



IDENTIFICATION OF TAX RISKS FOR RUSSIAN AGRICULTURAL FIRMS

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ABSTRACT

This article describes the process of identifying tax risks as an element of economic security for agricultural organizations. We considered special aspects of tax control aimed at identifying tax risks through procedures that help prevent misstatements in tax calculations that become a threat to the economic security of agricultural organizations. This work also described theoretical approaches to the concept of “tax risk”; defined areas of tax risks identified for calculating the unified agricultural tax (UAT); considered risk groups in the case of applying this tax; analyzed risks of the accounting process by classifying the assertions for tax accounting purposes.

This study’s result, a model was developed for choosing an optimal tax scheme by corporate management to ensure the economic security of agricultural companies. This model reveals analysis procedures for possible taxation systems based on the variant assessment of tax risks arising from the risks of misstatement in regards to the facts of accounting events (AE) that form the tax base. This article developed an algorithm for assessing the consequences of tax risks due to errors found at the level of accounting events that reflect the tax base for unified agricultural tax; matrix of tax risks of misstatement when calculating the tax base of unified agricultural tax caused by fraud.

Disciplinary: Agricultural Economics, Finance, Accounting, & Taxation.

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1 INTRODUCTION

At present, the agro-industrial complex (AIC) is an important component of the Russian economy that unites many leading and economically interconnected industries specializing in the production, processing, storage, and sale of agricultural products. Economic reforms in the agricultural sector performed during different periods of the history of our country defined the

conditions that allowed the attempts to ensure a balanced formation and effective development of agricultural production. Despite many positive trends based on structural changes in some segments, the present-day AIC is in a state of severe crisis. Economic instability, uncertain regulatory compliance, increasing tax burden, and lack of the protection of the economic system make it possible to consider the insecurity and vulnerability of the country's agro-industrial complex from law violations in the context of reducing economic security.

The problem of economic security in relation to the agro-industrial complex is especially pressing in the current situation since the specific aspects of the functioning of this sector have a direct impact on the living standards of the population. The development of specific measures aimed at strengthening economic security and eliminating threats to its realization within the framework of AIC is relevant and requires comprehensive research.

2 LITERATURE REVIEW

Due to the variety of specific features of agricultural organizations, it does not seem possible to make a list of parameters guaranteeing that economic security will be assessed in full. However, in the case of different degrees of detail in the structural components of the studied sector of the economy, it is reasonable to define parameters (criteria) that can help in establishing characteristic aspects for solving this problem. The need to improve agricultural business operations in terms of improving economic security, on the one hand, depends on a certain level of its development, and on the other hand, is determined by economic changes in the world system. Development of a strategy for ensuring the economic security of the present-day Russian agro-industrial complex requires the transition of theoretical discussions into practice.

Since the effective functioning and successful development of organizations depends on the availability of competitive advantages, human resources, strategic goals and objectives, sufficient capital, then financing of measures aimed at achieving economic and food security in these areas should be fully justified. However, hidden economic relations existing in agriculture impede the reliable information about the assets and liabilities of organizations that lead to the violation of tax laws. The tax component of economic security is currently gaining special importance due to numerous violations in the tax sphere of the agro-industrial sector. In this regard, tax control being one of the main factors of economic security is given special attention.

Agricultural organizations are subject to both external (carried out by state) and internal control (carried out by special services of the enterprise). Comparing these types of tax control, one could argue that the first stage for applying control procedures and establishing inaccurate information at the enterprise is internal control which provides a threshold for the legality and economic feasibility of business transactions.

The object of tax control of agricultural organizations is tax arising in the process of taxpayers' financial and economic activities that determine the occurrence of taxes at different levels (federal, regional, local). Control actions defined by the tax control system should be aimed at checking the totality of accounting and tax information.

Thus, the importance and significance of tax control are determined by the establishment of control procedures as measures to prevent tax violations according to the activity cycles of agricultural organizations (production, sales, supply) and in the context of each completed business transaction. In this regard, relations between the structural divisions of the enterprise should be

covered by a tax control system designed for defining risks of material misstatement (RMM) during the development of a tax base of agricultural organization.

A study of the economic nature of the risk category showed that in the agricultural sector, external and internal conditions determine specific common features typical for risk (Golubyatnikova et al., 2019). The proposed mechanism of tax control should mainly be aimed at finding and assessing the tax risks of organizations that become the main problem factor that can lead to adverse consequences for a taxpayer. In this regard, it seems appropriate to study the nature and classification of tax risks to establish the causes of their occurrence.

In recent economic literature, the concept of “tax risk” is given special attention due to its consequences for participants in the case of tax offenses. For example, Shevelyova (2014) believes that tax risk has a dual nature. On the one hand, this issue is objective, since the activities of economic entities proceed under conditions of the uncertain financial and economic environment and state conditions; on the other hand, the mechanism for managing tax risk is subjective and depends on the individual attitude of the decision-maker to this risk.

According to Kazatskaya and Zhuravin (2014), tax risks should be understood as undesirable situations and events that can occur and lead the organization to heavy financial losses including damage to the professional reputation of the economic entity in the shortest possible time. E.N. Chekulaeva (2012) argues that for the concept of “tax risk”, its negative nature for all subjects of tax relations should be taken into account.

Investigating theoretical approaches to the concept of “tax risk”, Pimenov (2013) argues that the boundaries of tax risks regulate the relationship between the state and the owner regarding the distribution of property. The nature and content of tax risks will change with any changes in this scheme.

Analyzing the conceptual apparatus of tax risks, Mizgulin (2011) summarizes that these risks are a tax component in different types of risks and are directly related to the group of economic risks; while indirectly they are also part of political and even environmental risks. Zlobin and Romanova (2014) associate the essence of tax risks with the loss of taxpayers.

Characterizing the current state of AIC, Goncharova (2017) believes that tax risk includes lowering prices by dealers and exporters for enterprises that use the agricultural tax and classifies this risk as an exogenous one. Kuleshova and Sibagatullina (2010) found internal causes of their occurrence which include, for example, violation of crop cultivation procedure, violation of the reclamation system operation regime, non-compliance with agricultural cultivation techniques, absence or poor organization of information technology accounting system, etc.

Thus, ambiguous views on the concept of “tax risk” indicate a wide range of influence of this category on the successful functioning of organizations.

Considering methodological approaches to determining tax risks, the authors propose different classifications to develop a unified system for assessing the nature and causes of such risks. Safonova and Reznichenko (2014) classify tax risks by the nature of possible negative consequences, i.e. risk of tax control, risk of additional charges of arrears and penalties, risk of sanctions and fines, risk of increasing tax burden, risk of reduction or loss of liquidity, risk of seizure of assets, risk of business interruption, risk of a criminal proceeding, risk of bankruptcy.

During investigation and analysis of the activities of large agricultural enterprises, Malis (2019)

thinks that the main tax risks for such organizations are related to the choice of optimal taxation system— currently, it is a special tax regime in the form of a unified agricultural tax (UAT). However, this advantage carries certain risks: violation of tax legislation under UAT provides for the recount and payment of all taxes following general rules. Ryabinina and Turantseva (2018) take the same view. The authors think that the main tax risks of agricultural producers operating under UAT are the following: determination of the total income confirming the status of the agricultural producer, determination of taxation base, special aspects of the production cycle, give-and-take basis of production, lack of income from the sale of agricultural products during one tax period.

3 METHOD

This study investigated tax control procedures for agricultural enterprises. Some of them were developed, i.e. those that take into account specific features of this industry, level of the tax burden, and real assessment of tax risks. We consider tax risks as a comprehensive concept that requires constant study and monitoring to assess and ensure the economic security of agricultural organizations. Tax risks are analyzed in the context of financial risks indicated by Russian law.

4 RESULTS

4.1 SCHEMATIC OF TAX RISK MODEL

We propose a model for selecting by corporate management an optimal taxation system to ensure the economic security of agricultural organizations. We have defined areas of tax risks due to the method for calculating UAT (Figure 1).

Figure 1: Scheme of the area of tax risks at the calculation of unified agricultural tax.

INCOME (cash method)			
Sale	income from the sale of goods (works, services)	Non-sale	Income from activities not related to production and sales
	income from the sale of property and property rights		
MINUS			
EXPENSES (cash method)			
1. Economically justified (reasonable) 2. Documented 3. For performing activities aimed at generating income.			
associated with the production and sale	material costs, including expenses for the purchase of seeds, seedlings, young plants and other planting material, fertilizers, feed, medicines for veterinary use, biologic drugs, and plant protection products	Non-sale	Expenses for activities not related to production and sale
	labor costs, compensations, temporary disability benefits		
	expenses for the acquisition and repair of non-current assets travel, notarial, accounting, auditing expenses, expenses for legal services, and advertising		
	Other expenses associated with production and sale		
=			
The tax base for the calculation of unified agricultural tax			
TAX RATE -6%			
UNIFIED AGRICULTURAL TAX			
TAX RISK AREA			

The choice of the best variant of the tax scheme is associated with the need to identify and assess in detail the consequences of significant risks of economic activity. Such an assessment allows

forecasting the economic security of agricultural organizations, ensuring their effective functioning and timely responding to threats of their further development.

4.2 GROUPS OF RISKS

4.2.1 RISKS RELATED TO THE CHOICE OF OPTIMAL TAXATION SYSTEM

The main types of tax risks associated with using a special taxation system for agricultural producers can be conventionally divided into two groups:

1. Risks associated with the selection of an optimal tax scheme.
2. Risks associated with the application of UAT as a tax scheme.

The first group of tax risks is associated with information about business operations that allow agricultural organizations from choosing UAT as a tax regime. Their main reason is external factors. This group of risks is caused by several restrictions regulated by tax legislation. The main restriction under UST is a regime designed exclusively for agricultural producers. Its use is limited by the criteria for compliance with the status of agricultural producer:

- organizations should be engaged in the production of tradable agricultural goods, and not just in their resale;
- organizations should be the owners of their products;
- sold goods should be agricultural products;
- income from the sale of agricultural products should be at least 70% of total income;
- for fishery companies, there is an additional condition: the number of personnel (hired employees) should be no more than 300 individuals.

Risks prevailing in this group are caused by legal circumstances: risk of non-compliance with the declared tax regime (non-compliance with the criteria for transition to UAT); risk of financial losses due to the impossibility of applying VAT tax deductions (refusal of cooperation by organizations that are VAT payers); risk of tax violations as a result of misinterpretation of tax legislation.

4.2.2 RISKS RELATED TO THE APPLICATION OF UAT AS A TAXATION SYSTEM

The second group consists of the risks of non-compliance with the criteria when applying UAT, that is, the risks of losing the right to apply this scheme. The right to use UAT is lost if there is no agricultural production activity and there is no income from the sale of agricultural products.

The reasons for the second group of tax risks may be due to both external and internal factors. External factors are associated with the functions of external tax control that conditionally include 1) tax control of compliance with the criteria of using UAT; 2) current tax control related to tax audit administration.

Agriculture organizations that apply UAT are obliged to comply with the criteria for compliance with the status of agricultural producers described above. Also, external tax control imposes strict requirements on income structure; mismatch in the methods of recognition of income and expenses in accounting and tax accounting; list of expenses for reducing taxation base that is different from the list on general taxation system; compliance with the deadlines for the provision of tax reporting and tax payments.

In the case of losing the right to use UAT, organizations accept mainly financial risks due to the need to reconstruct the taxation base for taxes paid under the general taxation scheme (VAT, income tax, property tax) and to submit updated tax returns. The additional charge of taxes is accompanied by

the accrual of financial sanctions in connection with late payment of taxes and submission of tax reports. Current tax control of taxpayers can be performed using office and field tax audits. Field tax audits can be followed by the risks of financial sanctions.

Organizations can independently control the tax risks associated with field tax audits. In particular, tax legislation establishes a classifier for risk assessment which includes several risky circumstances when mandatory field tax audits are possible. Currently, a field tax audit is performed in the following cases: tax burden is less than the industry average; average monthly salary per employee is less than industry value in the region; repeated approaching the limit parameters that give them the appropriate right; profitability is much less than the industry average (unprofitable activity for two or more years); faster growth of expenses than of income and others.

Internal control aimed at identifying tax risks is an indisputable advantage in order to manage the financial risks of agricultural organizations. At the same time, internal control allows not only evaluating the effectiveness of all control procedures used within an economic entity but also allows regular monitoring of their consistent application (Klinova and Sungatullina, 2018).

Internal factors (causes) of risks during using UAT are incorrect classification of income and expenses; a gross violation of accounting rules; non-compliance with the principles of the cash method of accounting income and expenses; misuse of budget subsidies; violations in the classification of income and expenses when combining different tax schemes; manipulation with accounting and tax data; untimely submission of tax reporting; untimely payment of taxes.

Effective internal control requires special attention to improving the qualifications of accounting process executives, monitoring control procedures at the level of enterprise's structural elements, constant monitoring tax legislation, analyzing innovations in enterprise's tax policy system, specific features of an economic entity and its activities, developing internal local documents of an organization, focusing on certain issues of tax control.

4.3 IDENTIFICATION OF TAX RISKS OF AGRICULTURAL ORGANIZATIONS

4.3.1 ACCOUNTING CYCLES AS A BASIS FOR MISSTATEMENT ARRANGEMENT

The calculation of the tax base for UAT is based on the assessment of taxable parameters that are formed in the accounting and tax accounting system. Consequently, when identifying the tax risks of UAT, you should consider the accounting and tax components of the structural elements of risks. Tax components are related to the requirements of tax legislation under UAT, and accounting elements are based on the accounting aspects of the UAT tax base.

In this case, risk assessment is considered through the logical relationship of factors indicating the possible causes of inaccuracies in the information under study and defining risk areas during processing and movement of information flow. The most complete information is provided by a comprehensive study that describes the selection, analysis, and establishment of different risk variants (Yudintseva, 2014).

Taking into account the fact that the tax legislation of the Russian Federation allows generating information about the tax base based on accounting data, tax risks can be identified by the stages of the accounting process (Figure 2). An approach based on the cycles of the accounting process can be used for misstatement arrangement (Sungatullina and Klinova, 2018).

First of all, it is necessary to find risks associated with the process of identifying accounting events. This process in agricultural organizations is significantly influenced by the specific aspects of

the business cycle. Some authors understand this process as determining accounting events in time including their assessment and qualifications (Sungatullina and Khuzin, 2015).

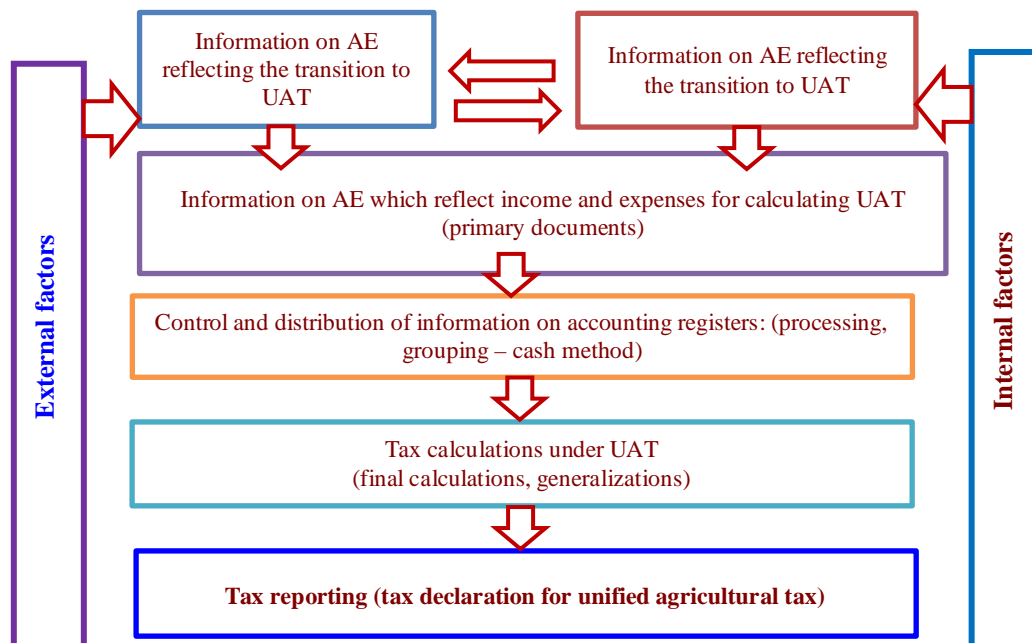


Figure 2: Stages of the accounting process for the development of information for UAT calculation

In agricultural organizations, due to the specific features of the technological process, the riskiest segment of the accounting process is the recognition of an accomplished accounting event (AE). At this stage, risks associated with the production of crop and livestock products are possible. The reason for this risk group is the transfer of inaccurate information on AE reflecting the volume of production from primary storage media to the primary accounting document what leads to an underestimation of the tax base in terms of income.

The generation of accounting and tax information for users occurs within the framework of certain assertions for accounting and tax reporting. When analyzing the accounting process risks, it is more reasonable to consider the classification of assertions for UAT tax accounting. Thus, one can use the approach to the classification of assertions for preparing financial statements based on the accounting process cycles proposed by Sungatullina and Klinova, 2018. Thus, the following grouping of assertions is possible for the classification of misstatements during UAT calculation:

- confirming the validity of registration AE on income and expenses recognized during UAT calculation, at the stage of their completion in primary storage media;
- showing the indication of AE that disclose the content of income and expenses taken into account during UAT calculation, in primary accounting documents;
- disclosing the reliability of tax base in the form of the difference between income and expenses, formed based on the cash method;
- related to the preparation and presentation of tax reporting when applying UAT.

Information on AE generating income and expenses for calculating UAT is an essential component of the unified communication process at the agricultural enterprise. The following components are distinguished in the communication process model: organizational, methodical, and technological (Sungatullina, R., 2015).

In our opinion, in the course of analyzing risks of material misstatement of accounting events that reveal income and expenses recognized during calculating UAT, it is more reasonable to take into

account the said components, i.e., any risk situation analyzed at the stages of the accounting process includes organizational, methodological, and technological components. For example, registration of accounting events in primary accounting documents involves external and internal regulation. The organizational aspect is represented by the performers of the accounting process, and the technological aspect is represented by the method of processing accounting information. Currently used IT technologies, including computer programs, to determine the risks associated with the processing and systematization of accounting information.

4.3.2 IDENTIFICATION OF TAX RISKS CAUSED BY ERRORS

The development of information flow during the preparation of accounting (financial) statements does not exclude misstatements that can be both the result of errors and fraud by employees. In this case, the identification of risks should include actions aimed at identifying critical information areas to search for the causes of misstatements.

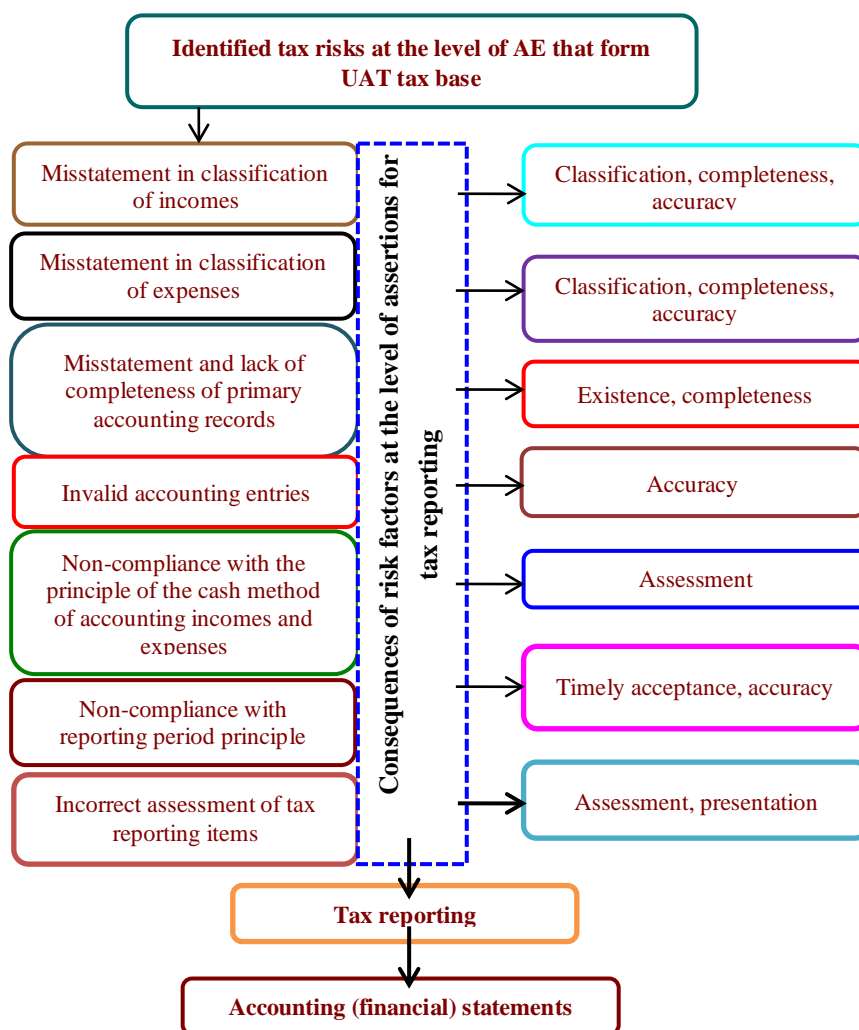


Figure 3: Algorithm for assessing the consequences of tax risks caused by errors identified at the level of AE that reflect the UAT tax base.

Therefore, the nature and content of these procedures will be associated with problem areas in the activities of enterprises where the internal control system is not efficient enough and the most of various errors and frauds occur (Yudintseva, 2017).

During the preparation of information for both accounting and tax reporting, the first stage of the accounting process is an accounting event. The risk of misstatement is due to the emergent properties

of the system associated with the asymmetry of data perception about the accounting event or with errors made by the performer during registration (Sungatullina, 2014).

Identified tax risks caused by errors are evaluated from the position of their impact on the reliability of tax base and tax reporting (Figure 3). Misstatement caused by errors is mostly as the result of a violation of income and expenses classification that are recognized during UAT calculation. For example, when determining income amount to confirm the status of UAT taxpayer, the following violations are possible: underestimation of income amount by the number of subsidies received; inclusion in the income structure of products produced on a give-and-take basis; lack of income during the period UAT application; overstatement of income amount by the amount of income from the sale of fixed assets and other assets and so on.

Table 1: Matrix of tax risks of misstatement due to fraud in the course of calculating UAT tax base (Note: E –existence; C – completeness; A – accuracy; P – presentation).

Identified risks of significant misrepresentation concerning AE that form tax base for UAT calculation	Consequences of fraud	Influence on assertions:				
		For balance sheet	for the report on financial results		For tax declaration for UST	
			income	expenses	tax base	tax amount
Deliberate non-indicating AE on income in primary accounting documents	Misstatement in regards to income in financial statements and UAT tax base in tax declaration	C,E	C,E	-	C,E	C,E
Indicating imaginary AE on expenses recognized for UAT calculation	Misstatement in regards to expenses in financial statements and UAT tax base in tax declaration as a result of fictitious accounting records	C,E	-	C,E	C,E	C,E
Concealing AE and their misrepresentation in financial statements and tax declaration	Misstatement in financial statements and tax reporting	C,E,P	C,E,P	C,E,P	C,E,P	C,E,P
Significant adjustments to the information on AE that form the tax base when calculating UAT at the end of reporting period	Misstatement in regards to tax base and calculated tax amount in financial statements and tax reporting	C,E,A	C,E,A	C,E,A	C,E,A	C,E,A
Assignment of assets (for example, cash for goods shipped) by payment through third parties bypassing the accounts of an economic entity	Misstatement in regards to tax base and calculated tax amount in financial statements and tax reporting	E,P	E,P	E,P	E,P	E,P

Misstatement in the form of violation of the cash basis principle in recognizing income and expenses has a direct impact on the size of the tax base. This type of misstatement can occur both due to the unintentional and deliberate actions of employees or performers of the accounting process. Reasons for incorrect assessment of tax reporting items can be either arithmetic errors or the manipulation with accounting data when filling out certain parameters of tax declaration.

There is no doubt that the assessment of the consequences of tax risks from the position of effect on the reliability of tax reporting is an important component in the procedure for identifying tax risks. Misstatement can be caused by different reasons and can be evaluated both quantitatively and qualitatively. Quantitative assessment is possible at the level of separate assertions for the development of accounting (financial) statements, such as completeness, accuracy, existence, and others. Qualitative assessment of misstatement depends on the nature of items. Regarding tax declaration for UAT, these items include tax base, tax amount, and others.

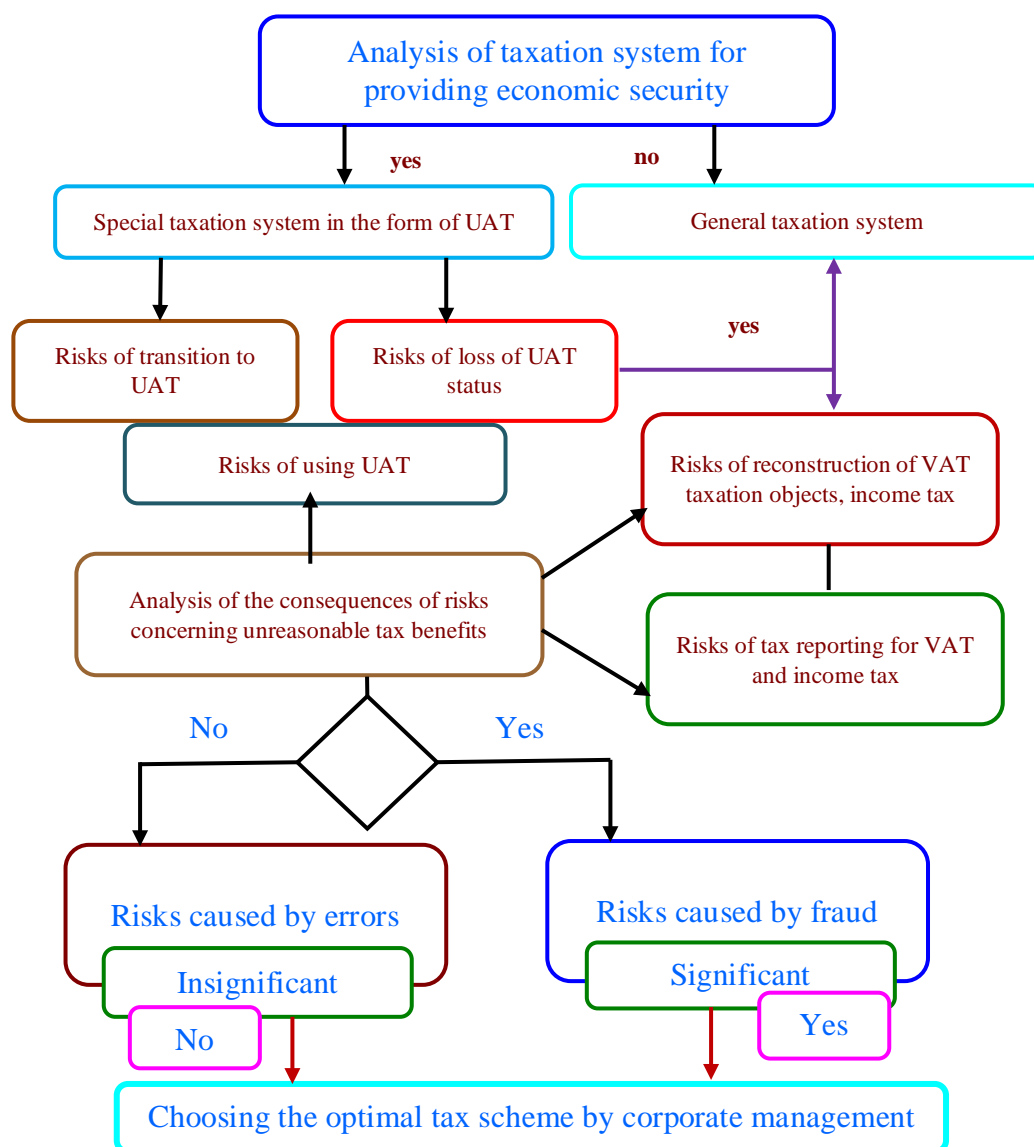


Figure 4: Algorithm for choosing the optimal tax scheme for agricultural producers

4.3.3 IDENTIFICATION OF TAX RISKS AS A CONSEQUENCE OF FRAUD

Significant misstatement in tax declaration for UAT may arise as a result of fraud by employees. Some authors systematized types and signs of fraud based on the nature of misstatements found (Sungatullina, 2014). We developed a risk matrix for assessing the consequences of identified risks of significant misstatement concerning AE which influence the value of calculated UAT (Table 1). Such an interpretation allows tracing the relationship of the identified risks of significant misstatement concerning AE and possible consequences of fraud.

4.4 OPTIMIZATION OF TAXATION SYSTEM AS THE ELEMENT OF ECONOMIC SECURITY OF AGRICULTURAL ORGANIZATIONS

Identification of tax risks for agricultural organizations during using special tax schemes in the form of UAT allows them to be assessed promptly and be used in the system of management decisions. Typology of risk situations related to a particular economic entity allows evaluating the most profitable taxation variant. In some cases, the risks of loss of the UAT status exceed the advantages and benefits of its use. The most significant of them are the risks of reconstruction of taxable items (Figure 4). In each case, corporate management should compare the economic benefits of applying a particular taxation scheme with possible tax risks.

An important step in optimizing the taxation system is an analysis of the consequences of identified risks concerning unreasonable tax benefits. The basis for it is grading the risks of use and the risks of loss of UAT status. However, the second group of risks prevails; its consequences are the risks of reconstruction of the tax base of the main taxes of the general taxation system.

When choosing the optimal taxation scheme, corporate management should take into account the nature of possible misstatement (caused by errors, caused by fraud) what allows defining taxpayer's integrity criteria (conscientious, dishonest). Thus, the criteria of integrity can be the basis for distinguishing between tax optimization and illegal tax evasion.

5 CONCLUSION

Identification of tax risks during using UAT is one of the key elements to improve the economic security of agricultural organizations. Tax risks of misstatement are divided into two groups: risks of use and risks of loss of UAT status. A developed model for choosing the optimal taxation scheme will contribute to ensuring the economic security of agricultural organizations. This model is based on an algorithm for assessing the consequences of tax risks of misstatement caused by errors or by fraud found at the level of accounting events that reflect the tax base of UAT. This research results can be recommended for practical use at the enterprises of the agro-industrial complex to identify tax risks and optimize the taxation system.

6 AVAILABILITY OF DATA AND MATERIAL

Information can be made available by contacting the corresponding author.

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