

# The Role of Auditing Practices that Affect Accounting Standards and Taxable Income: A Study in Iraq

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## Abstract

Taxable income is unsafe for the organization, as well as for the whole society. The writing uncovers that there is have to look at the viability of the auditing standard set of principles. They likewise alluded to the part of bookkeeping principles in lessening the impact of taxable income. The reason for this study is to discover the relationship between auditing standard components and the record of asking gauges of expert bookkeepers. It pointed likewise to discover the relationship between bookkeeping models and assessable salary. The writing was assessed and broke down. Likewise, a structure was created. Ethical requirements, professional skepticism, professional judgment, sufficient, appropriate audit evidence and audit risk. Were the free variables of this study. Accounting standards and taxable income wage were the reliant variables. The information about the study were gathered from 170 professional accountants in Iraq. Information examination was led utilizing SPSS. Numerous breaks down were performed. The discoveries demonstrated that the most imperative indicators of accounting standards are professional auditing took after by ethical requirements, professional skepticism, professional judgment, and sufficient appropriate audit evidence and audit risk. The accounting standards have an exceptionally negative impact on the taxable income. The study has given reasonable and hypothetical proposal to leaders and specialists.

**Keywords:** Auditing Practices , Accounting Standards ,Taxable Income

## 1.0 Introduction

The subject of assessable pay has gotten significance because of the current genuine bookkeeping embarrassments that happened in bookkeeping standards[1]. Assessable pay is characterized "the measure of wage that is utilized to compute a person's or an organization's salary charge due. Assessable salary is for the most part depicted as gross pay or balanced gross wage short any reasonings, exceptions or different modifications that are passable in that expense year. Assessable pay is additionally produced from acknowledging resources that have been sold or promoted amid the year and from profits and intrigue wage. Income from these sources is generally taxed at a different rate and calculated separately by the taxable entity[2]

Thus, taxable income does not affect from the law or the standards of accounting. It is for the most part in view of discovering escape clauses in bookkeeping decides that empower the expert bookkeeper to change the money related pay of organizations. Professional accountants are the main response for reporting the financial situation of companies[3].

The enforcement of auditing standards from professional accountants are important in the workplace, especially when they are preparing the financial statements. The professional accountants must apply these role of auditing standards, to serve the interest groups of the financial information users. However, the users of financial statements are taking the decision based on the information that is provided by the team of the professional accountants, and there are some cases of the taxable income from Worldwide and Iraq, had affected the decisions of those who are using the financial information. However, the auditing standards for Professional Accountants has listed for professional accountants to include (1) Ethical Requirements Relating to an Audit of Financial Statements, (2) Professional Skepticism, (3) Professional Judgment, (4) Sufficient Appropriate Audit Evidence and Audit Risk, and last (5) Conduct of an Audit in Accordance with ISAs. These five components are investigated and compared in this study[4].

Most of the countries have issued of auditing standards to urge professional accountant to adhere to these auditing standards and produce, reliable, true, and fair annual reports of companies. However, the degree of adhering to these auditing standards is varied based on individual, organizational, cultural, and traditions perceptive. Thus, the need arise to find the degree to which Iraq in accountant are adhering to the auditing standards and to find to what extent these role can prevent the conduct of taxable income. Therefore, this study is meant to investigate these relationships and produce practical recommendation for decision makers to improve the environment under which the professional accountants work. In this study, the relationships among each component of the auditing standards and taxable income are investigated[5].

Auditing standard has a major influence on the financial situation of the companies [6].Producing misleading reports that mislead the decision of stakeholders can lead to bad decision making of stakeholders. Professional accountant are responsible for preparing the financial reports. The user of financial information, expect professional accountants to be highly competent, reliable, and objective[7]. However, the professional accountants should not only be fully qualified but must also possess a high degree of professional auditing Requirements Relating to an Audit of Financial Statements. Thus, the aditing standards significant because of the main function of accountants is to provide helpful information to users[8].

Auditing standard is the manipulation of financial statements. Therefore, it seems that the purpose of auditing standard is to mask the entity's true financial position and performance. By auditing standard can hide the important information from the users of financial statements. Thus, researcher highlighted the role of auditing standards as a cure for the taxable income[9].

The great majority of the studies conducted on the problem of taxable income concerns large countries with developed capital markets. Furthermore, regulators of accounting profession in Iraq are very strict on the issue of taxable income. Many cases of taxable income have recorded in Iraq[10].

[11] doubted the extent to which the auditing standards can create moral responsibility. He stated that the role only focuses on quality of the service provided by accountants rather than auditing standards. Thus, the principles of the auditing standards need to be examined. 9supported the belief that the effectiveness of the auditing standards of Professional Conduct in constraining taxable income needs to be examined. The problem of the study is that the lack of auditing standards by some practitioners of the accounting profession leads to the lack in taxable income. Therefore, there is a question must be answered regarding the relationship between the taxable income and the auditing standards and to what extend these auditing standards can prevent the accounting from providing misleading information to the stakeholders.

### **1.1 problem statement**

The great majority of the studies conducted on the problem of txable income concerns large countries with developed capital markets. Furthermore, regulators of accounting profession in Iraq are very strict on the issue of taxable income. Many cases of taxable income have recorded in Iraq.

### **1.2 Objective of the study**

The reason for this study is to discover the relationship between auditing standard components and the record of asking gauges of expert bookkeepers. It pointed likewise to discover the relationship between bookkeeping models and assessable salary.

### **1.3 Significance of the study**

The subject of assessable pay has gotten significance because of the current genuine bookkeeping embarrassments that happened in bookkeeping standards(Hanlon, 2003) . Assessable pay is characterized "the measure of wage that is utilized to compute a person's or an organization's salary charge due.

### **1.4 Research hypothesis**

- 1) is there a relationship between ethical requirements and accounting standards of taxable income?
- 2) is there relationship between professional skepticism and accounting standards of taxable income?
- 3) is there relationship between professional judgment and accounting standards of taxable income?
- 4) is the relationship between sufficient and accounting standards of taxable income?

## 1. Literature Review

### 2.1 Taxable income

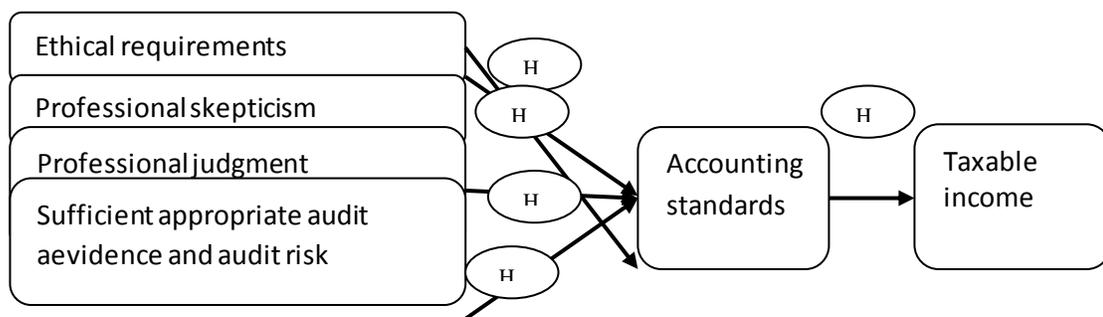
TAXABLE INCOME IS THE MEASURE OF WAGE THAT IS UTILIZED TO ASCERTAIN AN INDIVIDUAL'S OR AN ORGANIZATION'S PAY CHARGE DUE. ASSESSABLE SALARY IS BY AND LARGE DEPICTED AS GROSS PAY OR BALANCED GROSS WAGE LESS ANY FINDINGS, EXCEPTIONS OR DIFFERENT MODIFICATION THAT ARE PASSABLE IN THAT EXPENSE YEAR.

ASSESSABLE PAY IS LIKewise PRODUCED FROM ACKNOWLEDGED RESOURCES THAT HAVE BEEN SOLD OR PROMOTED AMID THE YEAR AND FROM PROFITS AND INTRIGUE SALARY. SALARY FROM THESE SOURCES IS BY AND LARGE EXHAUSTED AT AN ALTERNATE RATE AND ASCERTAINED INDEPENDENTLY BY THE DUTY ELEMENT.

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### 2.2 Accounting standards

A few frameworks permit charge conclusions for certain nonbusiness expenses. Such reasonings might incorporate individual cost things, for example, a home loan interest finding, and change generally by purview. What's more, numerous frameworks just require charges on profit over a salary charge limit, permit reasonings for individual remittances or a base esteemed measure of individual conclusions. The United States Federal framework permits a conclusion for individual exceptions, and in addition a base standard finding in lieu of other individual reasonings. A few states in the United States permit couple of individual derivations(Dye, 1993)Thus, based on the principle of the auditing standards for professional accountants along with the agency theory, the theoretical framework of this study is proposed as in Figure 2.1.



**Figure 2.1: Theoretical Framework**

This framework was developed based on the literature review. The elements of the model were explained and discussed previously. Thus, the next sub-section, the hypotheses of the study is stated.

## 2. Method

This study is quantitative, it focuses on finding the relationship between the auditing standards elements, and the taxable income in Iraq. It is difficult to acquire answers from professional accountant communities in Iraq. Thus, the study relies on the responses of professional accounting in Iraq company.

The population of the study is the accountants at Iraq company. Sample will be chosen randomly. The data will be collected using questionnaire. Data analysis will be conducted using SPSS version 22.0. Descriptive analysis of the demographic information and the variables of the study will be presented. Reliability of the measurement will be checked using Cronbach's Alpha. Lastly, the hypotheses of the study will be tested using Pearson correlation.

## 3. Performance Analysis

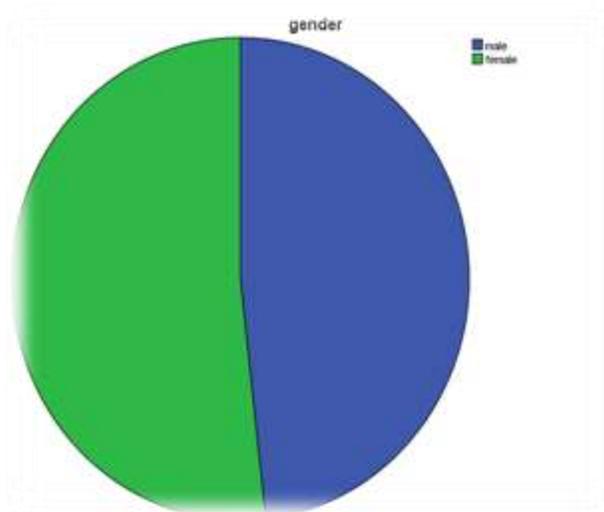
### 4.1.1 Gender of Respondents

Table 4.1 shows the gender of the respondents. The table shows that a total of 82 (48.2%) of the respondents are males and 88 (51.8%) are females.

**Table 4.1: Gender of respondents**

gender		Frequenc y	Percent	Valid Percent	Cumulative Percent
Valid	male	82	48.2	48.2	48.2
	female	88	51.8	51.8	100.0
Total		170	100.0	100.0	

Gender of the respondents is graphically presented in Figure 4.1



**Figure 4. 1: Gender of Respondents**

It can be seen that the percentage of females is higher than the males.

**4.1.2 Age of Respondents**

Table 4.2 depicts the information about the age of the respondents.

**Table 4.2: Age of Respondents**

age		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	21.00	1	.6	.6	.6
	22.00	7	4.1	4.1	4.7
	23.00	3	1.8	1.8	6.5
	24.00	1	.6	.6	7.1
	25.00	2	1.2	1.2	8.2
	26.00	4	2.4	2.4	10.6
	27.00	3	1.8	1.8	12.4
	28.00	4	2.4	2.4	14.7
	29.00	7	4.1	4.1	18.8
	30.00	2	1.2	1.2	20.0
	31.00	1	.6	.6	20.6
	32.00	2	1.2	1.2	21.8
	33.00	16	9.4	9.4	31.2
	34.00	9	5.3	5.3	36.5
	35.00	10	5.9	5.9	42.4
	36.00	4	2.4	2.4	44.7
	37.00	1	.6	.6	45.3
	38.00	2	1.2	1.2	46.5
	39.00	1	.6	.6	47.1
	40.00	2	1.2	1.2	48.2
	41.00	4	2.4	2.4	50.6
	42.00	2	1.2	1.2	51.8
	43.00	7	4.1	4.1	55.9
	44.00	10	5.9	5.9	61.8
	45.00	8	4.7	4.7	66.5
46.00	1	.6	.6	67.1	
47.00	2	1.2	1.2	68.2	
48.00	3	1.8	1.8	70.0	
49.00	1	.6	.6	70.6	
50.00	1	.6	.6	71.2	
51.00	3	1.8	1.8	72.9	
52.00	6	3.5	3.5	76.5	
53.00	8	4.7	4.7	81.2	

	54.00	3	1.8	1.8	82.9
	55.00	5	2.9	2.9	85.9
	56.00	3	1.8	1.8	87.6
	57.00	2	1.2	1.2	88.8
	58.00	1	.6	.6	89.4
	59.00	1	.6	.6	90.0
	60.00	2	1.2	1.2	91.2
	61.00	3	1.8	1.8	92.9
	62.00	4	2.4	2.4	95.3
	63.00	5	2.9	2.9	98.2
	65.00	3	1.8	1.8	100.0
	Total	170	100.0	100.0	

Figure 4.2 shows the age of the respondents in graphical presentation.

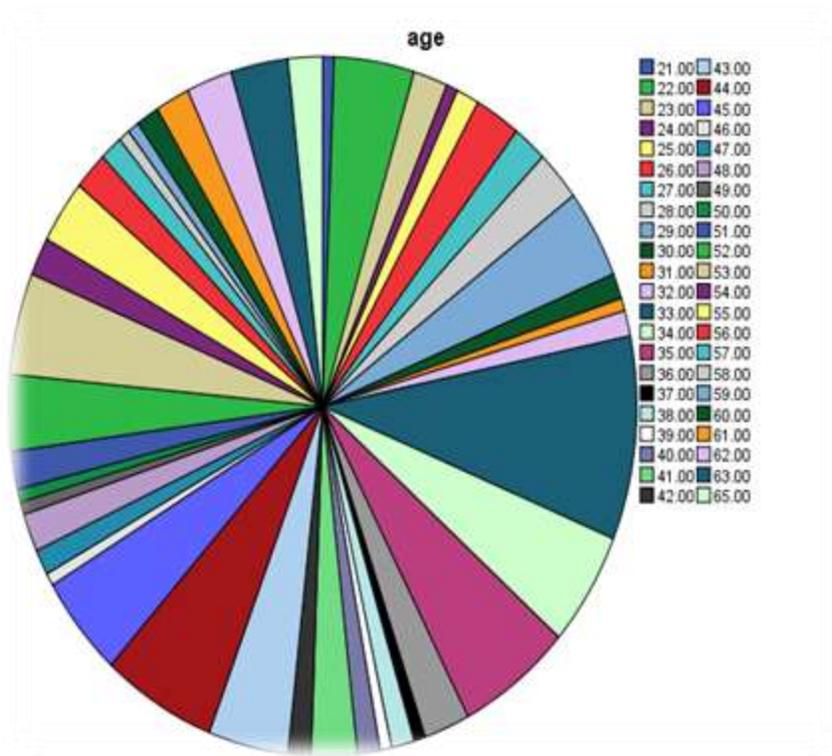


Figure 4. 2: Age of Respondents

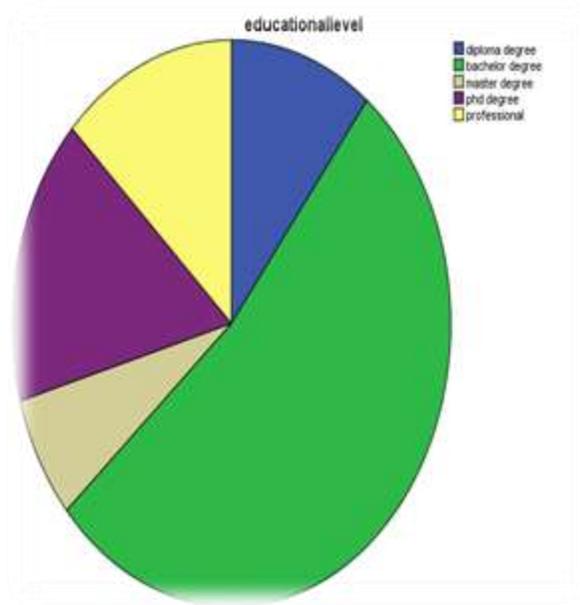
#### 4.1.3 Educational Level

Educational level of the respondents is presented in Table 4.3.

**Table 4.3: Educational Level of the Respondents**

Educational level					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	diploma degree	18	10.6	10.6	10.6
	bachelor degree	90	52.9	52.9	63.5
	master degree	12	7.1	7.1	70.6
	PhD degree	28	16.5	16.5	87.1
	professional	22	12.9	12.9	100.0
	Total	170	100.0	100.0	

Figure 4.3 shows the educational level of the respondents in graphical presentation.



**Figure 4. 3: Educational Level of Respondents**

All the respondents have higher education ranged from bachelor degree to master degree. This could be due to the fact that working as a professional accountant requires the candidate to have at least bachelor degree in accounting and other related fields.

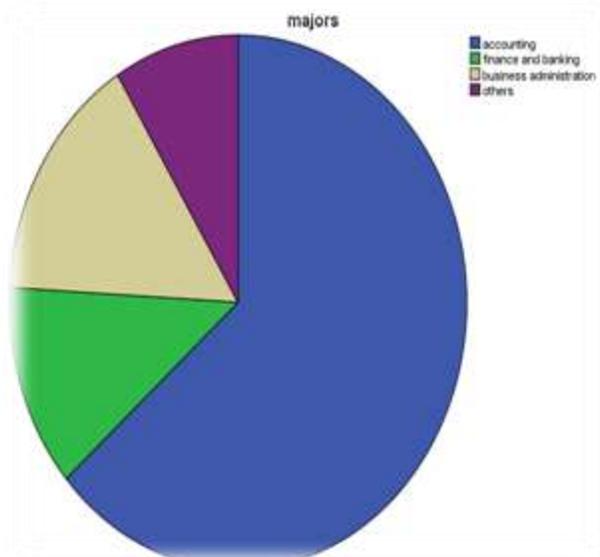
#### 4.1.4 Majors

Majors of the respondents are presented in Table 4.4.

**Table 4.4: Majors of the Respondents**

majors		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	accounting	108	63.5	63.5	63.5
	finance and banking	21	12.4	12.4	75.9
	business administration	26	15.3	15.3	91.2
	others	15	8.8	8.8	100.0
	Total	170	100.0	100.0	

Figure 4.4 shows the majors of the respondents in graphical presentation.



**Figure 4.4: Major of Respondents**

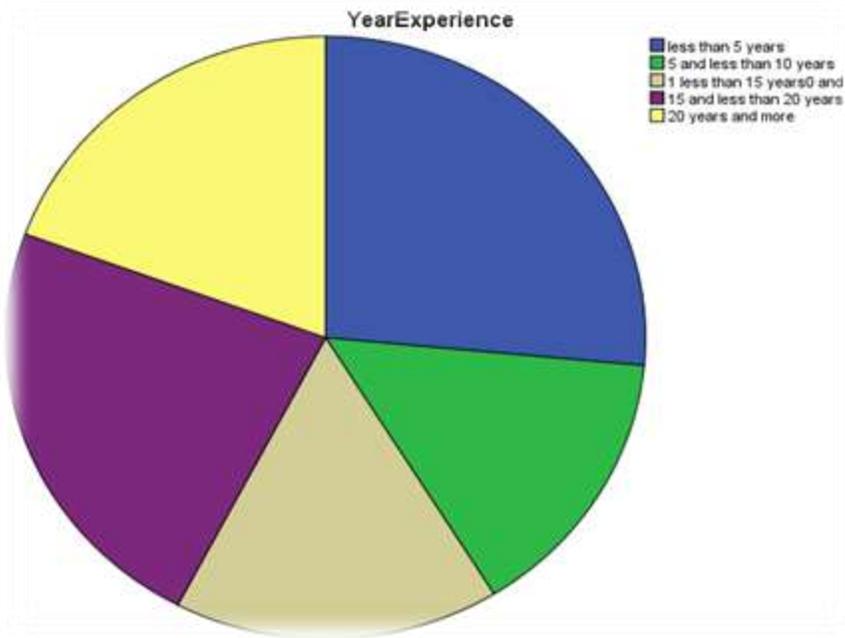
#### 4.1.5 Experience

Experience of the respondents is presented in Table 4.5.

**Table 4.5: Experience of the Respondents**

Year Experience		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	less than 5 years	45	26.5	26.5	26.5
	5 and less than 10 years	25	14.7	14.7	41.2
	1 less than 15 years0 and	28	16.5	16.5	57.6
	15 and less than 20 years	39	22.9	22.9	80.6
	20 years and more	33	19.4	19.4	100.0
	Total	170	100.0	100.0	

Figure 4.5 shows the year of experience of the respondents in graphical presentation.



**Figure 4.5: Experience of Respondents**

**4.2.1 ethical**

The mean score value of the items of the variable integrity is presented in Table 4.7.

**Table 4. 6: Mean Score Value of ethical**

ethical					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	strongly disagree	38	22.4	22.4	22.4
	2.00	17	10.0	10.0	32.4
	3.00	6	3.5	3.5	35.9
	4.00	6	3.5	3.5	39.4
	5.00	25	14.7	14.7	54.1
	6.00	28	16.5	16.5	70.6
	strongly agree	50	29.4	29.4	100.0
	Total	170	100.0	100.0	

**4.2.2 professional skepticism**

The overall mean score value of the variables objectivity is presented in Table 4.8.

**Table 4.7: professional skepticism**

skepticism					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	strongly disagree	38	22.4	22.4	22.4
	2.00	18	10.6	10.6	32.9
	3.00	6	3.5	3.5	36.5
	4.00	8	4.7	4.7	41.2
	5.00	27	15.9	15.9	57.1
	6.00	29	17.1	17.1	74.1
	strongly agree	44	25.9	25.9	100.0
	Total	170	100.0	100.0	

**4.2.3 professional judgment**

The overall mean score value of the variable professional competence is given in Table 4.9.

**Table 4.8: Professional judgment**

judgment					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	strongly disagree	44	25.9	25.9	25.9
	2.00	19	11.2	11.2	37.1
	3.00	7	4.1	4.1	41.2
	4.00	7	4.1	4.1	45.3
	5.00	18	10.6	10.6	55.9
	6.00	33	19.4	19.4	75.3
	strongly agree	42	24.7	24.7	100.0
	Total	170	100.0	100.0	

**4.2.4 Sufficient appropriate audit evidence and audit risk**

The mean score value of the items of the constructs confidentiality is presented in Table 4.10.

**Table 4.9: sufficient appropriate audit evidence and audit risk**

SAAEAR					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	strongly disagree	38	22.4	22.4	22.4
	2.00	18	10.6	10.6	32.9
	3.00	6	3.5	3.5	36.5
	4.00	6	3.5	3.5	40.0
	5.00	29	17.1	17.1	57.1
	6.00	39	22.9	22.9	80.0
	strongly agree	34	20.0	20.0	100.0
	Total	170	100.0	100.0	

**4.2.6 Accounting standards**

The overall mean score value of behavioral intention is given in Table 4.12.

**Table 4.10: Accounting standards**

Accounting standards					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	strongly disagree	40	23.5	23.5	23.5
	2.00	24	14.1	14.1	37.6
	3.00	11	6.5	6.5	44.1
	4.00	7	4.1	4.1	48.2
	5.00	18	10.6	10.6	58.8
	6.00	27	15.9	15.9	74.7
	strongly agree	43	25.3	25.3	100.0
	Total	170	100.0	100.0	

**4.2.7 Taxable income**

The mean score value of the items of the constructs creative accounting is presented in table 4.13.

**Table 4. 11: taxable income**

TaxableIncome 1					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	strongly disagree	42	24.7	24.9	24.9
	2.00	19	11.2	11.2	36.1
	3.00	10	5.9	5.9	42.0
	4.00	6	3.5	3.6	45.6
	5.00	20	11.8	11.8	57.4
	6.00	32	18.8	18.9	76.3
	strongly agree	40	23.5	23.7	100.0
	Total	169	99.4	100.0	
Missing	System	1	.6		
Total		170	100.0		

TaxableIncome2					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	strongly disagree	45	26.5	26.8	26.8
	2.00	22	12.9	13.1	39.9
	3.00	6	3.5	3.6	43.5
	4.00	8	4.7	4.8	48.2
	5.00	23	13.5	13.7	61.9
	6.00	28	16.5	16.7	78.6
	strongly agree	36	21.2	21.4	100.0
	Total	168	98.8	100.0	
Missing	System	2	1.2		
Total		170	100.0		

#### 4. Numerical Results

The research model of this study consists of five independent variables and one dependent variables and the relationship between the variables is linear relationship. Therefore, five hypotheses were developed for this research.

For the first hypothesis, the study proposed a positive relationship between ethical and accounting standards. The statement of the hypothesis is “there is a relationship between ethical and accounting standards” The relationship between ethical and accounting standard is significant and it is positive ( $\beta = .13$ ,  $P = .0012$ ). Thus, H1 is accepted because the p-value is less than 0.05.

For the second hypothesis which is related to the positive relationship between professional skepticism and accounting standards “ H2: there is a relationship between professional skepticism and accounting standards of taxable income”. The relationship is positive and significant ( $\beta = .26$ ,  $P = .022$ ) because the p-value of the relationship is less than 0.04. Thus, H2 is supported. Third hypothesis of this research assumed that the relationship between professional judgment, and accounting standards is positive and significant “ H3: there is a relationship between taxable income, and accounting standards” The relationship is positive and significant ( $\beta = .14$ ,  $P = .0003$ ) because the p-value of the relationship is less than 0.03. Thus, H3 is supported. The fourth hypothesis of this research proposed a positive and significant relationship between sufficient appropriate and accounting standards “H4: there is a relationship between sufficient appropriate and accounting standards of professional accountant” The relationship is positive and significant ( $\beta = .12$ ,  $P = .000$ ) because the p-value of the relationship is less than 0.04. Thus, H4 is supported. For the fifth hypothesis of this research, it was predicted that the relationship between accounting standards and auditing standards to be positive “H5: there is a relationship between accounting standards and auditing standards of professional accountant”. The relationship is positive and significant ( $\beta = .51$ ,  $P = .0015$ ) because the p-value of the relationship is less than 0.04. Thus, H5 is supported. Last hypothesis predicted the relationship between accounting standards and taxable income to be negative. i.e. the increase in behavioral intention will reduce the taxable income “ H6: There is a relationship between accounting standards of professional accountant and taxable income”. The findings indicated that the hypothesis is significant ( $\beta = -.66$ ,

P=.000). This is because the P-value is less than 0.04. Thus, the hypothesis was supported.

### **Conflict of Interests.**

**There are non-conflicts of interest**

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## الخلاصة

الدخل الخاضع للضريبة غير آمن للمنظمة ، وكذلك بالنسبة للمجتمع ككل. تكشف هذه الدراسة أنه لا بد من النظر في تأثير مجموعة المبادئ القياسية للتدقيق. لقد تم الإشارة إلى مجموعة من مبادئ توييب الحسابات في الحد من تأثير الدخل الخاضع للضريبة. وألهدف في هذه الدراسة هو اكتشاف العلاقة بين مكونات التدقيق القياسية وكيفية التعامل مع مقاييس حسابات الخبراء . وتمت أإشاره كذلك إلى اكتشاف العلاقة بين نماذج مسك الدفاتر والرواتب القابلة للتقييم. وبالمثل ، تم إنشاء هيكل المتطلبات الأساسية ، والشكوك المهنية ، والحكم المهني ، وكفاية ، أدلة المراجعة المناسبة ومراجعة الحسابات. كانت المتغيرات لهذه الدراسة. كانت المعايير المحاسبية وأجر الدخل الخاضع للضريبة هي المتغيرات المعتمدة. تم جمع المعلومات حول الدراسة من 170 من محاسبين محترفين . تم إجراء فحص المعلومات باستخدام برنامج التحليل الاحصائي وتم إجراء العد التحليلات الاحصائية قد أثبتت الاكتشافات أن المؤشرات الأكثر إلحاحًا للمعايير المحاسبية هي المراجعة المهنية التي تمت بعد المتطلبات الأخلاقية ، والشكوك المهنية ، والحكم المهني ، ودليل التدقيق المناسب الكافي ومخاطر التدقيق. المعايير المحاسبية لها تأثير سلبي استثنائي على الدخل الخاضع للضريبة. قدمت الدراسة اقتراحًا افتراضيًا وقياسيًا للقادة والمتخصصين.

الكلمات الدالة: ممارسات التدقيق ، معايير المحاسبة ، الدخل الخاضع للضريبة