

# Fiscal Control through the Correct Investigation in Accounting: Procedures and Features

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## Abstract

The tax administration in Algeria exercises its authority to audit tax declarations submitted by taxpayers, aiming to verify their accuracy and credibility. This is achieved through a range of procedures and auditing tools employed by various tax departments, each within their respective areas of responsibility. Among the external tax auditing methods, tax investigations, including targeted accounting audits, not only involve the examination and review of documents and records but also encompass on-site inspections of the taxpayer's business premises. This type of investigation is characterized by specific procedures and features. The research has determined that while this investigative approach has practical advantages, it also possesses certain drawbacks that may diminish the effectiveness of tax auditing.

**Keywords:** taxpayer, tax evasion, tax auditing, tax investigation.

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## Introduction

Taxation, in all its forms, is considered one of the primary tools and means of controlling the economy of any country. For many nations, it serves as a major source of revenue for the public treasury. Taxation, with all its elements, represents an integrated system of methods and procedures and constitutes a power held by the state, which manages and directs it according to specific economic and financial requirements through the imposition of various taxes and duties under defined rules and principles.

Due to various reasons, many taxpayers are resistant to the imposition of taxes, leading them to employ both legal and illegal methods to evade paying taxes either partially or entirely, a phenomenon known as tax evasion. To combat such phenomena, the tax legislator has established a range of tax authorities that play numerous roles in this context, with tax auditing being a key legal tool tasked with investigating the transparency and objectivity of taxpayers' declarations.

Tax auditing is conducted through various types of tax investigations depending on the nature, type, and volume of the taxpayer's income. Among these investigations introduced in recent years is the targeted accounting audit, which features specific characteristics and procedures. This research aims to address the following issue:

"What are the procedures and features of tax auditing through targeted accounting investigations?"

**Research Objectives:** The research aims to achieve the following objectives:

- To assess the importance of tax auditing in combating tax evasion;
- To define the tools of tax auditing, particularly targeted accounting investigations;
- To understand the procedures of tax auditing through targeted accounting investigations;
- To outline the key features of targeted accounting investigations.

**Importance of the Research:** The topic of this research is of significant importance due to the crucial role of tax auditing in addressing one of the most dangerous phenomena affecting the national economy: tax evasion. Statistics indicate that tax evasion is on the rise, necessitating the development and enhancement of legal and regulatory mechanisms to mitigate it. Among the methods used in tax auditing is the targeted accounting investigation.

**Research Topics:** The issue of the research problem is addressed through the following topics:

1. Tax Auditing and the Phenomenon of Tax Evasion.
2. Procedures and Features of Targeted Accounting Investigations.

### 1. Tax Auditing and the Phenomenon of Tax Evasion:

**1.1. Tax Evasion:** With the variety and expansion of taxation, it has become one of the most significant sources of state revenue, aside from its other roles in economic, financial, and social fields. Conversely, taxes can be a heavy burden for some taxpayers, leading them to engage in tax evasion, a phenomenon that threatens the economies of many countries.

**1.1.1. Definition of Tax Evasion:** Tax evasion is defined as: "the behavior through which a taxpayer attempts to avoid paying the taxes owed, either partially or entirely, without transferring the burden to another person. To achieve tax evasion, the taxpayer may employ various methods and techniques, which may be legal or illegal. (1)"

Tax evasion has also been defined as: "The act of avoiding the payment of the tax imposed, either partially or entirely, before or during the payment period, using certain illegal means. (2)" Thus, tax evasion involves the taxpayer exploiting both legal and illegal loopholes to avoid paying taxes.

**2.1.1. Types of Tax Evasion:** Tax evasion can be categorized based on the methods used to avoid paying tax obligations. These methods exploit gaps in tax legislation, which is referred to as legal tax evasion (or tax avoidance), or involve fraudulent techniques such as submitting false declarations and forgery, known as illegal tax evasion (or tax fraud).

**A. Legal Tax Evasion:** Legal tax evasion refers to actions taken by a taxpayer using legally permissible techniques based on management freedom that allow them to choose a specific tax position to achieve economic results equivalent to an acceptable tax outcome. J.C. Martinez defines it as: "The art of avoiding the scope of tax law." Therefore, legal tax evasion involves the taxpayer benefiting from certain loopholes in tax legislation, thereby avoiding tax payment without violating legal provisions (3) (4).

**B. Illegal Tax Evasion:** Illegal tax evasion, or tax fraud, is defined as: "The explicit violation of the law with the aim of avoiding the payment of taxes or reducing the tax base." In another definition, "Tax fraud is the deliberate misconduct by taxpayers to evade taxes or reduce their tax burden (6)." Generally, illegal tax evasion is a deliberate act by taxpayers involving intentional violations of tax law to avoid paying due taxes, either by failing to submit any profit declarations, submitting incomplete or false declarations, maintaining falsified records, or using certain laws to prevent tax authorities from verifying the true extent of profits.

**3.1.1. Causes of Tax Evasion:** The causes of tax evasion are numerous and complex, interconnected in various ways. The phenomenon of tax evasion is related to numerous factors that contribute to its prevalence and escalation, with no boundaries or regional restrictions. The causes of this phenomenon include:

- **Causes Related to Taxpayers:** These stem from prevalent beliefs among most taxpayers, and possibly the majority of society, involving negative perceptions about taxation as a whole;
- **Causes Related to Tax Authorities:** These are due to deficiencies and shortcomings in the organization and functioning of tax authorities and their personnel;
- **Causes Related to Tax Legislation:** Tax legislation governs all processes related to taxation, from determining tax bases and rates to their collection. Certain flaws in these laws have significantly contributed to the existence and spread of tax evasion;
- **Causes Related to Economic Conditions:** Economic conditions affecting both the state and taxpayers can influence the prevalence of tax evasion among taxpayers.

**2.1. Tax Auditing:** One of the most commonly used methods in Algeria for collecting taxes from taxpayers is the tax declaration method, where the taxpayer determines and estimates the tax base and declares it through tax returns approved by the tax authorities according to the tax system applicable to each taxpayer. However, some taxpayers, due to the aforementioned reasons, employ various methods to avoid paying taxes or to minimize their tax liability as much as possible, a practice known as tax evasion. To address these issues, the tax legislator has established tools and mechanisms to combat such phenomena, with tax auditing being a key component. The following sections will address basic concepts related to tax auditing.

**1.2.1. Definition of Tax Auditing:** Tax auditing is a tool used by tax authorities to verify the accuracy of declarations, correct errors made by taxpayers, and review all information provided. Tax auditing involves a series of operations conducted by tax authorities to ensure the truthfulness and reliability of taxpayer declarations and to uncover fraudulent activities aimed at evading the payment of taxes due.

Thus, tax auditing is conceptually similar to other types of audits, such as administrative and financial audits, in terms of its objectives. Generally, auditing, as defined by the renowned economist Fayol, is: "The process of verifying whether everything is proceeding according to the planned scheme, issued instructions, and established rules. Its objective is to identify weaknesses or errors to correct them and prevent their recurrence.(7)"

Given that a key feature of the Algerian tax system is its reliance on self-reporting by taxpayers, tax authorities perform tax audits within a clear framework based on legal provisions to define the concept of tax auditing (8).

**2.2.1. Objectives of Tax Auditing:** Tax auditing is not an end in itself but a tool through which relevant state authorities seek to achieve several objectives, summarized as follows:

**A. Legal Objective (9):** To ensure compliance of financial transactions by taxpayers with laws and regulations. To uphold these laws, tax auditing focuses on responsibility and accountability to penalize taxpayers for any deviations or violations aimed at evading tax obligations.

**B. Financial and Economic Objective:** Tax auditing aims to safeguard public funds from various forms of loss, thereby increasing public revenue and enhancing available resources for expenditure, which contributes to the overall economic welfare of society.

**C. Administrative Objectives:** Tax auditing plays a vital role in enhancing the effectiveness of tax administration by providing valuable information. This role includes:

- Identifying deviations and errors to help the administration understand their causes and make informed decisions to address related issues;
- Assisting in the preparation of statistics, such as tax evasion rates;
- Revealing legal loopholes that facilitate tax evasion and attempting to find solutions.

**D. Social Objectives:** These include (10):

- Ensuring tax fairness among taxpayers by establishing a fundamental principle of equal treatment before the tax system;
- Preventing and combating various forms of taxpayer misconduct, such as theft, negligence, or failure to meet community obligations.

**2. Procedures and Features of Targeted Accounting Investigations:** Tax auditing is a tool used by tax authorities to monitor, review, and verify taxpayer declarations through a series of investigations, including targeted accounting investigations.

### 1.2. Definition of Targeted Accounting Investigations:

Targeted accounting investigations are a method of tax auditing introduced recently under the 2010 Finance Law (11). They are similar to standard accounting investigations in terms of procedures but are focused on examining the accounting records of taxpayers for specific types of taxes, for either a full period or part of it, which is not yet outdated, or for a set of operations or accounting data for less than a fiscal year (12).

Targeted accounting investigations are a form of audit directed at a specific sample, making them less comprehensive, faster, and narrower in scope compared to regular accounting investigations. This procedure involves reviewing the documentary and accounting evidence for certain types of taxes within a defined period, which can be less than a full fiscal year.

### 2.2. Characteristics of Targeted Accounting Investigations:

Based on the definition of targeted accounting investigations, this type of investigation is characterized by the following:

- The investigation focuses on one or more types of taxes (sample selection);
- It covers a complete period or part of it that is not outdated, or involves a set of operations or accounting information for less than a year;
- The investigation cannot extend beyond two months from the date of receipt or delivery of the investigation notice; (13)
- The end of the targeted accounting investigation must be documented in a report, which the taxpayer under investigation is required to sign.

### 3.2. Conditions for Targeted Accounting Investigations:

This type of investigation is subject to several conditions that must be observed (14):

- Taxpayers being investigated may be asked to provide accounting documents and explanatory materials such as invoices, contracts, and delivery notes related to rights, taxes, fees, and royalties pertinent to the investigation;
- The investigation cannot lead to an in-depth and critical review of the taxpayer's overall accounting records;
- During this investigation, taxpayers are only required to provide ordinary explanatory documents such as invoices, contracts, and delivery notes;
- Targeted accounting investigations follow the same rules as general investigations;
- The targeted accounting investigation cannot commence without prior notification to the taxpayer, through the sending or delivery of an investigation notice with a receipt, accompanied by a charter of rights and obligations of the taxpayer. Taxpayers must be given at least ten (10) days to prepare from the date of receipt of this notice;
- The investigation notice must include, in addition to the elements required during a regular accounting investigation, a clarification of the targeted nature of the investigation and information on the nature of the operations under investigation;
- Under penalty of invalidity of the procedure, the on-site investigation in the records and documents cannot exceed two months;
- The taxpayer has a period of thirty (30) days to send comments or accept the findings, starting from the date of receipt of the reassessment notice;
- The conduct of a targeted investigation does not prevent the tax administration from conducting a more detailed accounting investigation later and returning to the period covered by the initial audit, provided that it takes into account the rights claimed as a result of the supplementary reassessment from the targeted investigation.

### 4.2. Evaluation of Targeted Accounting Investigations:

Targeted accounting investigations are similar to standard accounting investigations, except for their scope and extent. They focus on examining a sample of one or more types of taxes, related to a specific period or set of accounting information. This approach offers some advantages but may also result in certain drawbacks for both the tax administration and the taxpayer.

#### 1.4.2. Advantages of Targeted Accounting Investigations:

The advantages include:

- Reduced duration of the investigation, as the examination is limited to a sample;
- Increased accuracy and detection of most errors and gaps due to the focus on a sample;
- The possibility of conducting a more comprehensive accounting investigation later, with consideration of the rights claimed due to supplementary reassessment from the targeted investigation; (15)
- When a taxpayer is caught in the act of fraud or deceit, they lose all rights such as (provisional seizure preparation, cancellation of exemptions, possibility of renewing the terminated accounting investigation, extension of audit deadlines, extension of prescription periods, cancellation of the initial 20% payment in disputes, fines, and registration in fraud databases) (16).

#### 2.4.2. Disadvantages of Targeted Accounting Investigations:

The main disadvantages include:

- Difficulty in selecting a representative sample from the vast amount of available accounting information, which can lead to random and aimless investigations;
- Focusing solely on the information within the sample cannot be relied upon to judge the entire accounting records, as information outside the sample may contain significant errors and deviations;
- This type of investigation does not provide for an in-depth and critical review of all the taxpayer's accounts, raising questions about the effectiveness and purpose of such audits, as they are often superficial and similar to declaration audits due to legislative restrictions on the tax administration's review scope; (17)
- The duration of the on-site investigation in records and documents cannot exceed two months, under penalty of nullity of the procedure (18).

#### Conclusion:

Tax auditing is a tool established by the tax legislator to combat a phenomenon with negative economic and social implications—tax evasion. Taxpayers frequently employ various methods to evade taxes, exploiting both legal and illegal loopholes. Due to these reasons and other organizational factors, it was necessary to create tax structures responsible for overseeing taxpayer declarations.

In this context, various methods and types of tax auditing exist, ranging from formal audits and document reviews to field investigations such as targeted accounting investigations. This new tax

procedure differs from traditional investigations in terms of conditions, timing, and guarantees provided to taxpayers, offering time and effort savings with effective auditing of specific taxes. However, the procedures and characteristics of targeted accounting investigations may have negative effects that could limit the effectiveness of tax auditing.

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