

The Effect of Independent Audit on the Disclosure Level of Income Taxation Standards: A Research on Istanbul Stock Market Food Sector¹

Sedat Coşkun

Ph.D Lecturer

Department of Business Administration
University of Manisa Celal Bayar, Turkey

Şule Kırkık

Associate Professor

Department of Banking and Insurance
University of Manisa Celal Bayar, Turkey

Selin Coşkun

Lecturer

Department of Accounting and Tax Practices
University of Manisa Celal Bayar, Turkey

Abstract

The funds needed to evaluate investment opportunities for companies in global markets and to continue their operations are derived from external sources. In an ever-increasing competitive environment, the financial information of the business is required to provide the needed funds from financial markets. This financial information is sometimes influential in the decisions of managers who are users of financial information, sometimes affecting the decisions of the state, lenders and investors. In this context, financial reporting is of great importance in terms of macroeconomic interest holders. At the same time, the information provided in the financial reports for the protection of the rights of investors and stakeholders must be adequate, fully explained and reliable internationally. As a result of the legal arrangements made in our country to provide comparable financial information in international markets, the companies referred to in the "Procedures and Principles for the Decision of the Council of Ministers on the Determination of Independent Certainty Companies" published in the Official Newspaper dated 12/03/2013, 2011, in accordance with the Turkish Commercial Code numbered 6102, the Company is required to make financial reporting in accordance with the principles set out in the Turkish Accounting Standards. This sanction, in particular, raises the importance of the TAS 12 Income Tax Standard, which sets out the principles for accounting for a tax that is calculated over the income of a company. The main purpose of the study is to determine the level of disclosure by the companies within the scope of TAS 12 Income Tax Standard and to determine the relationship level of the independent variables which are considered to have an effect on the level of disclosure. For this purpose the companies have examined the explanations they have made on the subtitle headings determined within the scope of the standard by looking at the independent audit reports for 2014 and 2015.

Keywords: Independent Audit, TMS 12 Income Taxes, Disclosure Level

1. Introduction

In our country, the tax applications which concerns the taxing otorities is gathering into three titles: the taxes are taken according to expenditures, property and revenue. Taxes are taken on expenditures and property are seperated to two segments: taxes on income and corporate taxes. In our tax laws income tax is defined as the tax on arising from real persons households and private transactions, o the other hand corporate taxes are the taxes calculated from profit of a company.

¹This paper is presented orally in July 2017 in the Econworld Paris Conference. After the criticism, the study was developed and the final form was introduced.

According to general communique on accounting standards application in turkey the subject of tax calculated from profits of companies is included in the scope of turkish accounting Standards 12(TAS12) Income tax standard. The purpose of TAS-12 Income tax standard is to organize the taxes of income are calculated from profits of companies. The most important issue of accounting taxes on income is declared the book value of a company's assets and liabilities shown in its own financial statements(balance sheet) is defined as deriving benefits for the assets; and defined as the taxational results of the payment and the transactions or the other the cases which occur during the current period are reflected their results to the financial statements for the liabilities. TAS-12 Income tax standard is outstanding for displaying the fair values of the companies and also for giving place to the situations have feature in a taxational way.

In the framework of TAS 12 Income Tax Standard it is announced the main titles and subtitles as; accounting of current tax liabilities and assets, accounting of deferred tax liabilities and assets, the temporary taxable differences, measuring, accounting of current and deferred tax, presentation and explanation; are explained as the bases of application of the standart. In this study in the framework with in the titles and subtitles referred above, the standart's main subject topics are to explained by the balance sheet footnotes of financial statements(2014-2015) of the companies work on food sector registered İstanbul Stock Market.

The main purpose of this study is to determine of the level of disclosure for TAS-12 Income Tax Standart by the companies within the scope of the study and is to establish the level of relationship between the variables which are forecasted to have an effect on the level of disclosure. For this purpose, it is created disclosure index for determining the companies's disclosure level of the standard within the scope of the study. The orientation of the relationship between the information levels obtained from disclosure index and the variables determined in the study is tested by the established models and the hypotheses in the study have been examined.

2. Literature Review

At the reviewing result of the literature research on the study, it has been observed that the researchers look from different perspectives to the subject. It is determined that the some of the researchers give the place to the subject in the way of the explanation level of determined accounting standards and the level of corresponding to the standards. On the other hand, it is observed that some of the reseachers review the relationship between the disclosure level of the standards for the sectors and some factors effected the disclosure level. In this part of the study, it is given place to some studies.

In the study by Kvaal and Nobes (2010), reviewed 232 firms from Germany, England, France, Spain and Avustralia Stock Exchange Market, "inventories", "cash flow statements", "real assets", "financial instruments", "accounting and measurement", "investment property", "financial instruments" "loan costs", "benefits provided to employees", "investments in joint ventures" and etc. have been examined within the scope of the research and the preferential accounting policies applied have been compared comparatively on a country basis.

In the study conducted by Öztürk (2011); 32 accounting policies in 2008-2009 period were reviewed through footnote explanations of 162 companies from Germany, France, Great Britain, Italy, Australia and Turkey. As a result of the research, they explained that the companies prefer national accounting applications when the national accounting policies aren't in accord with IFRS, otherwise they prefer IFRS applications.

Cairns et al. (2011) investigated the effect of the fair value of 228 companies in 2005 in Australia and the in UK which are in the transition process to IFRS in the study. As a result of the review, it was observed that the difference between the fair value method of the financial asset and the financial liability is small and the fair value applications related to financial instruments, real estate and share based standards are comparable.

A study which has been done according to datas from England and Germany companies by Haller and Wehrfittz(2012), is tried to identify the consistency of the companies financial reporting standards applications. Accordingly, it is observed when IFRS offers preferred policy applications, different accounting applications for the countries and companies occur.

In a study conducted by Rajhi (2014), 118 French companies registered in the European stock exchange for the period of 2009-2010 have examined the disclosure levels of accounting standards according to 10 different accounting policies.

3. The Effect Of Independent Audit On The Disclosure Level Of Income Taxation Standards

3.1. The Extend And Purpose of The Study

The main purpose of this study is to determine the level of disclosure by the enterprises under the scope of TAS 12 Income Tax Standard and to determine the level of relation of the independent variables which are considered to have an effect on the level of disclosure. For this purpose, the footnote disclosures (shown in Table 2) related to the TAS 12 Income Tax Standard for the 2014-2015 years of 26 companies (shown in Table 1) in the "Food Products Industry" registered İstanbul Stock Market are examined. According to the obtained information, it has been found that the companies's disclosure level of the standart.

Table 1: The Companies In Food Sector of The Study

Sequence Number	Code	Company Name
1	ALYAG	Altınyag Kombinaları A.Ş.
2	AVOD	A.V.O.D Kurutulmuş Gıda ve Tarım Ürünleri A.Ş.
3	BANVT	Banvit Bandırma Vitaminli Yem Sanayii A.Ş.
4	CCOLA	Coca-Cola İçecek A.Ş.
5	DARDL	Dardanel Önentaş Gıda Sanayi A.Ş.
6	EKIZ	Ekiz Kimya Sanayi Ve Ticaret A.Ş.
7	ERSU	Ersu Meyve Ve Gıda Sanayi A.Ş.
8	FRIGO	Frigo-Pak Gıda Maddeleri Sanayi Ve Ticaret A.Ş.
9	KRSAN	Karsusan Karadeniz Su Ürünleri Sanayii A.Ş.
10	KENT	Kent Gıda Maddeleri Sanayii ve Ticaret A.Ş.
11	KERVT	Kerevitaş Gıda Sanayi ve Ticaret A.Ş.
12	KNFRT	Konfrut Gıda Sanayi ve Ticaret A.Ş.
13	KRSTL	Kristal Kola ve Meşrubat Sanayi Ticaret A.Ş.
14	MERKO	Merko Gıda Sanayi ve Ticaret A.Ş.
15	OYLUM	Oylum Sınai Yatırımlar A.Ş.
16	PENGD	Penguen Gıda Sanayi A.Ş.
17	PETUN	Pınar Entegre Et ve Un Sanayii A.Ş.
18	PINSU	Pınar Su Sanayi ve Ticaret A.Ş.
19	PNSUT	Pınar Süt Mamulleri Sanayii A.Ş.
20	SELGD	Selçuk Gıda Endüstri İhracat İthalat A.Ş.
21	TATGD	Tat Gıda Sanayi A.Ş.
22	TKURU	Taze Kuru Gıda Sanayi ve Ticaret A.Ş.
23	TUKAS	Tukaş Gıda Sanayi ve Ticaret A.Ş.
24	ULUUN	Ulusoy Un Sanayi ve Ticaret A.Ş.
25	ULKER	Ülker Bisküvi Sanayi A.Ş.
26	VANGD	Vanet Gıda Sanayi İç ve Dış Ticaret A.Ş.

Source: <https://www.kap.org.tr/tr/Sektorler.>, (01.05.2017).

3.2. Research Methodology

In order to determine the level of disclosure regarding the TAS 12 Income Tax Standard of the companies surveyed in the scope of the research, checklists have been established according to the subtitle headings indicated in Table 2 below. The footnotes of the financial statements have been reviewed by the companies for the years determined by the research. It has been composed of standart "disclosure index" has been established by means of the information obtained from there.

The disclosure index is expressed in the literature as the level of information about an issue that the company has to explain (Cooke ve Wallace, 1989:47). For example, if the subtitle “presentation of the information working on to compliance with tax expense/income and accounting(book) profit” is explained in the footnotes of the company; it is defined as “1”, otherwise “0”. The disclosure index was created as determined in this definition. Disclosure index was accepted as dependent variable; “four auditing firm”, “audit firm change”, “main auditor change” were accepted as independent variables. The relationship between the dependent variable and the independent variables was tested by the panel data analysis method on the equation established and the determined hypotheses were tested.

Table 2: TAS 12 Income Tax Standard Subtitles to be reviewed in the study

The Number of Subpolicy Titles	TAS 12 Subtitles
1	The Information Presentation of Disclosures Of The Standard On Current Period Tax Assets and Liabilities
2	The Information Presentation for Working on to Compliance with Tax Expense/Income and Accounting (Book) Profit
3	The Information Presentation According to Standard Explanations About Deferred Tax Assets
4	The Information Presentation According to Standard Explanations About Deferred Tax Liabilities
5	The Information Presentation for Subject of Temporary Tax Differences and Deferred Tax Liabilities/Assets
6	The Information Presentation of Term Analysis As of The Maturity Date for The Subject of Defferred Tax The Unreduced Financial Losses
7	The Information Presentation for Tax Provisions, Tax Expense, and Defferred Tax Income of Current Period and Previous Period

Table 3 shows the dependent and independent variables and hypotheses detemined in this study:

Table 3: The List of Dependent and Independent Variables and Research Hypotheses

The Dependent Variable		Independent Variables
Disclosure Index (DIC)		The Four Major Auditing Firm (BIG 4)
		Auditing Firm Change (AFC)
		Main Auditor Change (MAC)
Hypothesis	H ₁₁	Independent auditig has been done by the four major auditing firm (BIG 4) has an significant effect on diclosure index (DIC).
	H ₁₂	Independent auditig has been done by one of the four major auditing firm (BIG 4) has no significant effect on diclosure index (DIC).
Hypothesis	H ₂₁	Auditing firm change (AFC) during independent auditig has an significant effect on diclosure index (DIC).
	H ₂₂	Auditing firm change (AFC) during independent auditig has no significant effect on diclosure index (DIC).
Hypothesis	H ₃₁	Main auditor change (MAC) during independent auditig has an significant effect on diclosure index (DIC).
	H ₃₂	Main auditor change (MAC) during independent auditig has no significant effect on diclosure index (DIC).

3.3. The Restriction of Research

It is estimated that the research have two restrictions. First restriction is that the number of subtitles considered to be explaining the TMS 12 Income Tax standard examined in the research may be more than determined. The second is that findings obtained for a single sector may be insufficient to account for variables thought to have an effect on disclosure level alone.

3.4. Findings

In the findings of the study, the hypotheses described in Table 3 were tested the scope of the equation established according to panel data analysis between dependent and independent variables in the data set generated according to the research sample.

In this context, the models created to study the effects of the four major auditing firms, the auditing firm change and the main auditor change on the disclosure index of the companies are as follows:

$$\text{Model 1: } DisclosureIndex_{it} = \beta_0 + \beta_1 TheFourMajorAuditingFirms_{it} + \varepsilon_{it} \quad (1)$$

$$\text{Model 2: } DisclosureIndex_{it} = \beta_0 + \beta_1 AuditingFirmChange_{it} + \varepsilon_{it} \quad (2)$$

$$\text{Model 3: } DisclosureIndex_{it} = \beta_0 + \beta_1 MainAuditorChange_{it} + \varepsilon_{it} \quad (3)$$

Model 4:

$$DisclosureIndex_{it} = \beta_0 + \beta_1 TheFourMajorAuditingFirms_{it} + \beta_2 AuditingFirmChange_{it} + \beta_3 MainAuditorChange_{it} + \varepsilon_{it} \quad (4)$$

In this study, firstly, Breusch-Pagan LM and F tests were used to examine there is an unobserved unity and timing effect in other words an unobserved heterogeneity by the tests of Breusch-Pagan LM and F. Failure to observe the unobservable heterogeneity will result in overlooking the required variable and obtaining oblique and incoherent predictors. The Breusch Pagan LM and F test results for Model 1, Model 2, Model 3 and Model 4 are given in Table 4:

Table 4: Breusch-Pagan LM ve F Test Results

Models	Breusch Pagan LM Test	F Test
Model 1	16.69***	33.0891***
Model 2	13.71***	32.3996***
Model 3	13.81***	35.9516***
Model 4	11.29***	36.6551***

Note: *** indicates significance at significance level of 0.01.

When Table 4 is examined, according to the results of Breusch-Pagan LM test and F test, the null hypothesis that unity and timing effects are not significant is rejected. Hence, unobservable heterogeneity must be included in the established models.

The Hausman (1978) test was used to select between random effects and fixed effect models in the study. The Hausman test is used to determine the specification of the model. While Hausman test, the null hypothesis is that there is no correlation between the explanatory variables and the unity effect; alternative hypothesis says there is correlation between them. H statistic is stated the formula following as (Tatoğlu, 2012: 180):

$$H = (\hat{\beta}_{SE} - \hat{\beta}_{RE})' [Avar(\hat{\beta}_{SE}) - Avar(\hat{\beta}_{RE})]^{-1} (\hat{\beta}_{SE} - \hat{\beta}_{RE}) \quad (5)$$

Accordingly, Hausman test results for Model 1, Model 2, Model 3 and Model 4 are given in Table 5 below.

Table 5: Hausman Test Results

Model 1				
Test	χ^2	Probability Value	Null Hypothesis	Decision
Hausman	8.99	0.0027	There is no correlation between explanatory variables and unity effect	Rejection
Model 2				
Test	χ^2	Probability Value	Null Hypothesis	Decision
Hausman	14.41	0.0001	There is no correlation between explanatory variables and unity effect	Rejection
Model 3				
Test	χ^2	Probability Value	Null Hypothesis	Decision
Hausman	17.5461	0.0000	There is no correlation between explanatory variables and unity effect	Rejection
Model 4				
Test	χ^2	Probability Value	Null Hypothesis	Decision
Hausman	21.5576	0.0001	There is no correlation between explanatory variables and unity effect	Rejection

When Table 5 is examined, it is seen that the Hausman test statistic for Model 1, Model 2, Model 3 and Model 4 is rejected. It has been determined that the fixed effect model is valid for all four models. The estimation results of the models are explained in Table 6 below:

Table 6: Estimation Results For The Fixed Impact Model

	Model 1	Model 2	Model 3	Model 4
The Four Major Auditing Firm (BIG 4)	0.047619*** (0.0178174)	-	-	0.042328** (0.0170022)
Auditing Firm Change (AFC)	-	0.0190476 (0.0121964)	-	-0.0608466** (0.0299355)
Main Auditor Change (MAC)	-	-	0.0252101** (0.010892)	0.0714286** (0.0279375)
Fixed Term	0.7701465*** (0.0064285)	0.7723443*** (0.0082292)	0.7689076*** (0.0075027)	0.7656695*** (0.0073868)
R ²	0.3715	0.0889	0.4643	0.4136
F	7.14***	2.44	5.36**	5.41***
AIC	-248.2539	-240.0262	-245.2817	-258.939
BIC	-244.3514	-236.123	-241.3792	-251.134

Note: ***, ** indicate significance at significance level of 0.01, 0.05.

When Table 6 is examined, it is noticed that there is a positive and statistically significant effect on the TAS 12 Income Tax Standard disclosure level of the companies audited by the four major auditing firms according to Model 1. In this case, the H₁₁ hypothesis for Model 1 is accepted. When the model 2 estimation results are examined, it is seen that auditing firm change in the independent audit does not have a statistically significant effect on the disclosure index of TAS 12 Income Tax Standard. In this case, the H₂₂ hypothesis for Model 2 is accepted. When the model 3 estimation results are examined, it is seen that main auditor change in the independent audit has a positive and statistically significant effect on the disclosure index of TAS 12 Income Tax Standard. This means H₃₁ is accepted for Model 3. Finally, the effects of disclosures of the four major audit firms, the auditing firm change and the main auditor change in the independent audit were all looked at collectively and model 4 was estimated. When the model 4 estimation results are examined, it is found that the disclosures of auditing firms made by the four major auditing firms and the main auditor change in the independent auditing are positive on the disclosure index and the audit firm change has negative effect on independent auditing.

Conclusion

In this study, we have analyzed by panel data method the relationship between the disclosure level have to be shown in financial statements footnotes related TAS 12 Income Tax Standard of the companies in food sector registered İstanbul Stock Market and the dependent variables estimates have effects on disclosure level. It is examined the companies's financial datas in 2014-2015. In this context, it is constituted the disclosure index of disclosure level related TAS 12 Income tax standart has to be shown the financial statement footnotes and these datas represent the dependent variable "y" in the study. Auditing by four major auditing firm, the auditing firm change and the main auditor change are the independent variables in the study. The hypotheses determined in the study were tested with the established models according to the level of statistical significance. For the estimated models within this framework; it is occurred that the auditing by the four major auditing firms have positive and statistically significant effect on disclosure level of the standard. It has been observed that there is no statistically significant effect of the auditing firm change on the independent audit on the disclosure index of the relevant standard. At the end of the study, it is occurred that main auditor change has an positive and statistically significant effect on the disclosure index of the the relevant standart.

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