



**Alexander Technological Educational Institute of Thessaloniki  
SCHOOL OF MANAGEMENT & ECONOMY  
SECTION OF ACCOUNTING & FINANCIAL**

## **A LINGUISTIC APPROACH IN AUDITING**



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Devoted to my family,  
Who have supported me throughout my student years  
and writing the dissertation.

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# **Chapter 1**

## **Purpose and Necessity of Thesis**

### **1.1 Introduction**

The unstable economic conditions, the increase in economic crimes, complicated legal procedures and generally rapid developments at local, regional and global level is the fact that concerns the governments of states.

The solution for each government might come from performing management through new methods and by using new methods and techniques. As a result, effective inspection of the enterprises appears to be a significant part on the financial state policy.

Inspection is actually the evaluation and audit investigation of the functions and activities that need to be under control. By "control" we mean the assessment and audit investigation of all functions and activities (where there's audit interest). Control is distinguished for its modern thinking and perception and the general administrative spirit.

Generally it can be accepted that all these facts characterize the modern business and increase the challenges. As a result the success or failure of financial executive teams seems to be dependent on the effective control of financial institutions.

## **Chapter 2**

### **Introduction to Auditing**

#### **2.1 Introduction**

In this chapter:

- The conceptual framework of the auditing is being analyzed.
- The objectives of the audit are identified.
- Auditing issues are mentioned.
- Discrimination and the most important sectors of the audit are presented.
- A methodology of the audit process is presented.

#### **2.2 The Concept of Audit**

Auditing is one of the most important sectors of Accounting. Audit is the part of economics that deals with general rules, terms and conditions for inspection on any foreign financial asset management (Rogdakis, 2004).

According to Dimou (2000) auditing defines the summary of principles whose aim is to systematically identify the sort, scope and the way to perform the control on operations and particularly on management operations and the relevant bodies of economic entities so as to prevent errors or abuses and verify the correctness, legality and their feasibility.

The Audit as philosophy does not care:

- for the legal status of the units which it controls, ie, whether a private or public nature,

- the object of the holding,
- Or the profitable or not their character is.

However, as **an independent sector of the economic - administrative and business holdings**, audit is at the same time:

- Science, because through investigating continuously provide new knowledge,
- Technique, because along with the scientific knowledge generated meets the control requirements and carry out its mission.

As science, audit discusses the formulation of principles and rules which connect to financial audits. These checks are aimed to verify the veracity of the claims and assertions of others. These claims generally relate to economic issues (Papastathis, 2003).

As a technique audit builds on new knowledge produced by discipline, to satisfy practical control purposes, namely, to establish standards and control procedures to ensure the best possible result. The technique looks for the relationship between the specific purpose (eg verification of the reliability of financial statements) and medium (eg audit process) leading to the attainment of that objective.

### 2.3 Objectives of the Audit

Audit through investigation and evaluation function is accepted and applied in each business unit, organization and society. Also offers quality assurance of the financial information. This financial information contributes to a more rational investment and exploitation of resources of a society.

Generally, audit is constantly evolving and trying to acquire its own entity - identity, approaching weaknesses in internal control systems, using scientific methods, indicating at the same time realistic solutions (Karagiorgos, 2006).

The objectives of the audit are listed below:

- Ensuring the proper management,
- The attainment of the objectives of the bodies and organizations of administrations,
- Ensuring the shareholders and
- The general "social cohesion" of the business.

Additionally according to the Leonard (2000) the audit **detects possible shortcomings, and thus identifies aspects that have the potential of spreading the future, thereby reducing costs and eliminating wastage**. The audit confirmed if the business unit operates at the desired efficiency.

Some main objectives of the audit are going to be analyzed (Tsaklagkanos, 2004):

- Prevention of intentional or unintentional accounting error, fraud (screening).
- Disclosure and suppression of involuntary or voluntary error, fraud (ex post control).
- The certification of the accuracy and truth of the financial statements (confirmatory test).
- Evaluation of the financial statements, whose data are interesting because they show the progress and trends in the business (turnover, cost estimates).

## 2.4 Issues examined in Audit

Three key issues are examined by auditing (Rogdakis, 2004):

- The object of control. What is controlled, why control is necessary, ("Control" comes from the Anglo-Saxon term "Auditing" or the French word "Audit", which both mean hear) and which objectives are pursued through the control. Concerned about the audit are the administrators of the company as shareholders, creditors and traders with this.
- The subject of the inspection. Regards the controller, ie who have undertaken to carry out supervision, which requirements and qualifications of these people are necessary so that they can perform their control duties.
- The audit procedures. These include the way and the scientific techniques and methods that are going to be used each time for the verification so as to produce audit scholarly work.

## 2.5 Distinction of the Audit

The concept of the audit as to the subject of control, ie the person who performs the audit, is divided into the following categories (Astritis, 2000):

- External, independent audit. The external or independent audit is the one carried out by professionals and students, especially accountants - auditors, reported as auditors or accountants. The audit place mostly on the accounting system of a unit. Today, the check includes specific issues of organizational systems, which can indirectly affect the efficiency of the accounting system, and the entity in general (Grigorakos, 1985).
- Internal audit. The internal control is defined by the European Institute of Internal Auditors (IIA, 1991, Taylor and Glezen, 1991, Konrath, 1996) as "*an independent process that operates within the organization to examine and evaluate the processes by providing outstanding service.*" It is also a necessary feature of modern management; a counselor at all hierarchical levels. ([Http://www.hiia.gr/](http://www.hiia.gr/)). Besides, the internal audit aims to evaluate operating procedures and provide information to management. In relation to the above, internal control improves the functions of the body so as to effectively manage business risks (Karagiorgos et al., 2006, Karagiorgos et al, 2007).
- State Audit. State control includes all the checks carried out by the various government and semi-government bodies. The most important controls are the tax audit relating to the recovery of the taxable income subject to taxation of legal and natural persons, control of the Bank of Greece relating to monetary and credit issues and control by the Court of the State concerning the accounts in the public sector (Kantzou, 1995).

On the other hand, control depends on the objective purpose and can be divided into two general categories (Terzakis 2001):

- In Audit of Financial Statement.
- In Audit of Financial Management.

## 2.6 Sectors of Audit

In relation to the separation of audit into distinct categories, as sectors of the audit can be considered the following:

- Private auditing, which deals with the control of private companies.
- The public audit, which deals with the control of Legal Entities Public Law and Public Administration (Pappas, 1999).



## **2.7 Methodology of the Audit**

The following subsections describe:

- The supervisory authorities,
- Auditing standards and
- The control procedures.

Parts which constitute the methodology of the audit process.

### **2.7.1 Auditing Principles**

These principles (Kantzou, 1995) consist of the basic concepts relating to:

- Necessity of control.
- Audit objectives.
- The purposes of the audit.

### **2.7.2 Auditing Standards**

The auditing standards (standards) describe the institutional framework of control and define the criteria that should be met for the perfection of control and disclosure. So, according to the international literature auditing standards can be classified into the following categories (Mpallas, 2004):

- **General Principles (General Standards).** During the general principles, the audit procedures need to be applied with professional competence and by appropriately trained persons.
- **Implementation of Labour principles (Standards of Fieldwork).** According to these principles, adequate planning assignment and supervision, proper study and evaluation of internal control are required. Also sufficient and appropriate proof of the work material needs to be gathered by monitoring, survey, inspection and observation.
- **Principles relating to the audit Reports (Standards of Reporting).** According to these principles, the audit reports should include a statement that the financial statements have been prepared in accordance with generally accepted accounting principles. It is considered necessary that an opinion must be expressed on the financial statements as to their total.

### **2.7.3 Auditing Procedures**

The sector of the audit has established certain audit procedures as have arisen from large companies in Europe and America. These procedures have defined and shaped the European and American standards and thus established themselves in international bibliographies as "International Opportunities". Until nowadays, these audit inspections of financial statements are made according to the procedures established internationally (Flitouris, 2007).

## **Chapter 3**

### **Conceptual Control Box**

#### **3.1 Introduction**

In this chapter the conceptual framework of the audit is being analyzed. History of control is presented as well, since, as we will see below, the application of control began many centuries ago. The legal framework of control in force to this day. Finally, to illustrate the terms, analysis of categories and control discrimination is detailed.

#### **3.2 Control Approaches**

An initial audit concept approach is defined as a rating system used to express an objective judgment, in accordance with these principles, on the effectiveness of the company's actions in relation to the objectives it has set.

According to a second approach, control is defined by other authors as the systematic and established procedure based on research of financial statements and processes of an enterprise.

#### **3.3 Historical Background Control**

Control has been developed in recent years, although the need occurred many years earlier. Everything was connected with accounting operations at all seasons of history. From historical data found, the check was introduced to the exchange of goods between people in prehistoric times. At that time, the need for depicting the requirements and obligations established by the exchange of goods and the reliability of the data in these transactions necessitated the appearance of the first accounting and simultaneously pointed out the need of control between the transacting primitive societies.

The necessity of reviewing the daily financial transactions of transparency in the management of public money seems to have led to initial establishment of control. Relevant written evidence for the existence of commercial laws and accounting was reported in 3000 BC by the "Ninevites" of ancient Babylon. In ancient Egypt, the Pharaoh mainly taxed the harvests of grain, and for this reason the office of 'Science' on cereals was established. In ancient Athens, around 300 BC, the conference of "Accountants" was created as an institution for the business of finances for the city - state. There were "The responsables", who cooperated with accountants so as to control management accounts of the lords who had withdrawn from public office. As well, they controlled public loans given by the bankers to cities without interest (Flitouris, 2007).

In the rest ancient Greece we find the "examiners", the "defenders", who were responsible for a wide variety of control functions. Later in ancient Rome, the "Hypatia", the "censor", the "honorary", the "tellers" who were required to report to the Congress for administration public finance issues (Kazantzis, 2006).

In the late Middle Ages, Italy marked the rebirth of Accounting and the city of Pisa had officially a controller. Around the same time the English Treasury kept tax lists in triplicate for comparison. In 1581 the first official "Union of Professional Auditors" was created in Venice" (Tsaklagkanos, 1997).

In France of the 17th century, audit systems were applied methodically. Further the Court was founded and the verification of accounts was entrusted to eminent mathematician Bareme.

The financial crises of the years 1825 and 1836, the development of handicrafts and industry contributed to the proliferation and systematization of audits in Great Britain; so that the hometown of modern Audit considered England (Dimou, 2000).

### **3.4 Legislative Control Box**

In Greece, the first essential step for the introduction of external control, was Law no. 5076/1931 relevant to Limited Companies and Banks, where the creation of "Certified Public Accountants" was envisaged. But, despite this legislation, the institution did not worked (Kazantzis, 2006).

By law 2190/1931 about Societe Anonyme (SA) the balance sheet controls occurred by two regular and two alternate auditors who were elected by the General Meeting of Shareholders of the Societe Anonyme. This institution does not offer anything precisely, although the auditors had rights, which were not used because they were appointed by the same controlled company (usually a board proposal) and were indirectly paid employees who were depended by the controlled entity. The result was the "custom" written and signed audit report, which besides its formal meeting, the legal requirements had no real power.

Despite the efforts and legislation, the institution of the controller did not work effectively in Greece until the Second World War. In 1948, following a foreign demand, a contract signed between the Greek Government and the US Administration Economic Cooperation, which invited British accountants, who were receiving their compensation from the resources of the Marshall Plan (Papadatou, 2005).

In Greece the first major effort to create auditing profession was organized in 1956 with the creation of Certified Public Accountants, with the support of the British accountants and under the indirect control of the state (Tsaklagkanos, 1997).

### **3.5 Form Controls**

According to Chrysochou Professor (1951), the form of the checks depends on three factors:

- **Who is the person concerned.** Stakeholders can be classified into the following categories: capital financiers, creditors of all kinds and public services.
- **What is the purpose of business activity.** Companies depending on the subject are divided into commercial, industrial firms and credit institutions and various other organizations.
- **Which is the legal form of the business.** The legal form influences the conditions and the conduct of the audit. So these are divided into individual, partnerships, in limited liability companies, corporations, and cooperatives (Athianos et al., 2005).

### **3.6 Awards - Categories of Control**

The importance of control cannot be understood if we do not fully define the notion. For clarification purposes of concepts and through extensive literature review of Greek and international bibliography, below the distinction of controls is listed.

### 3.6.1 Internal, external, mixed checks

Depending on the person performing the audit and the employment relationship with the controlled entity, checks are divided into internal, external and mixed.

- **Internal** checks, are those organized by the same body and carried out by specially trained executives, internal auditors, who are employees of the company (Cheung, 1997). The IAS aims to assess the operational efficiency of the internal control system and improvements proposal, which found weaknesses (Financial Postman, 2004).
- **External**, the controls performed by external auditors who have no employment relationship with the employees property entity, which are invited to check at the invitation of its shareholders.
- **Mixed checks**, organized and coordinated by the Internal Audit Department and conducted in cooperation with the external auditors.

### 3.6.2 Specific and general controls

Depending on their extent, controls are divided into **specific and general**.

- **Specific** are those who are exploring a specific field or object, such as commissions, collections, payments, loan assignment, sales, production, inventory management, customer precariousness, quality assurance procedures, receiving projects and a number of the organization's activities.
- **General**, are those extending across the management of a given period. One such type of control is to control the use of end balance carried out by the external auditors.

### 3.6.3 Preventive and Suppressive controls

Depending on their purpose controls are divided into preventive and suppressive.

- **Preventive (ex-ante)**, the controls designed to prevent the risk and are carried out by the same parts of services. This is the familiar "Control", that the final approval is given by the head of the department.
- **Suppressive (ex-post)**, the controls carried out solely by the internal auditors in retrospect. They aim to determine implementation procedures and confirmation so as the objectives were achieved with full in an effective and efficient manner. Further, suppressive inspections are aimed at revealing and suppressing of errors and omissions, corruption, theft and mismanagement of funds and resources.

### 3.6.4 Permanent, regular and special inspections

Depending on their length, checks are divided into permanent, regular and temporary (Papastathis, 2003):

- **Officials or Permanent**, are checks carried out on an ongoing basis and take place during the execution of the financial exchange, transaction and production operation. In other words, these are the preventive controls mentioned above, carried out by the same departments, and their superiors.
- **Regular or Periodic**, the controls carried out at regular time periods such as for example once a month into the semester or during the year. They are carried out solely by the internal auditors.
- **Temporary or occasional**, controls carried out in exceptional cases at the initiative of the Internal Audit Department or by order of the administration or on specific complaints.

### **3.6.5 Vertical and Horizontal Control**

The Recursive or Vertical control is the method followed in the conduct of an audit; in the audit process the following series are investigated (Flitouris, 2007):

- The profit and loss account.
- The Balance Sheet.
- The General Exploitation.
- The Final Balance General Ledger.
- The months Balances.
- The Analytical Catholics Balances.
- The General Ledger.
- The General Cumulative Calendar.
- The detailed ledger.
- The Details Calendars.
- The Documents.

The controller starts with the adjusted balance of accounts or the balance sheet of the controlled unit. Confirms the relative sizes in the balance sheet, following a reverse path from that followed for the occurrence of these aggregates in the financial statements. Then, ends up in the initial documents and controls subsequent acts. Finally, communicates with third parties outside the auditee for more objective documentation of transactions and relationships, especially when such documents are issued by the controlled undertaking and there are, thus, strong evidence.

There is a point of retroactive control and more specifically the point that the controller has reached the calendar containing all autonomous acts, economic importance, which are accounted for and have passed the system. At this point, therefore the auditor should decide whether to insist on the search for all those individual transactions - records or select the check sample, which is the most required way, because of the prohibitive cost of the audit of all transactions except the fact that the internal control system has been deemed unreliable and the control will be extended accordingly (Kantzou & Chondraki, 2006).

The horizontal control follows a completely opposite direction. During the audit process the following issues are explored (Flitouris, 2007):

- The Documents of the company.
- The Details Calendars.
- The detailed ledger.
- The General Cumulative Calendar.
- The General Ledger.
- The Analytical Balances Catholics.
- The months Balances.
- The Final Balance General Ledger.
- The General Exploitation.
- The balance sheet.
- The profit and loss account.

The controller, selecting a sample that represents all the documents or acts, starts from the file of the original documents, which constitutes objective evidence. But in order to have a more comprehensive view, he should look for the most reliable evidence confirming the figures shown in the financial statements. By checking if the entries

have recorded in detailed diaries and respective accounts of analytical Catholics, then the balance and ending balance sheets (Kantzou & Chondraki, 2006).

### **3.6.6 Systematic and non-systematic checks**

Systematic control includes:

- Preliminary design review,
- Other audit inspection designs that may be held therebetween,
- Continuous contact with the administration and
- The active interest in the company being audited.

Thus, a systematic check should follow, in the main work, the following steps:

- Preliminary contact and updating;
- Inception with the study and evaluation of internal control system,
- Interim operations,
- Operations after the closing of the books,
- Preparing the audit certificate and the special report to the administration.

The non-systematic control resorts in qualitative methods of identification and analysis of the test unit, in improvised control of short and concise audit procedures, using methods such as ratios, related and comparable other object modules or the sector in which the controlled unit belongs (Kantzou & Chondraki, 2006).

### **3.6.7 Various types of control**

Grouping controls is based on the data that each control highlights. In relation to this, we can distinct controls as:

- Auditing.
- Operational (functional) control.
- Performance Test.
- Checking compliance.
- Specific controls.

Financial control is the control that determines the correct presentation in the financial statements of financial figures relating to the financial position and results of activity of economic entities. This control initially controls the reliability and efficiency of the accounting system of the company being audited in the measurement and presentation of financial figures and results.

The functional test seeks to assess whether a function, fragmentary or total, runs under some scientific criteria and principles of the industry, but also according to general operational and administrative authorities (regulations, procedures, manuals, etc. information controls).

The profitability test concerns more internal auditors, and cares about whether a function or process has positive effects on the unit.

Compliance testing is designed to determine the compliance with certain conditions agreed. For example compliance with the terms of loan contracts, contracts of cooperation or use of patent rights, grants etc.

There is also the specific check which is not included in any of the above categories, provided that the controller has the ability to handle it.

Judicial review of Article 634 of Civil Procedure Code is also a part of control list and it is mandatory entrusted on statutory auditors of the company. If the company is not under control by auditors, control is entrusted to public officials or employees of the Greek banks, National Rural or who have the appropriate expertise and skills to control and appointed in accordance with the law (Kantzou, 1995).

At this point we need to stress that many authors and researchers consider this distinction as discriminatory internal controls and not the audit. However for the purposes of the thesis and to present all aspects, we present both views.

### **3.6.8 Control Management and Environmental Monitoring**

At this point, we have to refer to another type of control, **management control**. The nature of this control comes from the evolution of the concept of control over time and includes the idea of **the ability to identify the purposes of the company and to measure achievements**. It also poses the problem of how best to exploit the sources used. Not directly verifies the results of the business but the processes, the used methods to reach these results. The most important feature is that management control focuses at the achievements of the company in relation to its surroundings. In relation to the second control level (ie verification – Evaluation), management control can be defined as follows: "*The assessment and judgement of the company's achievements, short and long term, in connection with the (internal and external environment) and how to exploit the used sources*"(Papadatou, 2005).

An interesting extension of the control of management is the control of the natural environment that is:

- The ascertainment, in the first place, and
- evaluating the impact of the operations of the business on the natural environment.

Initially, the environmental control faced many problems of demarcation and definition, since linked with several objects (International Chamber of Commerce, 1991; International Auditing Practice Audit Committee, 1995). However, as environmental audit can be considered the control of the undertakings concerning issues related to the environment and the business entity (Hillary 1998, Karagiorgos et al., 2008).

### **3.6.9 Self-examination**

Self-examination is a form of control that implements a business, at various times, so as to:

- Assess the economic situation.
- Prove the effectiveness of business plans and
- the organizational functionality.

During the self-test, the present situation, the objectives which have been achieved, the differences between them and, in the end, the existing programs and the need for any revisions are assessed.

Finally the self-test evaluates the overall performance of the business but not only in relation to existing and future targets (Dimou, 2000).

## Chapter 4

### Tax Audit

#### 4.1 Introduction

The following section analyzes the tax audit, which is necessary because it helps to increase government revenue, at a fair distribution of the tax burden and accelerating economic growth. It should also be noted that the tax audit is targeted and not the same as the internal control of enterprises.

Below, the tax audit discrimination, the purpose of the services engaged in the issues related to tax audit are going to be presented extensively.

#### 4.2 Definition - Purpose of Tax Audit

The importance of the tax audit is important because the accurate determination of net income and the more equitable distribution of the tax burden depend largely on the effectiveness of it.

By saying tax control we mean all the audit procedures and verifications carried out by the appropriate bodies (auditors) and applied to holdings in accounts of the enterprises in order (Dalamagas, 1985):

- to verify the proper application of the tax legislation.
- the ascertainment of submitting the projected statements and verification of their content, always in relation to trading activity and financial results, as they result from planned and kept books and records in accordance with the provisions of Tax codification for fiscal elements and other tax files and accounting principles (Greek general accounting plan).
- The determination of tax liabilities and financial results.

#### 4.3 Services Practicing Tax Control

Services that carry out Fiscal Control are designed to limit tax evasion, which has significantly increased thereby reducing the state revenues. For this reason they have taken drastic measures, among which is the control of all and more companies so as to eliminate tax evasion.

The tax audit has been formed according to Decision No. 1085068/12-9-2007 of the Ministry of Finance. Below, the services exercising fiscal control are shown ([www.pcci.gr](http://www.pcci.gr)):

The services that principally carry out tax audit are:

- **Competent Tax Office**, which is acting regular inspections on undertakings or occupations with gross income or wages up to € 1.027.145 (excluding technical project consortium) also preventive and temporary control and end control of transfer of shares or shareholders.
- **Interregional Auditing Centers**
  - a. **in Thessaloniki** competence in Macedonia, Thrace, Thessaly and Lemnos.
  - b. **in Athens** competence in other areas of the country.
- **Regional Audit Centres** are acting regular tax audit in general traders and taxpayers with annual gross income from 1.027.146 € to 8.804.107 €. Still they have the right to carry out preventive and temporary control in any case within jurisdiction place in



parallel and independently from the Tax Office and SCS and carry out retesting of the tax office jurisdiction cases.

Apart from the above mentioned services, the tax control is carried out by the following services:

- Special Control Service (SCS)
- Economic Inspectors
- Auditing SA
  - a. Certified Auditors.
  - b. Controllers, Higher Education graduates.
- Certified Appraisers.
- Internal Audit of credit institutions.
- Tax accountant.

## **4.4 Discrimination Tax Audit**

### **4.4.1 General**

The tax audit depending on its frequency, is divided into the following forms:

- Preventive Control.
- Temporary Control.
- Regular control - Mandatory Tactical Control.
- Special Control.

### **4.4.2 Preventive Control**

Preventive Control is carried out to identify infringements, and by the sudden presence of the auditors to the company, is aiming to create a sensation to the taxpayers that there is continuous and effective control (so as to deter the commission of tax offenses). Yet it must be short and effective. This check can be made in any books or information or documents other than those held mandatory ([www.pavlosnet.gr](http://www.pavlosnet.gr)).

Screening is done proactively during the business year and relates to the control:

- Outside the company, in the movement of goods has so as to establish the movement with the estimated data.
- Within the enterprise in order to verify the correct application of the provisions of Tax codification for fiscal elements and other tax files.

### **4.4.3 Temporary Control**

Is the control involving preventive and regular controls and facilitate the issuance of interim control leaves.

In the provisional control of taxes owed by companies under the record books and data they failed to take into account the statements or submitted false declarations.

In this control underlie enterprises (Koromilas & Gianopoulos, 2006) who:

- do not submit declarations, or
- submit negative statements, or
- there are evasion information, or
- incorrectly apply tax provisions.

#### **4.4.4 Regular Checking**

Regular Checking is conducted in accordance with the provisions of Article 66 of Law. 2238/1994 and it has to be thorough and complete. In regular testing, the taxable matter is defined, with documented findings from both the data of the books and records and other data and information.

The summary of businesses necessarily has to be controlled for tax objects within three (3) years from the closing date of the tax period when:

- involved in cases of making or issuing false or fictitious information or distorting tax information or smuggling case.
- permanently interrupt their work.

Also mandatory regular testing is done in enterprises that have applied for listing their shares on the Stock Exchange and companies which have applied for a refund of VAT and verify that there have been substantial breaches of CBR.

Finally, the mandatory regular checks are carried out following a written order of the competent tax office head or other body (Koromilas & Giannopoulos, 2006).

#### **4.4.5 Special Control**

Depending on the object, tax audit distinguishes in the following categories (Flitouris, 2007):

- Control Code of Books and Records.
- Income Tax Control.
- Value Added Tax Control.
- Tax Audit Payroll Control.
- Investment Control and Development Incentives.
- Other Withholding Taxes.

Beside the above controls, temporary seasonal audits may be referred below ([www.yppe.gr](http://www.yppe.gr)):

- Christmas.
- Easter.
- Daylight, seasonal touristic period.
- Illegal trade.
- Fluctuation of prices and profit rates.

#### **4.5 Auditing Process**

After the auditor is allowed to inspect the enterprise, he prepares an audit process diagram, which should include the preparatory actions and the subsequent audit actions fiscal control, aiming at better and faster fulfillment of its mission and the reduction of the chances of the creation omissions and gaps.

But in practice, because of the difficulties and unexpected that may present, it is probable the chart drawn up, to differentiate and to change in the order of control measures, at the discretion of the controller, depending on the needs and the specific nature of the business.

The fact is that until now, rarely, process chart audit is drawn up by the national tax auditors, but most auditors prefer improvisations and act against the displayed needs and the allotted time. (Skordos, 1992).

#### **4.5.1 Preparatory Actions Tax Audit**

The preliminary tax audit activities are separated on:

- Preparatory actions in office.
- Preparatory actions in business.

Then, the preparations in the office can be distinguished:

- The receipt and study of the income tax file of the controlled undertaking.
- On receipt of the relevant departments of the statements of various tax items of controlled use, they submitted to the Tax Office.
- On receipt of non-governmental organisations data from the CCBR department were there are summary invoices, submitting statements and related offenses.
- The gathering of information materials, useful for checking on the tax history of the company, as well as specific points thereof.

Preparatory activities in business are distinguished in:

- Making the first contact, in which the auditor is meeting the enterprise.
- The information about the books kept and the accounting system of the undertaking.
- Monitoring of the controlled undertaking work so as to gain a full picture and clear understanding of how it works.

#### **4.5.2 Successive Investigative Actions Tax Audit**

The audit process successive actions that must be taken by each controller to complete the tax audit depend on:

- The type of the controlled undertaking, its legal form, size, category of the record books.
- The suspicion of the controller of the existence of escape or commit error in tax matter (Skordos, 1992).

### **4.6 Exposure Control Training**

The tax audit report is a public document of great importance, drawn up by the controller after the end of the tax audit and underpins the tax registration and therefore must be complete, clear and reasoned.

The display of the data in the audit report should be carefully edited, that the conclusions of the audit are convincing and fairly, without imperfections. In preparing the audit report, significant obstacles are presented, due to the variety of issues that are addressed and so the controller must have the ability to draw clear conclusions of his research.

Furthermore, during the inspection, the auditor gathers the information of the checking unit, which he analyzes and processes, so as preparations for the drafting of the audit report can contribute in parallel to conducting the tax control. It is probable and may be considered necessary that the analysis and processing of the report may conclude other data that require additional audit procedures for the completion of the audit.

## **4.7 Tax auditors**

Tax auditors are the ones that perform primarily the tax administrative procedure by which the taxpayer is checked if he completed the legal tax obligations. Tax auditors must possess special knowledge not only of the audit, financial, accounting, commercial and civil law but fully floating around the current tax regime.

Tax auditors are civil servants and carry out tax audits which aim at establishing:

- Of the tax base
- Of the tax liabilities of taxpayers.

The tax auditor in carrying out the tax audit has the following rights:

- To check each working day, the books and records, which are imposed by CCBR, like books kept optional.
- To check the balance in the cash book, inventory, raw materials and goods, and other business assets.
- To make the attachment of unofficial books, documents and any other information that is suspected of concealing the tax base.

It should be noted that the tax audit report is a public document of great importance, drawn up by the controller after the end of the tax audit and so it must be complete, clear and reasoned. The results must be conclusive and unimpeachable (Kazantzi, 2006).

But beyond the rights which the tax auditor has, there are also liabilities which are listed below (Pappas, 1999):

- Control, always, has to be conducted in accordance with auditing standards.
- To evaluate the effectiveness of accounting systems.
- To perform tasks in accordance with those defined by law.

## **4.8 Rights and Obligations of Taxpayers During Fiscal Control**

### **4.8.1 Taxpayers Rights**

The taxpayer under control has the following rights (Tax audits Manual - <http://www.taxad.gr/>):

- To be notified of the order for inspection, a copy of which shall be handed to him by the auditor during the first day of his visit to the company.
- To submit, before the start of control (temporary or regular), the original or additional tax returns, VAT and other taxes, fees and contributions, within a period of ten (10) days.
- To receive on request, within twenty (20) days of the delivery to him of a note, the judgment on the validity of the books and records of the ad hoc committee
- Be aware of the results of the audit, by being up to date for the relevant acts and control reports.

### **4.8.2 Taxpayers Obligations**

The taxpayer under the control required (Tax audits Manual - [www.taxad.gr](http://www.taxad.gr/)):

- To deliver on time every clue and provide any requested information to the control.
- Demonstrate the books and records kept.

- To facilitate the control and not to raise barriers.

#### **4.9 Procedure follows Control**

Upon completion of the audit and the notification to the taxpayer of their imputed acts (checklists, fine decisions etc.) with the related audit reports (in accordance with the relevant provisions), the taxpayer, for each of the notified transactions may (Tax audit manual - [www.taxad.gr](http://www.taxad.gr)):

- Submit to the Head of the competent supervisory authority, if he disputes the correctness of the proposal for administrative resolution of the dispute (compromise) with particular application or the application of any action within sixty (60) days of notification, excluding the month August.
- To lodge to the supervisory authority which adopted the measure, an action within sixty (60) days.

## **Chapter 5**

### **Tax evasion**

#### **5.1 Introduction**

It is obvious that, lately, an increase in fraud occurred mainly through the issuance of false or fictitious tax data, not only in our country but also in Europe. This phenomenon of the use of such information is noticed in all economic areas. Main reason of the use of virtual and false tax information is to avoid both the indirect and direct taxes and, in some cases, the arrangement of accounting-tax irregularities arising from the business effort to avoid paying tax (this, of course, leads to give instructions to the inspection authorities to identify and eliminate these phenomena).

#### **5.2 Concept Plastics Tax Item**

According to the provisions, as defined in paragraph 3 of Article 19 of Law. No 2523/1997, false tax information are considered those that have ([www.epixeirisi.gr](http://www.epixeirisi.gr)):

- Perforated or stamped in any other way, without being registered in the relevant books of the competent authority to the operation of the visa, if the non-inclusion of the item is made aware of the debtor.
- The content and other details of the original or the copy differ from those listed in the strain of the same detail.

#### **5.3 Definition of Virtual Tax item**

Virtual tax document in accordance with the provisions of CCBR (Control code of Books and Records), as defined in paragraph 4 of Article 19 of Law. No 2523/1997, when falsified ([www.epixeirisi.gr](http://www.epixeirisi.gr)):

- It is issued to a transaction that is no total or part thereof or for a transaction carried out by persons different from those recorded in the component, or some of them are unknown tax person (ie has not declared start of the trade or endorsed to the competent service).
- It is issued or taken by virtual, joint venture or any other form of enterprise or even a natural person who of course turns out to be unrelated to the transaction.
- The tax information is stated value lower real considered incorrect and the data referred to a value higher than the normal virtual considered for the part of greater value.

In conclusion fake and virtual elements can be identified with the appropriate control verification:

- By the method of the closed warehouse.
- The lack of movement data.
- The lack of lading.
- The method of payment.
- The time version of the data.

#### **5.4 Definition of adulterated Tax Item**

The concept of distortion of tax information is an act that is considered special tax offense and is similar to the fake and virtual.

Falsifying data is generally considered the subsequent operation performed at a later time from the time of issue of the element such as to alter the meaning and content of this with intention to defraud. For example a tax document with face value € 200 added a zero even made € 2000 while corrected and the value of this in words (Liolios, 1999).

## **5.5 Counterfeit Detection Methods and Virtual data**

The SCS proceeded to record certain audit checks, which may be an indication of whether the controlled undertaking distributes or receives virtual or fake tax information. ([Http://www.epixeirisi.gr./](http://www.epixeirisi.gr/))

Below are presented some verifications.

- Checking the existence of authentic trafficking element. Check that the tax value element represents an element of movement, if you check the authenticity of.
- Control of payment. if the payment of fictitious invoices is valuable may or will cause a problem in the display of the fund.
- Checking the Release time. It is frequent that enterprises resort to taking virtual tax data at the end of the year or the VAT payment period in order to reduce their tax liability.
- Reconciliation of the issuer's activity and the object of the invoice. Many times the content of the invoice is different from the issuer's activity.
- Control of supplier. Particularly controlled cases having to do with the person of the supplier as; the realization of large transaction with the vendor, who appears only once on the books of the enterprise and supply large quantity of items from a supplier that is located away from the city installed the run in conjunction with the price of the transaction.
- Control of the assets. In this case, the company receives false information about assets which had previously purchased and which are amortized total to obtain the authority entitled to conduct depreciation.
- The storage spaces and being sold as stocks. One of the most important tests is the one that has to do with the storage of business. It is investigated whether stocks appearing in the warehouse of the enterprise a given period of time and if its possible to fit the available place.
- Prices of goods. When there is a difference in the purchase price of goods at prices lower than those prevailing in the market.
- The bank lending. Motivation for taking counterfeit tax asset may be the lending bank to purchase goods.
- The competence of the Tax Office. The data are considered flying through the drilling of a four-digit code Tax considered the item. If the tax office is different from that which the issuer belongs, should investigate the forgery of the item. Also check and the authenticity and existence of TIN (Tax Identification Number) publisher.
- Lesions of data or records. The data corrections, deletions, erasures apparently alter their scope as to the date, quantities, values etc..

## **5.6 Tricks Tax Evasion**

Some evasion tricks (*Tax evasion is any illegal act of the taxpayer which seeks to reduce the tax burden or avoid payment of the tax*), in which 'forced' to commit companies to reduce their tax burden, are the following (Skordos, 1992):

- The appearance of increased raw material purchase costs and goods and in particular from suppliers who adhere Shopping books.
- The emergence of virtual markets materials or production costs with registration of bogus suppliers invoices.
- The resale of expensive raw materials, the purchase and use of inferior materials, without the sale and purchase.
- The devaluation of raw materials and goods at the end of the year which have been registered.
- The intentional cumulative errors in registration of end inventory of raw materials and goods.
- The adoption of virtual credit notes for discounts allegedly granted, commissions and other fees with incorrect name or address details of beneficiaries.
- The transformation of the individual enterprise in partnership with hiring virtual partners or shareholders for the purpose of income splitting and tax with smaller players.
- The issuance of tax information (invoices, bills of lading, etc.) with incorrect or insufficient information on the quality of goods, address and occupation of the purchaser, address etc. the name of consignor or consignee of the goods handled.
- The movement of goods in the night, without the issue of the projected data.
- The fixing of a different amount or value of the marketed goods at copy is delivered to the customer with the level recorded in the stem of issued tax information.
- The subsequent alteration of tax data, delivered, on the date of issue, quantity and value.

## **Chapter 6**

### **Conclusions**

Events such as the liberalization of markets, the trend of privatization, acquisitions and business mergers and new challenges in general, globally characterize the modern business environment.

Within the highly fluid business environment, control and particularly tax audit raised as a necessary process in order to manage the finances of states.

In this thesis, primarily, the meaning and significance of the audit process has been analyzed. Thus, through the full analysis of the concept of categories, discrimination and scope of the audit, the need for controls is displayed. Then we specialize in tax control. The theoretical framework of the tax audit is detailing and we display the importance in modern business. Finally, a separate section, due to its importance, is devoted to the concept of tax evasion.

Conclusion of the extensive literature review is that the tax audit of business is considered the most effective way for governments to defend their public revenues and hence their economic policy success means.

However, the link between theories and practice constitutes proposal for future research so that the tax audit to acquire the importance it deserves.





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