax officials and the costs borne by companies at the end of these control missions.

As part of the study of the subject of tax risks of adjustments borne by companies during a tax audit by the fiscal administration, which demonstrates the importance of seeking the assistance of a tax audit mission in order to minimize damages and costs incurred by companies, this study is motivated by first-order research questions: does the fiscal administration, tax audit have an impact on companies? Second, tax control by tax officials is a risk companies may face? Third, does the tax audit help companies to minimize the risk of control exercised by the fiscal administration? And finally, what are the advantages of the tax audit for the company?

Respectively, we hypothesize that the tax control exercised by tax official's results in the majority of cases in adjustments which translates into costs borne by companies by verifying whether the company complies and respects the laws and decrees. For this purpose, the intervention of a tax auditor is necessary in order to evaluate the internal control system related to the tax function of the company, by checking the different types of taxes of the company help to detect errors and risk areas that can negatively affect business operations. Thus, the tax audit will help to assess the strengths and weaknesses of the company in order to make rectifications or prevent potential risks and it also helps to make certain tax choices to benefit from certain tax advantages. Finally, the tax audit can help guide business decisions to be more rational and consistent based on tax options and benefits that can affect business income and it can help reduce the burden company tax.

2. literature review (previous studies and some theoretical approaches)

Many scientific studies have dealt with the subject of tax audits carried out by the fiscal administration:

HIMRANE Mohammed and LARIOUI Abderrezak in their article entitled "Tax audit in Algeria, what is the impact of the reforms?" quoted just the types of controls carried out by the fiscal administration (HIMRANE and LARIOUI, 2020, P138-139), as well as the presentation of some figures which relate to the tax control by type of verification in a period extending to 2010/2015 and the impact of the reforms launched by the Directorate General of Taxes (DGI) to stimulate these different types of control, they underlined at the end of this research the weakness of the tax control of the fiscal administration. In this research they focused on improving the tax control system.

OUALHI boualam in his article "Tax control in Algeria - results and challenges (2014-2018)" presented the different types of control exercised by the fiscal administration based on the demonstration of the number of files and the amount of duties and penalties resulting from the tax audit process for the period 2014-2018 (OUALHI, 2021, P45), in this article OUALHI Boualam to demonstrate the existence of some challenges of the tax audit system in Algeria while proposing some solutions to improve it (OUALHI, 2021, P54).

MAHTOUT Samir in his article "The Algerian tax system: Analysis and evaluation of the performance of the tax control system" presented the Number of files verified (2009-2013) by the fiscal administration using the different types of existing control, which found a remarkable decline, since 2010, in the financial return of tax audit (MAHTOUT, 2019, P138). This situation is mainly due to an archaic selection of files to be audited, but also to the insufficient number of agents specializing in external tax audits within the fiscal administration.

TEKKOUK NOUMEIR in his article "Tax audits as guarantees of administration of taxation face of declarative system" presented the different forms of control exercised by the fiscal administration as a useful way to guarantee and protect the payment of tax by the various taxable persons (NOUMEIR, 2020, P479-484).

From the above, we found that most studies deal with tax audit in its administrative aspect, there is no previous work that treats tax audit as a risk for companies (risk of paying penalties resulting from the discovery of irregularities committed by the companies during a possible tax audit), and we have confirmed this, by the importance of the amounts of the penalties to be paid by the taxable persons each year.

3. Research Methodology:

3.1 Sample size:

The population of this study includes all the files processed by the fiscal administration over a period ranging from 2000 to 2020, covering all of the taxable persons to be verified and adjusted.

3.2 Data collection tools:

The data was extracted from internal documents and statistics from the Directorate General of Taxes (DGI), then processed by Excel and SPSS software. The study includes two (02) variables, namely: the number of verification missions of files controlled by type of control and the amounts of duties and penalties paid by the subject persons controlled.

3.3 Data collection period and statistical tools:

The data collection period lasted a little over fifteen (15) days with the tax services concerned. In addition, the relationship between "Number of Cases" and "Duties and Penalties" was studied using Pearson's product-moment correlation coefficient for four types of verification presented successively in Tables 2_1 to 2_4 via SPSS software version 26.

4. Tax auditing overview

"What is likely is not acceptable, what must look for is the truth." (A. Couret 1985)

Tax audit is a critical examination of the company's fiscal environment and situation in order to formulate an assessment of the tax structures and its operation in the company. It may help the company's auditors to establish a diagnosis of the company's tax obligations and also to suggest specific answers on how to reduce tax expenses.

To begin with, as taxation has a direct implication in any financial decision made within the company in one hand and it has become one of the major and irritating concerns whose control is difficult in the other hand, also as the multiplicity, difficulty and instability of its texts led taxation to generate more risks, hence the obligation to call on the tax audit. It is a new audit discipline which is inspired by the main rules and procedures of accounting auditing. Tax audit is considered as an extension of the accounting and financial audit which is called upon when the certification of the accounts is almost completed in order to decide on the regularity of the taxes payable item.

In addition, due to the complexity of the matter and the financial risk attached to non-compliance with the rules, taxation has almost a permanent influence on the continuity of the company, which confirms that taxation is today one of the major concerns of companies. In other words, the impact of tax law on management of the company is more widely felt because of its

directly measurable financial impact. More, paying tax is an obligation towards the fiscal administration; the company is in charge of base operations, declaration, collection and repayment of the tax, it bears a cost which is transferred by fiscal administration.

In this order, the company must mobilize its means in the better way to accomplish this tax function. Indeed, the company remains the head of the most of the decisions that directly influence its own tax situation, there are, in fact, more or less timely (opportune) decisions; consequently, there is a dynamism of the tax system which subsequently generates an active approach vis-à-vis the tax constraint, which called fiscal management. Moreover, financial constraint, risks, tax management are the most important elements to justify a thorough, specialized control, which can provide elements of information to the managers of the company. Thus, the purpose of a tax audit is not only the examination of all the tax issues that interest the company and which helps to develop a fiscal health report but also to collect information on the nature and the extent of the tax risk incurred by the company. The interest of this audit is also to measure the aptitude of the company to use the tax system to the best of its interests.

The main objective of the tax audit is to examine the company's tax situation. Indeed, the tax situation of a company is influenced by two types of decisions. First, the tax situation is influenced by decisions resulting from

legal obligations, obligations with which the company must comply or face penalties. On the other hand, the company's tax situation is influenced by decisions that the initiative belongs fully to it; through these decisions, the company can influence its own tax situation.

With this in mind, the tax audit has two main objectives which are, on the one hand, a control aimed at ensuring that the company actually complies with the legal obligations to which it is subject, in other words, that it complies with the tax rules. More explicitly, this so-called "control of fiscal regularity" aims to ensure the reliability of information with tax aspects, to identify anomalies, their origins and tax risks in order to assess possible tax offenses. On the other hand, "the control of tax efficiency" aims the measurement of the aptitude of the company to take advantage of the opportunities offered by the law in tax matters. This control is based on two types of choices: the first are tactical choices related to the day-to-day management of the company, where the tax auditor verifies the main tax choices and the elements of risk associated with these choices, It highlights the provisions omitted and ignored for example: the depreciation method, the VAT option regime, etc. While the second are strategic choices on an occasional basis which aim to determine if tax efficiency is taken into account.

Finally, obstacles, limits and difficulties crown any auditing mission. tax auditing has its specific limits that are divided into different categories those related to the conduct of the mission, where the importance of tax legislation, its multiple implications, require a long control that aims to a global control of fiscal regularity. More, some limits are linked to the delicate assessment tax risk: some companies recourse to the tax audit precisely to obtain the opinion of independent specialists on the regularity of certain transactions, which they carry out regularly and which they have difficulty in characterizing the uncertainty in the determination of the tax risk, two difficulties may appear in the process, firstly in characterizing the existence of the risk, and secondly, to determine the extent of the sanctions to which the company is exposed. Moreover, limits of the tax audit in relation to the Fiscal Administration: knowing the content of an audit report by the Fiscal Administration is so advantageous to it, in contrary it is less advantageous to the company. This right of the Fiscal Administration can be achieved, by whether, try to obtain the report by exercising its right of communication, or, more directly, by acquainting itself with the report as part of an audit.

To sum up, Tax audit assesses firstly the level of compliance with applicable laws, ascertain the reliability and validity of information, express opinion on the true and fairness of a financial statement, appreciate the fiscal performance of the company and measures the fiscal risk.

5. Tax risk management

The tax audit, as a control of efficiency comes precisely within the framework of the tax management. In other areas of management, it would never occur to anyone to try to achieve an objective without at the same time having the means of control to assess whether this objective has been achieved. Therefore, a company

seeking tax efficiency must be able to periodically evaluate the impact and appropriateness of the decisions it adopts. This should help it to assess its own tax management and to seek, for the future, the means to further improve its efficiency.

Schmidt (J) has said that "companies have the opportunity to anticipate tax and make maximum use of the means provided by a tax law that offers multiple choices" (Schmidt,1972, P117). As for Cozian (M), he said: "taxation is a subtle game of options" (Cozian,1984, P21). In this vein, tax management is thus born of the company's behavior induced by this double observation: the tax parameter has a permanent incidence on the management of the company, and the company has the possibility of taking more or less opportune tax decisions. Nevertheless, the fact remains that integrating the tax system into the management of the company can face multiple limits.

One of the most characteristic features of taxation is related to the notion of risk and its financial impact. Tax law, which generates a tax cost, contributes to the formation of the company's result. However, the risk of committing tax irregularities can compromise the financial balance of the company. Thus, the tax audit comes to provide information on the existence or absence, if we can say, of the tax risk, and if necessary, it informs on the characteristics of such a risk and its extent.

To such great extent, Tax risk management can take two forms: the first management mode, the tax auditor helps the company's management to react to a threat and make the negative impact of risks that may arise less restrictive, and it is called passive tax risk management Whereas, the second one is called proactive tax risk management, the company not only gives itself the means to avoid the harm, but also seeks to take advantage of the opportunities that accompany them". It translates into the implementation of a process allowing to detect risks and to take advantage of the opportunities. Risk management mission is to deal with risks that may threaten the proper execution of some operations in one hand, and to guarantee the good quality of the performed tasks. In other words, risk management aims to identify and anticipate action for events that may affect the implementation of the strategy within a given timeframe, define solution options and ensure that an optimal option is chosen, implement this approach and finally control the effectiveness of the chosen solution in relation to the required expectations. The notion of tax risk combines two sides, firstly, the non-compliance with the tax rules and secondly, the disregard of a favorable provision which can generate a significant loss of earnings. Consequently, the auditors must carry a control according to a "risk-based approach" so that the work is concentrated on the most significant types of risk. However, Tax risk is difficult to identify and delicate to assess. Since the probability of a tax audit revealing the risk is unknown, the probability of detection of the irregularity during the tax audit is also unknown, because this irregularity leads to sanctions that correspond to the assessment of the tax organizations on the company's behavior. Eventually, the tax risks come from a

declarative system applicable to the company's taxation, where the companies freely declare a taxable result, in return, the Fiscal Administration has a right of a later on control, this right of investigation can only be exercised in the respect of strict rules of procedures. The implementation of this right of control can lead to the verification of the declared bases and the corresponding rights, these corrections are accompanied by sanctions in the two cases: failure to file declarations or late filing of declarations, or Inadequacy of declarations.

6. Empirical study

6.1 Objectives of audit fiscal

The objective of the tax audit is to examine the tax situation of the company through the implementation of a diagnosis to verify how the company copes with its tax management, how it reacts and resolves its tax problems, all with the help of specialists in the field.

Nevertheless, and in order to understand the role and interest of a tax audit, it is necessary to know that the company's tax situation is influenced by two decisions which can be used to assess whether the company has good tax management or not. Firstly, the tax situation is influenced by decisions resulting from legal obligations, obligations with which the company must comply or else it would face penalties. Unlike the first decisions, the second type of decisions depend entirely on the will of the company, these decisions can influence the company's tax situation in a way that allows it to improve and reduce its tax burden, through the adoption of the best tax options and the tax options to which it entitles (Chadefaux,1987, P31).

These two types of decisions, which represent the starting point for good tax management, determine the need for companies to resort to tax audit missions provided by specialists in the field.

To this end, the tax audit finds its place in companies for the achievement of two main objectives, the first of which focuses on verifying the good respect of the tax obligations and the tax rules to which the company is subjected, we are talking here about a check of regularity in tax matters, the latter allows the company to know the errors it has committed and to rectify them in a timely manner, otherwise it will also know the risk caused by these errors and the penalties it will bear.

On the other hand, the tax audit will assess the opportunities, the tax advantages and the possibilities that the tax legislation offers to which the company is entitled to, and make a way to use the tax system in its best interests. With this in mind, the tax audit seeks to improve the efficiency of the company's tax management.

Till now we have mentioned two major aspects of the tax audit, but still it will always depend on the choice of the company, i.e., an audit mission to verify the regularity of the company vis-à-vis its tax obligations and the risks associated with the errors it has made, and then seek a legal solution, without taking into consideration the side of tax management and its performance.

But when the company requests a tax audit mission in the context of improving the performance of its tax management, the auditor will focus on verifying that the company's tax choices do not generate shortfalls in tax matters that will increase its tax burden, but also, we cannot neglect either to check beforehand the absence of a major tax risk when making decisions that will harm the company's tax situation in the future.

6.2 The distinction between tax audit and other forms of audit (Khelassi ,2013, PP 109-117)

In order to avoid confusion between the tax audit and other forms of control and audit, namely, tax control, tax advice, verification and tax management, as well as other types of audits such as accounting audit, legal audit, financial audit, etc. We must firstly identify the concept of fiscal audit and its relationship with other forms.

6.2.1 Tax audit and tax advice:

Tax audit and tax advice seem at first sight to be two similar forms of audit, but if we look deeply into their purpose and their approach we find the difference that; tax advice is requested by a company that already knows its problems, its strengths and weaknesses, in order to seek an expert opinion to find solutions for its tax problems, on the other hand, the tax audit is requested by the company to make a diagnosis of its tax management in order to find reliable points in terms of taxation, to prevent risks that may occur in the future, and to ensure that the company takes full advantage of the tax advantages offered by the tax authorities.

More, tax audit and tax advice may imply that they lead the same objective, since audit and consultancy have the same aims of remedying the company's tax problems and seeking the best solution for effective tax management, in order to reduce the burden and tax risks.

To this end, we can distinguish between tax audit and tax advice through the approach followed by each of them. However, the company resort to tax audit in order to put in place a better tax formula that will help it to reduce the tax burden and prevent tax risks. Unlike tax advice, the company will seek it after becoming aware of its tax problems.

6.2.2 Tax audit and tax control

The tax control represents the right of the Fiscal Administration to verify the accuracy of the declarations made by the companies, knowing that the Algerian tax system is a declarative system, for this purpose the tax authorities have the right to carry out a posteriori control of the items thus declared (Algerian Ministry of Finance website), by carrying out several types of control, namely: document control, accounting verification, Spot Check or Comprehensive Tax Verification (VASFE).

Hence, the tax control that represents the counterpart of the declarative system, acts in favor of the State whose purpose is to make adjustments and penalties for companies that have not complied with its tax

declarations and that have not complied with the tax rights and obligations, on the other hand the tax audit is requested by the company itself-even for the purpose of improving the efficiency of its tax management.

6.2.3 Tax audit and tax management:

The tax audit aims to carrying out a diagnosis of the company's tax management in order to assess its strengths and weaknesses in terms of taxation, thus strengthening the performance of its tax management, and consequently reducing its tax burden.

So, the tax audit is a way of understanding that each decision has a tax impact, with this in mind the company will be responsible for making better use of the tax system and taking advantage of the tax advantages offered by the tax regulations, to this end, tax audit and tax management must achieve three essential objectives that form the core of a tax audit mission, namely:

- Identify the risks that may occur related to tax matters which may have a negative tax impact on the company;
- Check that the company is not overtaxed within the legal framework of compliance with its tax obligations;
- Seek the possibility of reducing the tax burden through the modification of legal structures.

6.2.4 The tax audit between the internal audit and the external audit:

According to the Institute of Internal Auditors (IIA) internal audit represents "an independent and objective activity which gives an organization assurance on the degree of mastering its own operations, and providing it with advices on how to improve them, and contributes in creating added value".

So according to this definition, the tax audit can be carried out within the framework of an internal audit mission, given that they have the same perspectives, because the tax audit seeks to give an assurance on the degree of mastery of taxation by the company in order to provide it with advice to improve it and make it more efficient and effective, consequently, it appears that internal audit and in limited cases can offer tax-related advices.

While external audit is an independent and objective assignment carried out by a person totally independent of the company, his mission is to provide an objective opinion that is not biased by internal factors of the company as the internal audit may be. So, the tax audit can be carried out as part of an external audit assignment by an expert in the tax field in order to better evaluate the company's tax management and provide some modifications that may reduce tax burden in a framework of compliance with obligations of the tax regulations.

From what we mentioned before, the tax audit can be carried out either as part of an internal audit assignment or as part of an external audit assignment according to the objectives set by the company.

7. The nature of tax risk

The counterpart of the declarative system lies in the power of the tax authorities to check the regularity of the declarations made by the taxable person, the thing which represents a risk of discovering irregularities and inadequacies in their declarations, this control will generally lead to adjustments and penalties which are sometimes heavy for the company.

Indeed, taxation feeds a large part of the State budget, something that shows the need to protect the State's resources through a system of control of the declarations of taxpayers, which was moreover provided in the eighteenth article of the Code of Fiscal Procedures (CFP): The tax authorities carry out a control of taxpayer's declarations and the documents used to establish all taxes, duties, and fees. It may also exercise the right of control of other different institutions and organizations which are not traders and which pay wages, fees or remuneration of any kind..."

This right of control that the tax authorities have, is also provided in the nineteenth Article of the CFP, namely: The management department carry out control of tax declarations, it may also request in writing from taxpayers any information, justification or clarification relating to the subscribed declarations ..."

In order to ensure compliance with the regulations in force, the State has given the Fiscal Administration a power of control through various methods depending on the case: (A) which represents a risk for the company subject to this control by the tax officials, which will in most cases result in an adjustment which will increase the tax burden of the company (B) in question and which weighs on its sustainability (Chadefaux, 1987, P138).

7.1 The types of tax control exercised by the Fiscal Administration:

Articles 19 to 21 of the CTP present four (04) types of control exercised by the tax authorities, namely:

Documents control: The nineteenth article of the code of Tax Procedures provide tax officials the power to check the tax declarations of taxpayers, so they can ask at any time for information, justifications or clarifications relating to their declarations, this verification applies by tax agents in the context of a Control of the documents. They may, in this respect, request to examine the accounting documents relating to the different operations of tax payers and the data subject to the audit in order to rectify the declarations subscribed otherwise the taxpayers will face penalties.

The Accounting Audit provided in Article 20 of the CFP, which states that "Fiscal Administration officials may carry out the accounting audit of taxpayers and carry out any investigations necessary for the assessment and control of tax...". The tax authorities can check the accounts of companies in order to check their tax returns. Indeed, this audit is global; it affects all aspects of taxes inherent in closed financial years not affected by the four-year limitation period which is limited in four (04) years.

punctual Accounting Check: Tax officials may opt for this type of punctual accounting check initiated by Article 20Bis of the

CFP which covers one or more taxes, has all or part of the financial years not fallen to the quadrennial prescription, it may also cover an accounting transaction or several transactions covering a period of less than one fiscal year.

Thus, this audit is initiated by the tax authorities when they judge the sincerity of the acts or agreements concluded by taxpayers to avoid or mitigate the tax burden.

So, this type of audit differs from the accounting audit by the fact that the punctual accounting check is accurate, it targets one or more types of tax, a well-determined period of time, On the other hand, the auditing of the accounts is general and affects all the categories of taxes without exception within a period of time which includes the closed financial years not subject to the principle of prescription.

In-depth Verification of the Overall Tax Situation (VASFE): The article 21 of the CFP, tax officials may carry out an in-depth examination of the overall tax situation when they discover that there is a contradiction between the income declared by individuals and their assets. This verification covers individuals subject to the total income tax in case of an inconsistency between the declared income, the patrimonial situation and the person's assets.

In addition to these four (04) types of control, the Fiscal Administration has other types of control reserved for certain types of taxes, namely:

- For the Indirect Tax Category: the tax authorities exercise a right of control translated by the audits carried out by the tax officials in the professional locations of the taxable persons, in accordance with the provisions of Articles 22 to 32 of the CFP.
- For turnover tax: the tax authorities exercise the right of control for all persons carrying out transactions liable to Value Added Tax (VAT), this type of control includes the obligation of taxpayers to provide tax officials with all the justifications necessary to determine their turnover.
- In the case of direct taxes and taxes on turnover and taxes on wealth: the tax authorities have the right of visit in the case of compulsory taxes on wealth. In this respect, the tax authorities shall reconstruct the taxpayers' assets according to their external assets and the elements of their lifestyle, to do so, the tax authorities collect information from car dealers, jewelers, auctioneers, customs authorities, etc. etc., which provide the tax authorities with the names, surnames and addresses of their clients who have acquired objects of value as provided for in Articles 33 to 38 of the CFP.

When a taxpayer is called into question by the tax authorities, and when the latter's base is determined from an accounting system, the form of control used by the tax authorities is generally the accounting control.

This audit may take several forms; it may be simple, or it may be a one-time audit of a part or all of the taxes forming the taxpayer's tax base, for a part or for the entire period not prescribed.

7.2 The tax audit of the Fiscal Administration Risk-revealing for controlled companies:

The company lives always in an environment of uncertainty, surrounded by a set of tax rules which it is obliged to respect, these rules which are changing always offers several options to companies in particular, and taxpayers generally. This system which is based on sincerity and good faith that taxpayers will provide declarations of all the incomes made and constituting his tax base, its declarations are sanctioned by control and communication rights that will lead to adjustments that are sometimes cumbersome for companies.

To this end, the tax audit carried out by the tax authorities remains a potential audit that is determined either by the verification programs set up beforehand by the tax officials, either on the basis of all the requests and denunciations addressed to the Fiscal Administration by citizens of civil society, in order to denounce a fraudulent behavior or a transgression against the tax legislation made by a taxpayer.

So companies may always be subject to a control by the tax authorities. So, over the last ten (10) years here is some statistics of the different types of audits carried out by the tax authorities at national level:

Table N°1 : Statistics of the different types of audits carried out by the tax authorities at national level

Years	Number of accounting audits scheduled and performed by the tax authorities	Number of punctual checks of accounts scheduled and performed by the tax authorities	Number of checks on documents programmed and performed by the tax authorities	Number of in-depth audits of the overall tax situation (VASFE) scheduled and performed by the Fiscal Administration
2012	1 682	561	28 672	18
2013	1 809	571	27 932	299
2014	2 357	612	28 389	347
2015	2 358	594	23 229	99
2016	2 042	621	22 812	231
2017	1 968	617	20 904	176
2018	2 089	553	17 183	197
2019	2 063	579	16 778	216
2020	2 159	463	15 598	183
TOTAL	18 527	5 171	201 497	1 766

Source: Elaborated by ourselves using data from the General Directorate of Taxation.

7.2.1 The power of control of the administration is accompanied by a power of redress (adjustment) and sanction:

The power of control enjoyed by the tax authorities is accompanied by heavy adjustments (a) where the administration finds irregularities in the taxpayer's declarations, in order to remedy these irregularities and recover all evaded taxes; it does not limit itself to establishing adjustments, but also has the power to sanction (b) (Chadefaux,1987, P42).

7.2.1.1 The Fiscal Administration power of adjustment:

After having carried out a tax audit, the Fiscal Administration when it finds irregularities committed by the company, it will claim and recover the tax allegedly evaded and corresponding to its irregularities. In this case the administration has a power of redress which is reflected in Articles 42, 43 and 44 of the CFP.

There are two types of redress, the first is the contradictory adjustment procedure indicated by Articles 42 and 43 of the CFP which stipulate that the **Fiscal Administration** after an accounting audit must notify the results to the taxpayers even in the absence of adjustment. The administration may reject the taxpayer's accounts if it proves that they are not probative. For example, there are repeated accounting errors, omissions or inaccuracies related to the transactions recorded, the maintenance of the books, accounting documents and supporting documents does not comply with the regulations.

The second power of redress is reflected in Article 44 of the CFP, which is the compulsory taxation procedure, in which the checking agent of the tax authorities and prior to the establishment of the role which includes all the adjustments, notify the tax base to the taxpayer in respect of the tax which was not paid in due time and which corresponds to the irregularities committed.

The tax authorities therefore proceed with the compulsory taxation when the taxpayer does not have a regular accounting and has not made a sincere declaration, and whose net income determined as set out in Articles 85 to 98 of the Code of direct taxes and similar taxes exceeds the total exempt from tax, as well as several other cases as provided for in Article 44 of the CFP.

These adjustments may expose the controlled company to major risks, especially in cases when the control affects several financial years, the company in this case may suffer a very heavy financial burden especially as the tax authorities will accompany these adjustments with sanctions (Chadefaux,1987, P43).

7.2.1.2 The power of sanction of the tax authorities :

When the tax authorities find anomalies in the taxpayer's declarations, they will sanction the taxpayer for the irregularities he has committed. These penalties apply not only in the case of insufficient declarations but also in the case of failure or delay in the filing of returns.

With this in mind, we generally distinguish between two broad categories of sanctions, by separating the base penalties and the recovery penalties.

To simplify the situation, the base penalties generally apply in two (02) cases, inadequacy of declaration and none declaration, whereas recovery penalties apply in the case of non-payment or late payment of duties and penalties due to the taxpayer (Chadefaux,1987, P43).

-The base penalties

The assessment penalties generally apply in two (02) cases, insufficient declarations as stated in Article 193 of the Code of direct taxes and similar taxes (A), and none declarations as stated in Article 192 of the same Code (B).

A- Gross-up for insufficient declarations:

Under Article 193 of the CIDTA, declarations that show insufficient or inaccurate income or profit are increased by:

- 10%, when the amount of duties evaded does not exceed fifty thousand dinars (50,000.00 DA);
- 15%, in the case where the amount of duties evaded is greater than 50,000.00 DA or equal to 200,000.00 DA;
- 25%, in the case where the amount of duties evaded is more than 200,000.00 DA.

Thus, in the case of fraudulent practices committed by the taxpayer, an increase corresponding to the concealment rate observed, which corresponds to the proportion of the hidden duties in relation to the duties due for the same financial year, is applicable. This increase cannot be less than 50%. The 100% rate is applied when no duty has been paid.

The 100% rate is also applied when the duties evaded relate to duties are to be collected by the concept of withholding tax. The concept of fraud implies, in addition to knowledge of the offence, a genuine will to defraud.

This can be expressed in particular by:

- Sales without an invoice which represents a concealment of the sums or products to which value added tax applies;
- The production of counterfeit documents in order to obtain tax advantages, relief, discharge or refund of value added tax;
- The transfer of inaccurate or fictitious entries to the journal and inventory books provided for in Articles 9 and 10 of the Algerian Commercial Code;
- Putting obstacles in the way of the collection of any taxes for which the taxpayer is liable;
- Any intention to evade or delay the payment of all or part of the amount of the taxes and charges as mentioned in the field declarations;

- Engaging in an informal activity.

B- Gross-up for default or late declarations:

Under Article 192 of the Direct Taxes and Similar Taxes Code (CIDTA), taxpayers who have not filed their tax declarations, as the case may be, either income tax or corporate income tax is automatically taxed and its assessment is increased by 25%, this increase is reduced to 10% if the taxable person files his declarations and the period of delay does not exceed one (1) months and

20% otherwise. If the declaration has not reached the administration within thirty (30) days counted starting from the notification by the administration to file the declarations within this period, a 35% surcharge will be applied.

Also, a taxpayer who has not provided the documents and information required by sections 152, 153 of the CIDTA in support of his declarations within the time limits prescribed by the **Fiscal Administration**, is liable to a tax fine of 1.000DA as many times as there are omissions or inaccuracies in the documents produced. Otherwise, If the declaration has not reached the administration within thirty (30) days of notification by the administration to provide the documents in question within this period, a compulsory taxation is applicable and the amount of duties is increased by 25%.

In addition to these elements, failure to produce or incomplete production of documentation, as required by Article 169 Bis of the CPF, within thirty (30) days of notification by the administration to provide the documents in question within this period, entails the application of a fine of DA 2,000,000. In addition to this fine the company will bear another fine equal to 25% of the profits indirectly transferred as stated the Article 141a of the CIDTA in the case where the company doesn't comply with the declaration's obligation.

It is also possible to mention the existence of other penalties related to certain irregularities such as late payment of taxes and charges levied by way of roll, Late payment of taxes payable in cash or by withholding tax where the recovery of which is ensured by the tax authorities... etc.

To this end, and without seeking to go into the details of a relatively complex system, the following information and tables are used to measure the extent of the sanctions and the importance of the tax audit.

Indeed, the tax audit carried out by the Fiscal Administration seeks to meet three (03) main objectives, which are:

In the first place, the Algerian tax system is a declarative system that is to say that the majority of taxes are declared by the taxpayers themselves. Declarations of taxpayers are presumed to be accurate and truthful. In some cases, taxpayers may have made errors and omissions in their declarations, where the tax authorities consider them to be errors made in good faith. In return, the freedom of declaration offered to taxpayers is sanctioned by a power of control of the Fiscal Administration, in order to ensure the consistency and

sustainability of this declarative system, otherwise a lack of control would very quickly condemn the continuity of the declarative system.

Secondly, a tax audit aims to ensure equality of citizens before taxation and to guarantee fair competition between companies. In fact, it aims to ensure that companies bear the same tax burden provided that these companies are in an identical situation. However, a company that does not comply with its tax obligations, will be in more advantageous financial situation than a company that strictly complies with its tax obligations and pays its tax burdens. So, tax audit aims to ensure and establish a balance between companies. So, in this sequence of ideas the controller of the tax does not worry about the exemptions and the concessions offered to one company compared to the others, however, it is concerned to monitor compliance with the tax regulations by taxpayers.

Thirdly, the objective of tax audit is to preserve the interests of the Public Treasury and subsequently contributing to its fund. Over the last ten (10) years, the various forms of tax audit have raised nearly 860,202,472,835.00 billion dinars of revenue. On average, about 2,000 accounting audits are conducted each year, according to the statistics provided by the tax authorities, there are approximately 125,533 legal persons and 2,035,797 natural persons in Algeria in 2021, we find that on average just approximately of 1.6% of Algerian companies are audited each year

year	Accounting Audit		In-Depth Verification of the Overall Tax Situation		Documents control		Punctual accounting Audit		TOTAL
	Nbr of verified files	RecalledDuties and Penalties	Nbr of verified files	RecalledDuties and Penalties	RecalledDuties and Penalties	RecalledDuties and Penalties	Nbr of verified files	RecalledDuties and Penalties	RecalledDuties and Penalties
2000	1 696	10 308 592 184	-	-	-	-	-	-	10 308 592 184
2001	1 740	12 858 195 730	99	320 209 419	-	-	-	-	13 178 405 149
2002	1 672	17 016 564 862	165	796 142 215	-	-	-	-	17 812 707 077
2003	1 748	15 563 409 103	223	715 571 893	-	-	-	-	16 278 980 996
2004	2 118	10 427 799 232	238	815 354 504	-	-	-	-	11 243 153 736
2005	2 217	15 047 297 648	258	738 939 601	-	-	-	-	15 786 237 249
2006	2 228	73 670 021 141	278	985 853 319	34 081	39 880 134 427	-	-	114 536 008 887
2007	2 194	14 037 698 534	438	1 307 265 625	30 894	33 162 154 643	-	-	48 507 118 802
2008	2 374	20 533 836 095	357	1 358 151 502	32 795	30 015 195 068	-	-	51 907 182 665
2009	2 483	74 595 800 023	381	1 288 454 301	30 365	28 246 714 392	-	-	104 130 968 716
2010	1 989	41 503 322 158	396	5 896 155 780	30 029	32 293 982 830	503	1 189 796 240	80 883 257 008

Tax audits of the fiscal administration as tax risk of companies in Algeria

2011	1 444	34 153 564 965	204	1 633 126 160	27 291	26 224 016 076	586	1 434 994 181	63 445 701 382
2012	1 682	31 359 523 794	18	99 802 319	28 672	24 161 201 346	561	1 201 532 318	56 822 059 777
2013	1 809	36 255 037 286	299	1 507 555 995	27 932	26 953 101 474	571	1 954 585 861	66 670 280 616
2014	2 357	126 406 853 547	347	2 141 260 235	28 389	26 196 634 681	612	2 171 117 811	156 915 866 274
2015	2 358	37 613 408 727	99	4 295 119 078	23 229	29 546 942 659	594	4 495 895 166	75 951 365 630
2016	2 042	29 423 647 500	231	2 816 181 614	22 812	30 155 438 140	621	4 809 648 669	67 204 915 923
2017	1 968	52 302 557 513	176	1 439 693 768	20 904	28 191 330 447	617	1 304 271 789	83 237 853 517
2018	2 089	36 151 181 245	197	2 174 618 707	17 183	31 752 747 175	553	1 542 284 296	71 620 831 423
2019	2 063	61 166 066 029	216	2 543 735 707	16 778	26 239 103 019	579	2 040 490 025	91 989 394 780
2020	2 159	54 520 412 005	183	1 374 322 168	15 598	64 149 165 707	463	6 300 303 633	126 344 203 513
Total	42 430	804 914 789 321	4 803	34 247 513 910	386 952	477 167 862 084	6 260	28 444 919 989	1 344 775 085 304

Table N°2: Table illustrates the increasing efficiency of the Fiscal Administration audits

Source: Elaborated by ourselves based on data from the General Directorate of Taxes

Analyse de la corrélation entre le nombre de dossier traiter et les droits et pénalités rappelés

Suppose two variables X and Y are measured on a continuous scale and are linearly related like $Y = a + b X$ where a and b are constant values. The correlation coefficient $r(X, Y) = r$ measures the degree of linear relationship between X and Y using (Régis Bourbonnais 9^{ème} edition):

$$r_{x,y} = \frac{n \sum_{i=1}^n x_i y_i - \sum_{i=1}^n x_i \sum_{i=1}^n y_i}{\sqrt{n \sum_{i=1}^n x_i^2 - \left(\sum_{i=1}^n x_i\right)^2} \sqrt{n \sum_{i=1}^n y_i^2 - \left(\sum_{i=1}^n y_i\right)^2}}$$

Cov(x, y) = Covariance between x and y.

σ_x and σ_y = Standard deviation of x and y.

n = number of observations.

By developing the formula -1- we will get the formula -2- :

$$r_{x,y} = \frac{\text{Cov}(x,y)}{\sigma_x \sigma_y} = \frac{\sum_{i=1}^n (x_i - \bar{x})(y_i - \bar{y})}{\sqrt{\sum_{i=1}^n (x_i - \bar{x})^2} \sqrt{\sum_{i=1}^n (y_i - \bar{y})^2}}$$

The correlation coefficient is independent of the units of measurement of X and Y. For example, if someone measures the height and weight in metres and kilograms respectively and another person measures them in centimetres and grams, respectively, then the correlation coefficient between the two sets of data will be the same.

The correlation coefficient is symmetric, i.e., $r(X, Y) = r(Y, X)$.

The limits of r are $-1 \leq r \leq 1$. If all the points in a scatter plot lie exactly on a straight line, then the linear relationship between X and Y is perfect and $|r| = 1$.

If the relationship between X and Y is (i) perfectly linear and increasing, then $r = +1$ and (ii) perfectly linear and decreasing, then $r = -1$. The signs of r thus determine the direction of the association.

If r is close to zero, then it indicates that the variables are independent or the relationship is not linear. Note that if the relationship between X and Y is nonlinear, then the degree of linear relationship may be low and r is then close to zero even if the variables are clearly not independent (Heumann, Schomaker, 2016).

The value of (r) can range from -1 to 1, This value will indicate the strength of the relationship between your two variables How do you interpret values between 0 and 1? Different authors suggest different interpretations; however, Cohen (1988) suggests:

$r = .10$ to $.29$ or $r = -.10$ to $-.29$	small
$r = .30$ to $.49$ or $r = -.30$ to $-.49$	medium
$r = .50$ to 1.0 or $r = -.50$ to -1.0	large

We will use the Pearson correlation (r) to study the linear correlation between the two continuous variables (Nbr of verified files) and (RecalledDuties and Penalties) for the four types of verifications showing on table -1- and by using the statistical software SPSS version 26 to calculate the correlation coefficient for the different verification types, we have as results the tables -2.1- to -2.4-

Table N°3 : Paired Sample Correlations

Paired Sample Correlations			
	N	Correlation	Sig.
Pair 1 Verification of accounting_ Number of files & Verification of accounting_ Rights and Penalties	22	0,456	3%

2_1

Paired Sample Correlations			
	N	Correlation	Sig.
Pair 1 Thorough Verification of the Overall Tax Situation_ Number of Files & Thorough Verification of the Overall Tax Situation_ Rights and Penalties	21	0,279	22%

2_2

Paired Sample Correlations			
	N	Correlation	Sig.
Pair 1 Document Control_ Number of Cases & Document Control_ Duties and Penalties	16	-0,368	16%

2_3

Paired Sample Correlations			
	N	Correlation	Sig.
Pair 1 Spot Check of Accounting_ Number of files & Spot Check of Accounting_ Rights and Penalties	12	-0,291	36%

2_4

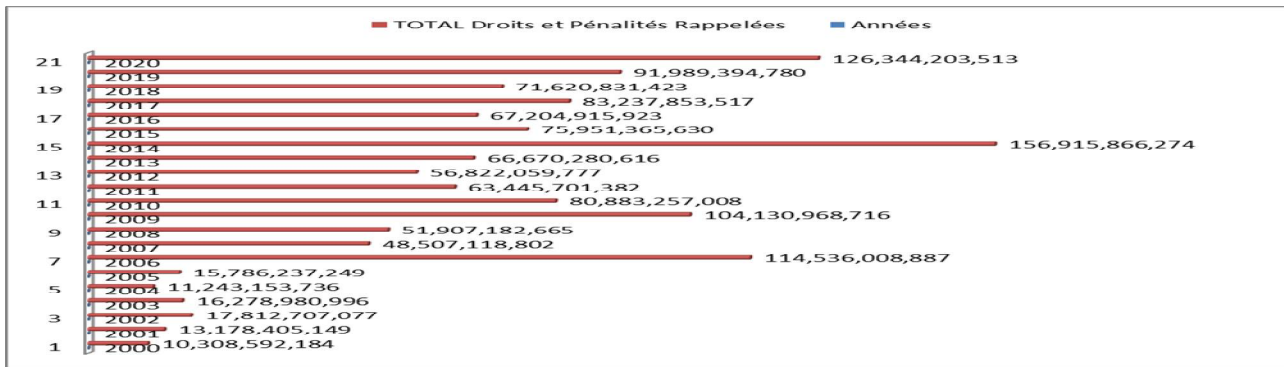
From tables 2_1 to 2_4 The results of the above application could be presented in a research report as follows:

The relationship between "Number of folders" and "Rights and Penalties" was investigated using Pearson product-moment correlation coefficient for four types of verification presented successively in tables 2_1 to 2_4. We notice that There was a medium, positive correlation between the two variables only for the VC type (because it has the only significant results) [$r=0,456$, $n=22$, $SIG<0.05$], That means that an increase of "Number of folders" will result a significant increase of "Recalled Duties and Penalties »

Here we can see clearly that the simple 'Control of documents has a relatively high tax yield of 64 149 165 707.00 billion dinars in the 2020 fiscal year.

If we assume that the sample of companies audited is representative of the tax behavior and fraud of all Algerian companies, we end up with an amount of recalled duties and penalties excess 120 billion Dinars in 2020.

Fig N° 1: total duties and penalties recalled



Source: Elaborated by ourselves based on data from the General Directorate of Taxes

According to these data, we can see the importance of a tax audit by the tax officials which generates more revenue for the state. To this end, the declarative system which offers companies a certain declarative freedom does not prevent the tax authorities from exercising tax control.

More, it is clear that tax control by tax authorities present a risk for the company, where this control will generally result adjustments and penalties which are sometimes heavy for the company as shown in the diagram where we can see that in the last years there is an increase in recalled duties and penalties where the tax authorities gained approximately 156 billion dinars in 2014 and 126 billion dinars in 2020, This clearly shows the risk situation surrounding companies and their need to use a tax audit in order to avoid the risk of tax control by tax officials. As a consequence, the condemnation of the company by disclosing some tax irregularities compromise its brand image in the eyes of its different actors, and hits its sincerity and social relations.

8. **Conclusion:** According to the study of the correlation between the number of tax control missions carried out by the **fiscal administration** on companies during the period 2000/2020, clearly shows that this type of control represents a tax risk for companies, and this, through the result of this control translate in the majority of cases by sanctions and penalties. In this chain of ideas, the **fiscal administration** after carrying out a tax audit, when it finds irregularities committed by the company, it will claim and recover the so-called tax evaded and which corresponds to its irregularities. In this case the administration has a power of rectification which results in articles 42, 43 and 44 of the CPF, and our study clearly shows the amounts of the adjustments borne by the companies which is around 1,344,775,085 304 DA during the last two (02) decades.

From the above, we clearly see the risk that it can hit the company through the control exercised by the **fiscal administration**, this control will generally lead to adjustments and penalties at times heavy for the company as it appears in the diagram that during the last years an increase in the rights and penalties reminded to the companies controlled by the tax agents which affected the 156 billion Dinars in 2014 and 126 billion

Dinars in 2020, which clearly shows the situation of the risks which surrounds companies and their need to use a tax audit in order to avoid the risk of tax control by the administration.

In the end, it is recommended for companies to request a tax audit mission, carried out by an expert in the field in order to ensure compliance with fundamental accounting principles while controlling the company's tax system and to set up a set of actions that will highlight the strengths and weaknesses of the company in tax matters. This mission is one of the essential management tools that helps in decision-making and avoids the heaviness of the sanctions of the **fiscal administration** during a possible tax audit, of course that any decision has tax implications, hence the need to resort to a tax audit to help the company:

- Verifying compliance with the company's tax obligations to the tax authorities;
- Improve the company's tax performance by reducing tax burdens through a good interpretation and understanding of tax texts and rights and use them in its best interests, in order to make the best decisions and tax choices, take advantage of tax benefits granted (tax credit, reduced-rate VAT on an activity, reduction on business tax, tax exemption for setting up in a particular area (Sahara)...).
- Review the way in which the company reacts and solves its tax problems, in order to put in place an effective tax strategy to intervene in a timely manner; Better prevent and raise tax risks and formal irregularities committed (application of a reduced rate wrongly, misinterpretation and application of a tax text, etc.) in a timely manner, in order to take action within the deadlines granted by the fiscal administration, non-compliance with which is sometimes heavily penalized and which can be easily avoided.

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