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Doctoral School of Management and Business Administration Sciences

Ph.D. Dissertation

**The Impact of National Culture on Tax Evasion through
Applying Accounting Conservatism in Iraq**

By

WISAM NEEMA HUSSEIN

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The PhD School

Name: Szent István University, Gödöllő
PhD School of Management and Business Administration Sciences

Discipline: Management and Business Administration

Head: **Prof. Dr. Lehota, József, DSc, HAS Doctor**
Head of the Doctoral School
Faculty of Economics and Social Sciences,
Szent István University, Gödöllő, Hungary.

Supervisor: **Vajna Istvánné Dr. Tangl Anita (PhD)**
Faculty of Economics and Social Sciences,
Szent István University, Gödöllő, Hungary.

Approval of the School Leader

Approval of the Supervisor

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DEDICATION

This Ph.D. Dissertation is sincerely dedicated to my beloved parents (my father Neema and my mother Maryam) and my wife (Insaf). Also, to my beloved daughter (Rafah) and my sons (Hayder, Bariq and Mohammed). In addition, my sister (Iqbal) and my brothers (Wajeeh, Ashraf, Mohammed, Dawud, Humam and Nidham).

ABBREVIATIONS

DCC	Detroit Computing System
GCT	General Commission for Taxes
IDV	Individualism versus Collectivism
IND	Indulgence versus Restraint
IRS	Internal Revenue Service
LTO	Long-Term Orientation versus Short-Term Normative Orientation
MAS	Masculinity versus Femininity
MCC	Mortinsburg Computing System
NRP	National Research Program
PDI	Power Distance Index
SCRS	Service Center Replacement System
TCMP	Taxpayer Compliance Measurement Program
UAI	Uncertainty Avoidance Index
SPSS	Statistical Package for the Social Sciences (software package)

1. INTRODUCTION

Taxation is one of the most important tools used to guide the economy in general towards social justice, economic life, public services, and life-related interests. Since its establishment, the countries have endeavoured to achieve security and stability for their peoples, implement economic and developmental projects and ensure the welfare of the society. To achieve aims, the state needs many resources to finance its budget for economic and social development. Since the tax is a deduction from the income of individuals, these individuals may resort in various ways to reduce the amount of tax and for many reasons, this is called tax evasion. The literature of financial accounting showed that accounting conservatism is the oldest accounting principles, which is due to apply to the 14th century, it has been applied in ancient times to meet the conditions of uncertainty for the protection of creditors, it has spread particularly during the economic crisis in the thirties of this century, because of numerous cases of bankruptcy, although the existence of the accounting conservatism has been made, the applied research by academics has increased significantly over the past decade, with the increasing demand for accounting conservatism by the authors and users of the financial statements since the beginning of the twentieth century, as an important mechanism to reduce taxable income, the need to apply the accounting conservatism with the emergence of the agency's theory to solve problems between managers and shareholders, the application of cost or net realizable value, when evaluating the inventory, is one of the most examples of the application of accounting conservatism. In addition, depreciation methods are applied through a low estimate of the useful life of the assets, which is a tax incentive for applying the accounting conservatism, all estimates of assets should take the less (sometimes pessimistic) direction rather than the trend of optimism, as this preserves the financial position of the company to ensure that no formal profits are distributed. It can be said that an accounting conservatism tends to bias accounting measurement, and as expected in accounting that net assets are below long-term market value (Penman and Zhang, 2002). In the other side Hofstede's leads one of the most comprehensive studies on how cultural values affect the workplace. Culture is defined as: "the collective programming of the mind distinguishing the members of one group or category of people from others". The six national cultural dimensions are based on Hofstede's research, which is used throughout the world in both academic and professional management. The Hofstede model of national culture is composed of six dimensions, cultural dimensions represent the independent preferences of each state separately (not individuals), and it is measured at the macro level. The indicators of national culture are relative, since we are all human beings, and our views are usually different, in other words, national culture can only be used in a meaningful way through comparison. The Hofstede model consists of the following dimensions: Power Distance Index (PDI), Individualism versus Collectivism (IDV), Masculinity versus Femininity (MAS), Uncertainty Avoidance Index (UAI), Long Term Orientation versus Short-Term Normative Orientation (LTO) and Indulgence versus Restraint (IND). Finally, by review the literature, the study methodology will be as follow:

1.1. Problem of study

The problems of study will be as follow:

1. Is there a statistically significant effect of the organizational culture (conservation and creativity) in the accounting conservatism?
2. Is there a statistically significant effect of organizational culture (conservation and creativity) in tax evasion?
3. Is there a statistically significant effect of the accounting conservatism in tax evasion?
4. Is the influence of organizational culture (conservative and creative) on tax evasion increases when the accounting conservatism is intermediary?
5. Is the national culture along with the organizational culture (conservation and creativity) to show the tax evasion in the bank's sample study as a result of the variance accounting conservatism?

1.2. Importance of study

The importance of study will be as follow:

1. The importance of the statistically significant effect of the organizational culture (conservation and creativity) in the accounting conservatism.
2. The importance of the statistically significant effect of organizational culture (conservation and creativity) in tax evasion.
3. The importance of the statistically significant effect of the accounting conservatism in tax evasion.
4. The importance of the influence of organizational culture (conservative and creative) on tax evasion increases when the accounting conservatism is intermediary.
5. The importance of national culture along with the organizational culture (conservation and creativity) to show the tax evasion in the bank's sample study as a result of the variance accounting conservatism.

1.3. Objectives and Scope of study

I tried to study companies listed in the Iraqi Stock Exchange, because of the lack of sufficient data for many companies, I have been base on the data of six banks and for the years 2010 – 2013. The objectives of the study will be as follow:

1. To show the statistically significant effect of the organizational culture (conservation and creativity) in the accounting conservatism.
2. To show the statistically significant effect of organizational culture (conservation and creativity) in tax evasion.
3. To show the statistically significant effect of the accounting conservatism in tax evasion.
4. To show the influence of organizational culture (conservative and creative) on tax evasion increases when the accounting conservatism is an intermediary.
5. To show the national culture along with the organizational culture (conservation and creativity) to show the tax evasion in the bank's sample study as a result of the variance accounting conservatism.

1.4. Hypothesis of study

The Hypotheses of Study: The hypotheses of study will be as follow:

The 1st hypothesis: There is a statistically significant effect of the organizational culture (conservation and creativity) in the accounting conservatism.

The 2nd hypothesis: There is a statistically significant effect of organizational culture (conservation and creativity) in tax evasion.

The 3rd hypothesis: There is a statistically significant effect of the accounting conservatism in tax evasion.

The 4th hypothesis: The influence of organizational culture (conservative and creative) on tax evasion increases when the accounting conservatism is intermediary.

The 5th hypothesis: The national culture along with the organizational culture (conservation and creativity) to show the tax evasion in the bank's sample study as a result of the variance accounting conservatism.

Why this topic

There are many tax evasion and accounting conservatism studies, especially about the relationship and influence between them, while there is no study to link these two variables with the organizational culture or national culture, this encouraged me to study this relationship in Iraq first, and studied in developed countries later, especially I had found a lot of results that need to be studied more deeply, and need to diversify the research sample in terms of time and place.

The relationship between the Objectives and Hypotheses is shown by the Figure 1.

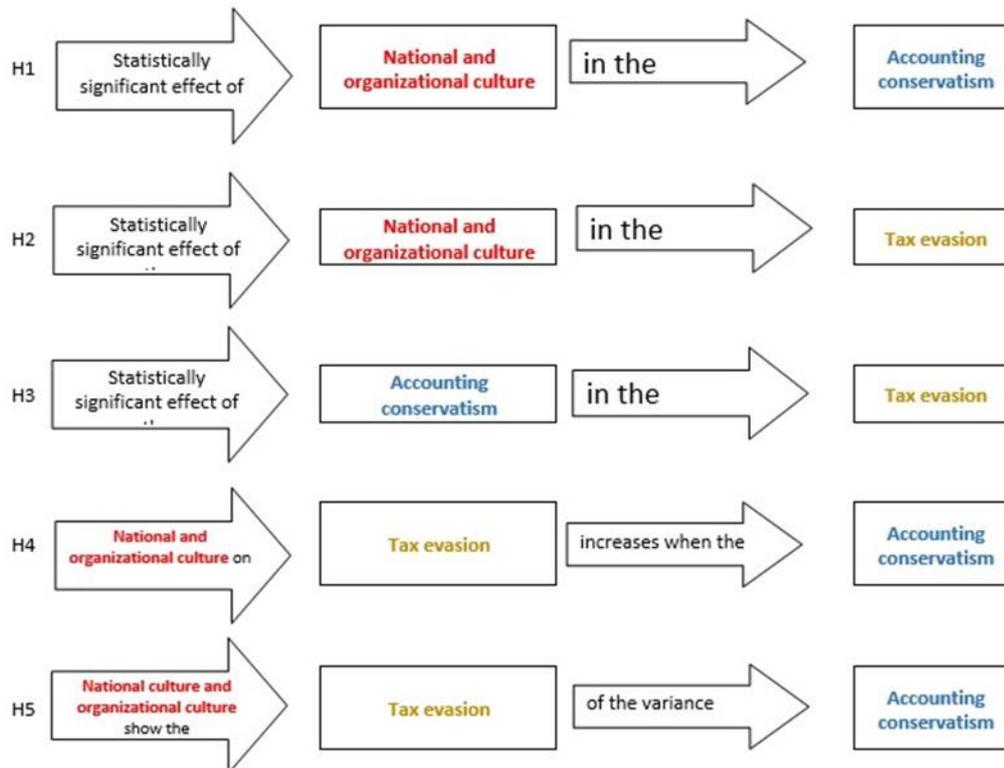


Figure 1. The hypotheses and the scope of the research

Source: Own preparing

2. LITERATURE REVIEW AND GENERAL OUTLOOK

2.1. Tax Evasion

Tax evasion is defined by the economic point of view as the taxpayer's attempt to completely or partially dispose of the tax, using illegal means, it is noted that the economic dimension deals with the treatment of tax evasion, focusing on the effects of evading the shortage of public treasury revenues, which negatively affect the projects and development plans of the government and to achieve the principle of tax justice among individuals. The definition of tax evasion from the legal point of view is an act that breaks the rules established to regulate and protect the economic policy of the Government, as provided for in the Criminal Code or in the special penal laws, here, the legal dimension is concerned with pursuing the evader and committing him as a criminal because he violated a text of the law, to protect economic policy and to apply the principle of justice, which is one of the pillars of the tax rules. Tax evasion from the accounting point of view is an offense resulting from the concealment, misrepresentation or falsification of information submitted to the tax administration in order to reduce the amount of tax or conceal a previous violation.

2.1.1. Reasons for Tax Evasion

There is several studies wrote about the reasons for tax evasion (Neck et. al., 2012, Mughal - Akram 2012, Akinyomi and Okpala, 2013, Khan - Ahmad, 2014), and its varied between the importance of the reasons, according to the point of view of the researchers, and they differed in the limitation of the reasons, but agreed most of the studies, to be as follows:

1. Legislative reasons: The legal texts are the basis for determining the imposition of the tax and income and taxable persons, "there is no tax without text". Therefore, we can find that there are several legislative factors that can generate tax evasion or help in the expansion, the most important of these factors are:

A. Lack of clarity of the legislative tax text: Legislation is generally issued to reflect the need of the society and its special circumstances, tax legislation needs especial skills by the legislator in its formulation, so as not to be ambiguous, which leads to two explanation: opens the way for the arbitrariness of the tax administration to expand the interpretation of the provisions of the legislation, which ultimately leads to injustice to the taxpayers, it also provides legislative ambiguity and misrepresentation of the gaps that the taxpayer is using for tax evasion. In both cases affect the tax thus, the parties of the relationship (taxpayer and tax administration) become adversaries, while the public interest requires trust and understanding. The existence of loopholes in the legal texts is an imbalance in the formulation of these texts, which opens the way for the taxpayers through their attempts to exploit these loopholes to avoid paying the tax. Some of them adhere to their opinion that is in his interest, and may develop this dispute to the competent authority to decide it, and this means the possibility that the decision of GCT (General Commission for Taxes) will

be of the taxpayer interest, this reduces the final proceeds of taxes, in a manner inconsistent with the ambiguity intended by the legislator.

B. Legal instability: The principle of stability or stability of legislation is one of the most basic principles that the reader learns in the law. As one of the pillars of justice, the stability of economic and financial transactions and the stability of their legal centers require that individuals be subject to well-known and stable legal provisions and rules, in which individuals arrange their actions accordingly, so that the frequency of change or modification of laws does not cause confusion and conflict of rights and obligations. To change the legal status of individuals to the detriment of others in favor of others without right, that the provisions of the tax laws to the amendments of many and continuous may be a state of instability and must result in confusion in the work of the financial authority, and may be an opportunity for some of the taxpayers exploited the lack of familiarity with the staff of the financial authority laws and instructions issued to evade paying the tax. In Iraq the situation is similar to other developing countries, where instability is characterized by most tax laws, especially the income law, that opened the door to the taxpayers to evade the tax.

C. The weakness of the tax punishment: The tax evasion is the most important tax crimes, so there must be a penalty imposed on those who commit this crime commensurate with the seriousness and importance. The weakness of the punishment imposed on taxpayer, it may not be a deterrent to taxpayer from committing such an act, with regard to the effective. Iraqi income tax law includes more than one type of punishment, such as prison, fines and interest. The penalty imposed by the state helps the evader to reduce the size of the tax evasion. The taxpayer usually balances between the amount of the tax (will pay) and the penalty, if the penalty is greater, it will encourages taxpayer to pay the tax, and vice versa.

D. Double taxation: Double taxation means the imposition of tax more than once on the same person, in order to achieve duplication, the following conditions must be met: same type of tax, the same taxable taxpayer, the same tax base, and the same period. Double taxation may be internal (within the internal boundaries of the government) or external. Internal duplication is often intended to achieve the objective of increasing financial resources that the explanation of the spread of double taxation, whether at the internal level or at the external level is due to financial and economic reasons.

The most important of these reasons: to increase taxes to meet the increasing financial burden, to hide the rise in the price of taxes by dividing the price requested between two types of tax, to discriminate in the financial treatment between the various categories of taxpayers by means of an additional tax on a class of taxpayers as well as the general tax that falls on all of them, ease of movement of labor and capital between different countries, and extend of the principle of personal tax, which requires the imposition of tax on income, to be able to determine the financial capacity of the taxpayer.

2. The authorities' tax reasons: The performance improving of tax administration and removal of obstacles are prerequisites to ensure the achievement of the objectives of economic financial policy. The efficient tax administration cannot turn a bad tax into a good tax, and cannot turn the best taxes to the worst, so that the legislative texts become a dead letter, in other words. The tax legislation does not achieve its objectives unless it is entrusted to a tax administration that improves its application and improves its implementation, therefore, the government must give its priority to the administrative of the tax system. Perhaps one of the most important points that underline the weakness of the procedures of the GCT is the weakness of human resources.

3. The economic reasons: The economic reasons make a clear contribution to the tax evasion, where tax evasion is affected by the economic conditions prevailing in the country. In the case of recovery of the economic sectors and the absence of unemployment, the high per capita income will increase the individual ability to pay the tax, and consequently less evasion, because the taxpayer does not feel the burden of the tax imposed by the government, thus, there is no justification for evasion as long as the financial capacity is high. Moreover, the high income of the taxpayers in the period of recovery leads to the center of new categories of taxpayers. It means that there is no need to increase tax rates or impose new taxes, in the case of economic recession, the government needs the financial resources to cover public expenditure and establish public projects to eliminate unemployment and revive the national economy, the economic recession means a decline in the average incomes of individuals and thus the low taxpayers' ability to pay taxes. This will encourage the taxpayer to evade, in order to provide part of his low income during the recession, on the one hand, on the other hand, the government's position about evasion is different in its period of prosperity than in the period of recession, where the countries show some form of strict to control over the period of prosperity to increase its revenues, but it tightens its control in the period of recession because of low revenues. When the economic embargo was imposed in the nineties on Iraq, which made the fiscal policy depends on sources other than oil, resorted to taxes as the second source after oil revenues, and punishments have been tightened on evaders in order to increase revenues that support the public treasury.

4.The social reasons: It is well known that any legislation or any tax system that does not take into consideration environmental conditions at all levels (economic and social) can be doomed to fail. This leads to many consequences and helps in failure the weakness of tax awareness, in addition, to the gaps and shortcomings in the tax legislation, which would provide the opportunity for the taxpayer to evade the tax, all require the consideration of the legislator of the economic and social conditions in the country to ensure their proper application. The tax awareness is a great value in the field of direct taxes, especially income tax, and there are several indicators indicating the weakness of tax awareness at the taxpayers, the most important indicators can be highlighted by the following points:

- the taxpayer believes that he pays the government more than he does or does not feel the services provided by the government and feels that he cannot continue to benefit from the services of the government even if the tax is not paid.

- the taxpayer believes that the government misuse public funds, and
- tax legislation in many countries does not meet the conditions that respect, because it has characteristics contrary to the values that give the law respect, obedience and public, and the absence of tax justice among the taxpayers resulting in psychological reactions to the taxpayers are inversely proportional to Tax Awareness. This motivation is also related to the satisfaction of the taxpayer with the performance of the government and its role in providing services to the citizen in a manner commensurate with the taxes paid. If the taxpayer feels that there is a kind of government failure in the performance of its duties by establishing service projects in his area or in providing the necessary basic services such as education and health for himself and his family, it is generated and reinforced by the internal feeling that the tax paid is without utility, which causes the taxpayer to try to stop paying the tax.

5. The financial reasons:

Firstly: the high tax rates: The main reasons that pay taxpayers to avoid paying the tax is the high tax rate, because the incentive to evade depends on the tax rate because on the basis of the gains from evasion as a percentage of income evaded (Illés et.al, 2011). Tax evasion of income resulting from the effort and work of the person is greater than taxes on the resulting income without effort or work such as lottery taxes, and inheritance taxes. In Iraq the amendment of the Income Tax Law (25 of 1999) gave the Minister of Finance to propose in the draft annual general budget of the government the amendment of the tax rate whenever economic and social conditions need. The increase in tax rates will inevitably contribute to the increase in tax revenues in the case of the stable economy, but the conditions of inflation experienced by the Iraqi economy since 1990 have made the tax rates in force before the embargo and the continuation of work during the later period works to collect a very high percentage of the taxpayer's wealth, tax evasion and tax revenues, which led the competent authorities to amend the legislation to reduce the high tax rates that were in effect before 1994, and if the prices determined under this amendment are consistent with the circumstances prevailing in that period, it is no longer so after more than five years with the constant change in the economic conditions of Iraq, and this prompted the legislature to issue a modification of tax rates whereby lower prices, that this amendment be implemented starting in 2000.

Secondly: Excessive taxation. The exaggeration of the multiplicity of taxation and its diversity causes the dispersal of its provisions and the lack of familiarity with the financial authority or those charged with it, leading to increased tax evasion. Moreover, this excessive taxation leads to the violation of the rule of the economy, one of the basic rules in the imposition of the tax, as these multiple taxes require large expenses when imposed and collected, as we see in the specific taxes, for this reason, most countries have adopted a common tax on total income such as England, the United States and Germany (Giner - Rees, 2001), it can be said that the taxpayers' exploitation of multiple taxes and dispersing their provisions is one of the main reasons for the Egyptian legislator's tendency to introduce the general tax on the total income, the main reason for the amendment was the growing resentment of the tax

system, whether by taxpayers or by the tax administration. Involved in these provisions in order to eliminate the payment of tax.

Thirdly: State policy Convention. The government's spending policy plays an important role in tax evasion, if the government spends the tax revenue it collects in useful ways; individuals feel that what they pay is beneficial to them and thus less tax evasion. However, if the state destroys the proceeds of taxes in ways that do not benefit the citizens, they will do their best to evade taxes, the explanation and analysis of each of the factors above does not mean that we are separated from one reason to another. The problem of tax evasion is attributed to a number of reasons and factors that cannot be limited, no matter how accurate, because they vary within the same country, also, no matter how tax evasion is, it has a great impact on the national economy. The tax system and evasion influences the innovation activity, too (Illés et.al.,2013a)

6. The ethical reasons: The weakness of the moral level in the group is the most important reason for tax evasion, in other words, when the taxpayer violates the tax laws, he does not feel that he is committing an error against society as he feels when steals others. Therefore, the taxpayer must have a national feeling that when he pays the tax imposed on him according to the law, he has a national duty to contribute part of the state budget to face the general burdens that lead to its benefit in the total of the nation's members. This depends on the amount of tax awareness, it is the full awareness of individuals of their financial responsibilities to society and the government, and the greater their trust in the government. The more they accept to pay taxes on an optional basis. In Iraq, in fact, there are no specific measures of tax awareness, because the government does not adopt taxes as a reliable financial source in covering public expenditures. Rather, it relies on natural resources (such as oil), the deteriorating economic conditions experienced by Iraq have also led to a deterioration in real income levels due to inflation, which has been reflected in the low standard of living of the majority of taxpayers. Therefore, the taxpayers did not realize what the tax is and its humanitarian and social goals, and the tax is considered the robbery of one of its rights and the evasion of it is a kind of intelligence and good behavior.

2.1.2. Forms of Tax Evasion

Most economists emphasize the lost friendliness between the tax administration on the one hand and taxpayers on the other, and this lost friendliness is the latter in the attempt to find a way to get rid of the payment of the tax makes the diversity of the paths taken by the taxpayer through the many forms of tax evasion, and in order to clarify each of these forms will be dealt with as follows:

1. Tax evasion according to the criterion of legality: evasion according to this criterion is classified into two types as follows:

A. Tax avoidance: Taxation is a financial burden on the taxpayer, so it works to resist it, either to get rid of it, or to lay the burden on another person. The economists despite the multiplicity of titles and different opinions about the identification and naming of tax evasion. Tax avoidance is not an offense, as avoidance of taxpayer to bear the tax or commitment to them without violating the provisions of tax legislation by moving away from certain economic activities, or take advantage of some gaps in the law. The tax evasion will be legally in two cases:

- taking advantage of the legal loopholes in the tax legislation: Individuals resort to grant of their money to the heirs during their lifetime to avoid the inheritance tax that was subject to his heirs after his death. In this case, the evader may use the expertise and competence to achieve this purpose,
- avoidance of the incident established tax: In this case, individuals refrain from doing the work causing the tax, that is, individuals refrain from buying a commodity that is known to be taxed, or may find that a particular activity is not taxed and practiced and invest in it funds such as agricultural and animal projects.

B. Illegal tax evasion: The evasion includes cheating or fraud that the taxpayer uses to get rid of it. This is a crime punishable by law, the tax fraud is an illegitimate form of tax evasion, and this is the falsification of documents sometimes and inaccuracy in other times, which are added to the list of other offenses that the tax fraud can be exercised against the laws and regulations that sponsor the tax in the country, the tax evasion has many methods, including the following: 1)

- by the accounts: the taxpayer does not keep records for income tax purposes and resort to this method when the fines imposed on the lack of record keeping few compared to the tax imposed, as well as the taxpayer forged his records and books in order to manipulate his sources of income and increase expenses,
- hide some sources of income in full, where the members of the tax departments some of those sources and hide some others, and
- manipulation of the ownership of the source of income as the taxpayer resort to formally waiver the sources of income to a charity exempt from tax, while keeping them in control of the actual source of income in order not to pay the tax or reduce the value.

2. Tax evasion according to the criterion size of evasion: There is another division of tax evasion from of how much the taxpayer can get rid of the tax, as follow:

A. Total evasion: It means that the taxpayer shall refrain from paying the tax entirely when the taxpayer is outside the scope of the tax, has no code and is not followed up with difficulty in reaching it, such as the absence of the correct address, this kind of evasion has serious negative effects because it wastes a lot of money on the public treasury and reduces the financial role of the tax department in financing development.

B. Partial evasion: It is the evasion by which the taxpayer tries to conceal part of his activity or hide part of his purchases or sales, taxpayers dispose of the tax due on one of the illegal reasons, this type is more prevalent than total evasion, for example the

attempt of the taxpayer to hide part of his sales this type of evasion is widespread in many sectors, especially the commercial sector, it should be noted that partial evasion does not cause damage to the public treasury as much as total evasion, but it is subject to the same penalty as the total evictor because the intention is to hide the correct information regardless of size.

3. Tax evasion according to the criterion of regional: The researchers division of tax evasion to an external evasion that happen outside the borders of the state, and internal evasion inside country.

A. Internal Tax Evasion: The phenomenon of internal tax evasion arose before the external tax evasion. Therefore, local legislation was the first to realize the danger to the national economy, because the tax is one of the most important sources of public revenues of the government that helps it to face many of the economic problems, internal tax evasion is defined as evasion within the borders of the government, when the taxpayer meets the tax requirements for failure to meet his tax obligations, he will violate the law, and be the offense is most often explicit and include bad faith.

B. External tax evasion: It has an economic impact on the society is the loss of a resource of government, regardless of that the evasion means legitimate or illegal, what takes into account here is not the means but the impact. To say that tax evasion at the international level is a negative phenomenon within the relationship between the individual and society. International tax evasion is defined as "the use by the taxpayer of illegal fraudulent methods for the transfer of all or part of the profits or revenues which are to be taxed within the government to another government which is not often subject to taxation or subject to a lesser type than the taxpayer which is subject to it in the first government. It is clear from the previous definition that international tax evasion is a form of tax evasion in general and that what characterizes it is that it is international, it happens across the borders of the territory of the government, which equates to the occurrence of two or more foreign government. The taxpayer attempts to reduce its tax burden by using all legitimate and illegal methods and methods, it transfers its profits outside the territory of the government to evade the local tax if they are of high value, or invest their money abroad in order to enjoy the holidays and tax exemptions established by the host country's tax law. Although international tax evasion is conceivable only through an economic perspective, we cannot fail to point out that the most important characteristic of it is the status of confidentiality, this does not mean that evasion is achieved by hidden means, but can be achieved in a legitimate manner but conceals profits that must be taxed; there are no accurate statistics of tax evasion at the international level.

2.1.3. **Methods of Combating Tax Evasion**

The government may face a shortage of resources in the public treasury and be accompanied by an increase in public expenditure, for the taxpayers, it will violate the principle of fairness in the distribution of the tax burden, the trustees bear the burden more than others, the lack of resources leads to the disruption of projects, and

socially evade the spread of social phenomenon of lack of awareness and weak ethics, and in order to achieve the purposes of government financial policies, it is necessary to make comprehensive amendments, to eliminate the phenomenon of tax evasion, that the responsibility for evasion and its consequences rests with the financial legislator and the financial management as it is on the taxpayer himself, the means of combating tax evasion vary according to the financial system of each country, it is also different from ax to the other in the financial system, the more important means for combating tax evasion are:

1. Reform of the administrative structure of the tax authorities: Tax evasion is the result of imbalances in the tax administration structure, this is a common phenomenon in developing countries, these countries should reform their regulatory structures (including tax) through the establishment of specialized tax services, and provide with the new methods in tax accounting staff with holding training courses, and involve them in financial and tax seminars, and stimulate cultural awareness related to their work, and attention to their economic conditions, there is no doubt that all this is linked to a large extent to the need for improvements and reforms on the administrative and financial system, then the integration of organs in the management of government affairs and individuals, perhaps the most important of these means are:

A. The availability of sufficient and efficient elements: The success of any executive body in securing the needs of the administration, the real-time tax, the possibilities of expanding economic activity and increasing the number of taxpayers depends mainly on the employees of this apparatus, capable and able to carry out their duties, and this requires the employee to be aware of the ethics of the public and the speed of the axiom in a way that prevents the transfer of the taxpayer's fraudulent means to the tax administration.

B. The use of modern technologies in the tax services (computer, internet and electronic financial payment): cannot hide the extent of the service provided by the modern technology of the tax system and do many tasks (easily and accurately and efficiently). In addition to the speed of completion, in order to avoid the shortcomings of the traditional administration by failing to catch up with the large expansion of economic activity and the increasing number of taxpayers. Also allowed the use of computer collection of data on taxpayers and get them when needed very quickly, and this enables decision makers to build their decision thereby reducing the chances of evading many of the taxpayers. In Iraq the modern technologies system has not yet fully relied on the work of the tax authority, and has not used it in the required manner to facilitate the work of the tax authority and to benefit from it in accelerating the examination of the many transactions received by the GCT.

C. Designing an efficient information system: By demonstrating the importance of using the modern technologies, it must be noted that an advanced information system should be designed because it is of great importance in all areas of life and in the area of tax accounting especially. The large expansion and rapid development of various activities is accompanied by an increase in the number of taxpayers, and the large

amount of data and information required by the tax administration to adopt integrated and sophisticated information systems, and must use the computer real and actual use, and the consequences of this trend. The capacity of databases and the inability of manual management to deal with this large amount of data and information, in addition to the time it provides and speed up the completion of transactions, and it has the psychological impact among the taxpayers believe that no one can escape the tax because of the adoption of computer programs developed, which greatly reduces the cases of tax evasion.

D. The accuracy of the taxpayer's database: It refers to the identification and registration of taxable persons in the records of the tax administration. There is no doubt that the adequacy and efficiency of the tax administration depends mainly on the ability to restrict and distinguish the tax community under the law that is concerned with its implementation. It is important to emphasize the role that this role plays in the prevention of evasion. The success of tax administration in this case will limit the scope of tax evasion, database process is the first step in determining the tax society, and it is important to note that most of the countries especially the developed countries. Interest in the process of taxpayers in the use of the best means and efficiency in order to achieve success to perform this task and eliminate the various forms of tax evasion.

E. Raising the level of financial and moral support for tax employees: The employee depends primarily on the management of his public affairs on the financial or moral provisions provided by the government to meet the various requirements of his life. It is natural that the tax administration officer, like any individual, is linked to the good performance of his work in terms of the amount of financial and moral compensation that he receives. This does not leave him with a sense of appreciation and respect. Therefore, it is necessary to verify to the tax officer all the factors that involve himself satisfaction with his job and achieve the means of self-immunity, in order to perform his work in the required manner.

2. Tax awareness: Firstly, it should be pointed out that the process of raising the level of tax awareness is a social process, and requires time and effort, because social development by its nature is slow and gradual, any development effort should focus on human development, and focus on the development of other tools such as tax law, tax administration and other factors are important, but the most important thing is the process of human development, this tax does not require that the taxpayer knows his duties and pays, but there are duties that the society and the government must undertake to raise tax awareness, there are duties that the tax administration must carry out, it will be studied as follows:

A. What the community and the government have obligations to:

- introduce lessons to show the importance of tax in schools, institutes and colleges: Introduce some of the meanings of the tax and its objectives and importance and national dimension through the curriculum of educational lessons in

primary and secondary schools and universities to instill values of public responsibility in students, especially children to be part of their future behavior, and

- educating young people on the principles of the general commitment to society and the state: It is through information programs that address young people and deepen the sense of public responsibility as well as what developed countries do as they put forward what they want through short stories in an attractive way to appeal to the new generation.

B. The duties of the tax administration shall be:

- establishment of a body to regulate the relationship between the taxpayer and the financial authority: this body is responsible for providing the types of assistance needed by the taxpayer. This body has many tasks such as assisting the taxpayer in the interpretation and clarification of some legal materials through the interview or correspondence or telephone courses and seminars to increase the responsiveness of the taxpayers to the tax and to help the taxpayer to recover the increases paid by more than it and other tasks. It is regrettable that the direct tax administration in Iraq is delayed in finding this entity. A public relations and media department was created in 1998, it needs real support to carry out its major tasks, including informing the citizen that the tax has a national dimension and not just money imposed by law, and
- dissemination of tax laws and the facilitation of the taxpayer's access to the development of legal culture. Because knowledge of the law helps to take a conscious position in life, this helps to know the taxpayer of the obligations resulting from the knowledge of his rights and at the same time avoid attempts to extortion claiming the possibility of reduction of the amount of tax (Illés et.al.,2013b) When the taxpayer knows that the amount of tax achieved by taking into account the various economic and social conditions, the problems related to the lack of awareness if not missing, it will decline in a definite, which leads to a deeper understanding of the issue of taxation and its role in society and Then raise the level of tax awareness.

3. Control through punitive method: The methods of punishing taxes are a remedial measure aimed at deterring evaders, and despite the application of preventive measures altogether, not all government have succeeded in eliminating evasion, all countries impose penalties for breaking the tax law, this is because tax evasion is a serious crime affecting the whole society, if theft is a crime that has been denied by heavenly religions and statutes, the most dangerous type is the theft of society, all of which is evasive, this is because of the gravity of this crime, preventive measures as it sees fit for the conditions of its community. In Iraq, the legislator did not decide to form a specialized body or to use the police to combat tax evasion, which results in failure to detect cases of evasion, especially since the tax cases presented to the financial authority are too many that the tax officer cannot fully grasp or disclose the means various evasion that the taxpayer uses to get rid of the tax.

4. International method: In order to combat tax evasion, many international agreements have been concluded with a view to exchanging information on the

taxation and collection of taxes, as well as the exchange of assistance between governments. In this direction, the League of Nations has been appointed to combat evasion and has thus developed two draft agreements; one on administrative assistance and the exchange of information, the other on facilitate and collect taxes between countries, perhaps this is that many countries did not take these two agreements so as not to lead capital abroad. To combat tax evasion and minimize it to the greatest extent possible, it is necessary to work on the concerted efforts of legislator, administration and community to:

A. Moderation in the distribution of tax rates, where the more equitable distribution by reducing the high ratios and special ratios have become one proportion.

B-Tightening sanctions on evaders so that the penalties reach twice the tax for the smuggler, making evasion a risky adventure.

C. Facilitating many procedures and granting benefits to those who are committed.

D. Requiring registrars to maintain records and accounting restrictions and to issue tax invoices.

E. Taxation of the collection of the tax in the sense of collecting it in stages, so that the tax evader evades part or all of them.

F. Strict application of the law, thus achieving satisfaction of justice.

2.1.4. The Effects of Tax Evasion

The phenomenon of tax evasion of all types have a significant role in influencing the process of economic decline in general, and then related to this relationship a series of related link. It increases the efficiency of the tax through the possibility of using it as a tool to guide economic activity in the right path to serve the purposes of development, achieve justice, improve income distribution, reduce disparities between classes, ensure fair contribution to tax burdens and contribute to restricting consumption and combating inflation. Most of the fiscal policies adopted in all countries depend on the size of the financial flows derived from various types of taxes, in order to determine the amount of revenues required for development and work to collect them, and determine the tax rate through which it depends. The tax evasion, in addition to constituting a loss of public treasury funds, has multiple effects, as follows:

1. The financial effects of tax evasion: The reconstruction and development needs in Iraq are very large and it seems that the resources currently and in the near future are insufficient to meet these needs. Especially when compared with Iraq's external debt, the resources will not be sufficient to meet the requirements of reconstruction and development. In the current circumstances, requires a significant reliance on the tax system by the government in financing its public expenditure. The tax system is usually the primary source of budgetary resources supplemented by secondary sources and depends, of course, on the tax system followed, similarly, the efficiency of this system depends on the degree to which it is achieved, and the integrity of the tax system depends on preventing evasion and preventing any attempt to evade pays

the tax. The effects of tax evasion cannot stand at the limits of a decrease in the proceeds of tax revenues, but for tax evasion other revenue. Due to financial evasion financial tax evasion leads to a significant loss to the public budget of the state represented by a decrease in the tax revenues, this leads to the inability of the state to carry out its various functions, this leads the government to resort to other sources of funding and put it before many options to avoid the budget deficit, these options are:

A. Raise the tax rate: we mean the tax rate to the tax base is the amount deducted by the tax from the money subject to them, and raises the tax debt choice between two methods to calculate the value. Namely the method of distribution and method of identification, distributive and standard tax, since the price of taxes is to be attributed to the tax base, since the origin of the tax base is national income. Then we must know the amount of this percentage, and whether there is a limit should not exceed this percentage, because the tax authority cannot raise the tax rate indefinitely, because there are tax limits that cannot be exceeded and these limits are called taxable capacity. In general, tax energy is defined as the productive capacity of the society minus the level of consumption necessary for money, and it is also known as the rest or the remainder of the economic surplus, after excluding its investment. It should also be noted that the high tax rate has an impact on both direct and indirect taxes. In terms of direct taxes, these taxes are characterized by the possibility of increasing their revenues by raising their price. If the government needs additional funds to meet certain circumstances, which helps to raise the price, that these taxes have a relatively stable earnings because they impose on the wealth and income, which is characterized by relative stability such as ownership and dividends, and the benefits of bonds and salaries, and on this basis are direct taxes more appropriate to achieve social justice. They impose on capital or income, which are clear elements of the ability of the taxpayer and then can be a gradual increase in price according to this ability. As a result, we see that raising the tax rate to compensate for the continued tax evasion is a shortage in the government treasury, which in turn increases the tax burden on taxpayers who do not resort to evasion; this leads them to seek ways and means to avoid tax evasion similar to their peers, to continue and increase evaders.

B. New cash release: The new cash release is intended as a method of financing public expenditure, which is to create an additional quantity of money that will be transferred to the State for use in financing its public expenditure. It received from other sources of income; the monetary issue is one of the financing means that has generated much debate, divergent opinions and many reservations, where the state uses to finance its expenses by issuing cash when other resources, such as taxes, are unable to provide sufficient funds to finance expenditures. That are increasing at rates that are not consistent with the increase in other resources, or the cash release may be used to counter a budget deficit, either for low revenues or to provide the necessary liquidity. The clear and precise rules designed to regulate the monetary issue should be established within a framework of possible flexibility that prevents recklessness, over-issuance and placing in circulation. The gold coverage of paper money is the appropriate solution to ensure the stability of the purchasing value of

paper currency to the maximum extent possible, and thus ensure that the currency credibility with the people and help the government to proceed in the process of economic development. In general, the process of issuing cash is a double-edged sword, as it must first be productive in the economy with a great degree of flexibility, and secondly that there is surplus in the elements of production.

C. Borrowing: The government resorted to borrowing to fill a temporary deficit resulting from the mismatch of revenues and expenditures throughout the year or to face a real deficit due to insufficient tax revenues to cover public expenses due to tax evasion. It causes the state to fill this deficit through the loan; a general loan is defined as a cash amount that is borrowed by the government or any other legal person from third parties. The government undertakes to repay it and the interest in accordance with specific conditions. The economic impact of loans depends on several factors, including the source of such funds; the loan may be internal or external, where the government resorted to the internal loans, which means is the loan obtained by the government, regardless of the real source of funds. The State for local loans with great freedom as it sets the terms of the loan different, local borrowing ability is far too large to borrow from abroad, as it cannot dictate its terms to the other state or to savers outside the borders, at the same time. The government is working on the success of its loans by exploiting all political and social considerations. It inspires in the hearts of the citizens the spirit of patriotism and the national duty to push them into subscription, they also offer their loans after studying the prevailing economic situation and knowing the factors that are conducive to the success of loans, the government may not only collect the existing savings, but also seek to increase the amount of these savings and direct them to subscribe to government bonds. This leads to an increase in the debts of the state because of the large amount of interest to be paid annually, which forces it to raise the price of taxes or increase the number of taxes and this has a negative impact on the taxpayers, which leads them to find Ways to evade payment of this increase in taxes.

D. Utilization of the revenues of the economic plan: The financial plans are used as a basis for the preparation and consistency of scientific plans, such as the overall financial plan for the national economy, the financial system resources are shown and used to coordinate the various financial plans and clarify the movement of financial resources for society, and determine the extent to which the objectives of the national economic plan need financial resources. It is also known that tax revenues finance current expenditures, permission is granted, the lower the tax revenue, the lower the current expenditure.

2. The economic effects of tax evasion: Tax evasion is also known to have adverse effects on the national economy and on the society. The result is a reduction in the proceeds of public resources and consequently resorting to a fiscal policy that reduces public expenditure. It leads to a decrease in investments on the one hand and low level of services provided by countries on the other. In addition the lack of tax revenues caused by tax evasion raises the price of existing taxes or imposes new taxes to compensate the government for the shortage resulting from evasion, which makes the government obliged to cover the fiscal deficit by issuing cash or obtaining

internal or external loans, a problem with the repayment of loans and their benefits and the consequent other similar matters.

A. The impact of tax evasion on private and entrepreneur consumption expenditure:

It is known that taxes have a real impact on the volume of private consumption, by reducing the rates of private consumption expenditure and preventing the increase and achieving savings to enable the government to reinvest them. The tax allowances can increase the research and development (Turzai-Horányi et.al.,2014). In this way the tax evasion can be reduced.

B: Effect of tax evasion on savings: The effect of taxes on savings depends on the determinants, saving is a strong relationship to consumption, as consumption depends on the income level on the one hand and the tendency to consume on the other. Depending on the determinants of the behavior of the members of society, there is no doubt that the decision made by the individual to consume is at the same time a decision to determine the level of savings. As it is known per capita income is distributed between consumption and savings. Taxes of all kinds and as a rule will reduce the amount of income available to people, thus reducing both consumption and savings. The rate of decline in savings is greater than the reduction in consumption. High-price taxes, which cut a significant portion of income, lead to a contraction in private savings, especially for large incomes. Many of which are directed to savings while this is not the case for small incomes where the increase in the value of the tax has no significant effect on the ability of the owners to save due to the small or lack of surplus that exceeds the need for consumption. Through the analysis above, we note that tax evasion will affect the national economy by raising consumption rates and reducing saving rates, and this leads to the cessation of many of the development projects that benefit the country.

C. Impact of tax evasion on investment: We have also learned that taxation has a "significant" impact on savings, either to limit the possibility of savings, to induce savers to spend, or to make compulsory public savings that offset voluntary saving and divert resources from consumption to investment. The tendency to invest depends on the one hand, on the prevailing interest rate in the market and on the marginal adequacy of capital. On the other hand taxes affect the tendency for investment by influencing the marginal adequacy of capital that is, by influencing the rate of profit, increasing the tendency for investment with increasing profit opportunities and increasing rates, falling with their decline, and taxes on income. Particularly progressive taxes can reduce investments directly because of a reduction in investor profits. The tax can be used as a tool for channeling investments between different economic activities, through an excellent tax treatment report for economic activities to be encouraged, and a severe tax treatment for activities to be contracted, the rise in this role and the increase in its revenues, which are characterized by low and low proportion to national income compared to the situation in the developed countries can expand the programs of government investment to a large extent and address the lack of savings and private investment. Therefore the tax evasion has negative effects on private investment and national investment. The prevalence of evasion in a particular activity means that, the activity has evaded the payment of its

tax, as the tax forms part of the production costs, less than the costs of the activities for which the owners fulfilled their tax obligations.

3. The social effects of tax evasion: The impact of tax evasion is not limited to economic and financial, but extends to the social aspects inextricably linked, in order to consider the tax weapon in the hands of social and political systems in directing the economy and society in the direction of another. It is also known that the goal of the state in taxation is to achieve justice in the distribution of wealth among members of society and raise the level of living for the poor, and reduce the disparity between the strata of society, as well as to reduce the purchasing power of the rich and transferred to the poor through public expenditure and various services exercised by country. There is no doubt that tax evasion is one of the obstacles to achieving the social goal through the achievement of this goal of the violation of social justice and class differences among members of one society. Economic development in the modern sense is linked to social, political and financial justice, and tax policy must at the same time aim at further development within a framework of social justice, the weakness of tax efficiency in the redistribution of incomes in Iraq cannot be separated from the problem of tax evasion; one of the reasons for the weak tax efficiency is the low tax revenues, in other words, the tax revenues were not able to keep up with the increases in transfer costs, lower tax revenue is inevitably due to tax evasion.

2.1.5. The Environment of the Tax System in Iraq

Communities tend to organize their various activities through a tendency to government intervention, which is a feature of the Iraqi environment; therefore, the external tax system environment is composed of two groups of elements according to the following:

1. Environment tasks include:

A. Tax legislation: It is natural in an important issue such as tax, which combines constitutions to establish the rule of law in matters of choice of types and impose and determine the interest and prices, provided that the provisions of the law within the limits of the tax structure and technical regulation of the tax only, but extends to include all the general rules tax collection procedures, methods of challenging tax administration procedures, timing and conditions, and many other issues that fall within the framework of tax accounting procedures between tax administration and taxpayers, the Income Tax Law No. 113 of 1982 and its amendments are the most prominent tax legislation in force at present.

B. Taxpayers: Access to taxpayers is the goal of the tax administration, the large percentage of educated taxpayers helps to raise tax awareness, the tax administration and other parts of the system facilitate tax accounting, dealing with them, the timing of payment of the tax, and their awareness of the consequences of the commission of tax violations to comply with tax accounting and payment of taxes assessed.

C. The level of tax awareness: aims to raise tax awareness among members of the community to motivate them to perform their duties in accordance with the provisions of the law voluntarily, and to provide them with the opportunity to avoid falling under the punishment and it is important to the success of any tax reform program to recognize that individuals will pay taxes to provide them with public services, so there is an urgent need to raise tax awareness among the taxpayers even when they sit in school, so that the citizen will be aware of the future obligations that he must fulfill towards the government, which are certainly corresponding to the rights and public services demanded by his government.

D. Supporting bodies: There are many government departments and organizations that provide significant efforts to the tax administration in applying the provisions of the tax law as well as their contribution in providing information that helps the tax administration to carry out accounting with the taxpayers through:

- contributing to know taxpayers by informing the tax administration about new activities,
- provide information that helps to restrict the income achieved by the taxpayers through contracts, tenders and leases, and
- oblige the contracting persons or their clients to submit a certificate from the tax authority as a condition for contracting or dealing with them. In Iraq, a percentage of not less than 10% of the amount, which is distributed encouraging bonuses to employees working outside the tax administration in various sectors chock to tax work to ensure responsiveness and performance required, however, after the events of 2003, the incentive system was stopped, which stopped granting these bonuses, which led to a clear impact on the supporting administrations.

E. Tax Judiciary: The judiciary is the constitutional authority concerned with the application of laws and the verification of the integrity of their application and exercise its jurisdiction in the presentation of disputes on it, if the work of the executive body is necessary to put the law into practice, if the judiciary is necessary to ensure the validity of implementation, the tax courts have the function of judicial control over the proper application of tax legislation and the achievement of tax justice, which is the right way for taxpayers when they feel arbitrariness or overestimation of the tax burden or when they are denied the benefit of some rights or when some penal provisions are adapted against them.

F. Accounting and auditing: The profession of auditing and control of accounts within the framework of accounting to create confidence in the accounting data provided by accountants in business to others, the tax administration is one of the most prominent users of the financial statements provided by enterprises and persons charged with tax, Al-Shirazi (1990) notes that the legislation of laws that imposed income taxes was one of four fundamental factors behind the development of accounting, it has helped to expand the profession of accounting and increase the demand for its services and increase attention to the problems of determining accounting income as the basis or starting point in the account taxable income. GCT is still one of the beneficiaries of the financial statements of the taxpayers, whether they are companies or individuals, in many cases, they are the only party to prepare

the financial statements for implementation of the provisions of the Income tax law and the commercial bookkeeping system.

2. The general environment: The group of factors and influences indirectly on the performance of the tax system include:

A. Technological and mechanization of work: Technological progress is one of the major forces that has a role in influencing the quality of services provided and is a constant and rapid variable. The widespread use of personal computers and Internet networks are examples of global technological progress. It is not possible to hide the extent of the service provided by the technological progress of the tax system and to carry out many tasks easily, accurately and efficiently. The computer and advanced storage devices are used to avoid the technical shortcomings of the management, the inability to catch up with the large expansion of economic activities and the increasing number of taxpayers. It also allows the user to collect all the data related to the taxpayers and to obtain the necessary information that helps the decision-makers to build their decisions on a sound basis without causing unfairness the public treasury, thus missing the opportunity of many taxpayers trying to evade paying the tax.

B. Financial statement: Financial statement it is well known that the Iraqi legislator issued a system of keeping commercial books for the purposes of income tax No. (2) of 1985. In order to regulate the transactions of the taxpayer and restricting all profits and losses related to his activity, and then estimate the tax after submit the financial statement on his work at the end of the year, where the Iraqi legislator gave the right to the financial authority to ask those who were subject to tax to submit this report before the first day of June of the year, the taxpayer shall have committed a contrary act punishable by law.

C. Media Organizations: Media organizations relate to their audience through various media, including TV, newspapers, magazines and radio, and over the years has been a huge development in the means used in the declaration led to the emergence of a new means of communication, social networking sites, huge linking tens of thousands of people with each other. Organizations have begun to adopt social media as a means of advertising because of the strength and possibilities that have made these organizations change the way they do their work. Currently the commission has developed a website on Facebook. However, following up the page we find that the number of follow-up did not reach 5000 and this also indicates the weakness of the use of social media to reach the taxpayers.

D. Constitution: Each government has a constitution determines the system of government and achieves its elements whatever the nature of the political system prevailing in them. The constitution is considered the administration to achieve a balance between power and freedom, based on the fact that the authority of the government. It is an absolute necessity as it represents the organizational aspect of the organized society in its different aspects and fields. Some conclude that the balance between power and freedom is achieved through documentation between

two things: the first is the recognition of the need for power and the need to strengthen it to the extent necessary to achieve collective security and peace, and the second is not to exaggerate their support and strengthen, so as not to end up that the power of materialism becomes authoritarian, so the public authority must be neutralized and subject to certain restrictions in order to prevent it from controlling and tyranny.

2.1.6. The Tax Policy in Iraq

Tax policy is used in different countries to achieve specific goals that play a role in determining existing political, economic and social philosophy, making tax an effective tool towards achieving these goals, for the purpose of identifying the motivational reasons that help to increase the size of tax evasion and try or reduce it, I studied the reality of tax policy in Iraq, this is to diagnose the strengths and weaknesses of the existing tax system, where the tax structure and tax policy objectives will be studied as follows:

1. The tax system structure in Iraq: The tax system structure is defined as the tax collection applied in a country, the tax structures study is particularly important in financial studies, because the tax structure is one of the tools used by governments in their efforts to move their economies from bad to good situation. According to the International Monetary Fund, the structure of tax system consists of the following:

1. income tax and profits, 2. social security deductions, 3. property taxes, 4. taxes on goods and services, and 5. international trade taxes. The tax system has a significant impact on economic development, especially in developing countries, as the extent of tax deduction affects the level of public saving, and thus the size of resources available to build new capital, taking into consideration the importance of public investment in creating the infrastructure necessary to pay private investment, the components of the tax structure in Iraq can be addressed as below:

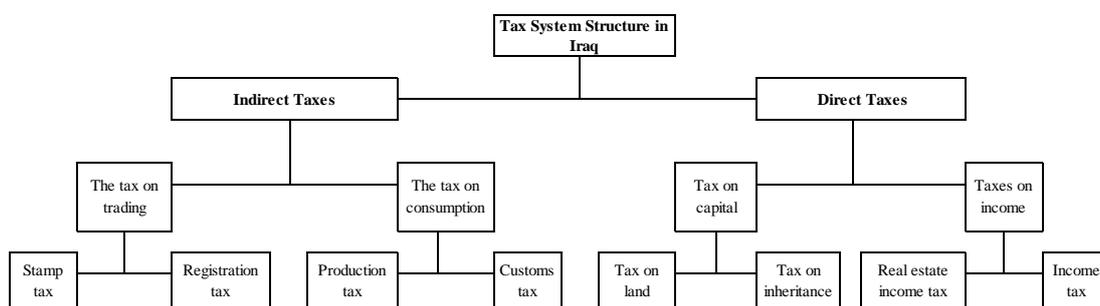


Figure 2. The Tax System Structure in Iraq
Source: own preparing

Income tax: Income tax (type of direct tax) will be the focus of this study: Modern financial studies recognize that the most important types of direct taxes are income taxes due to the nature of income and its validity as a taxable item. It is in nature

similar to the tax both are characterized by periodicity, renewal and frequency, and its validity stems from being the safest criterion. That is often used to measure the financial decisions of individuals, the periodic and renewable nature of the tax assumes the same character in its interest, and this is what is available in the income, which ensures the continuation of the proceeds of the tax and renewing without the source. Here it can be decided that the stability and non-renewal of the tax base in front of the renewal of the tax and repeat it will lead to the elimination of the tax source, which is the capital, in order to form a general and comprehensive picture of income tax, it is necessary to define the concept of income in general and its concept in the Iraqi tax legislation in particular, as follows:

Income concept: Income is one of the most common expressions; income is linked to economic, technical, financial and social terms, which explains the multiple definitions of income. Income in its economic point of view "is the surplus that a mature man can prepare himself to spend in a certain period of time without diminishing the value of his capital, the definition of income has raised a difference between the categories of public finances, some of them narrowing the definition of income and knowing the income in view of its source and some of them expands the definition of income to make it inclusive of any increase in the financial ability of the taxpayer, thus we have two theories of income definition: Source Theory (traditional theory) and Theory of enrichment (Budget or Modern Theory).

A. Source Theory (traditional theory): This theory is based on traditional financial thought, as income is defined as "all cash money, which can be appreciated by the individual, periodically and regularly from a viable source, according to this definition, income is characterized by the following:

- cashable: this means that income tax is not required to be a sum of money, but it is sufficient to be evaluated by money, such as in-kind benefits granted by the employer to producers such as free housing. These benefits should be considered as income because they can be valued in cash, in contrast, personal benefits that do not make money should be excluded, such as enjoying the paintings on the walls of the house or listening to music, and
- the principle of periodicity and regularity: it means that the money is renewed regularly and periodically, non-renewable money is not an income, such as profit or abnormal revenue obtained by the result of casual deal such as lottery, compensation for damage and profit speculation on the stock exchange, this is not classified as income.

B. Theory of enrichment "Budget Theory" (modern theory): Some call it the theory of increase in positive value for the taxpayer. Income according to this theory is not only characterized by income, which is characterized by periodicity and frequency, but also any increase in the value of the capital. That is the income is a surplus whether the source is fixed or abnormal or as a result of an increase in the value of the assets. If this value is the source of the valuation of these assets and the introduction of the theory of the budget leads to the expansion of taxable income. It

proceed equal to the net income of the taxpayer, the current tax legislation adopted income according to the budget theory. This is the income that includes the profits of the ordinary investment plus the realized capital gains after taking into account the different forms of these capital gains depending on the circumstances and reasons of origin. In fact, the traditional theory is accepted by taxpayers because it defines the concept of income in the narrowest way. In contrast to the modern theory, which expanded in the concept of income, the difference in the monetary value of the economic power of the person between two specific dates, each increase in monetary value at the beginning and end of this period is income taxable, that is to say, all that arises from an increase in the economic ability of the taxpayer is an income, whether obtained periodically, regularly or in an indirect manner, and this is the essence of modern theory in the interpretation of income. There may be a differentiation between either of the two theories that can be relied upon to achieve tax policy objectives. After understanding the concept of income and the concept of income tax in general, it is necessary to see the concept of income in the Iraqi tax legislation and the date of the inception of the first law of income tax in Iraq as follows:

The concept of income in Iraqi tax legislation: The Iraqi tax institution is one of the oldest tax institutions in the Arab world, as Iraq began enacted its first income tax law after the establishment of the national government in 1920, the income tax law was passed in 1927 by Law No. 52 and the income tax directorate was established. Tax laws in the rest of the Arab countries were issued in the 1940s. However, the tax legislation of the Ottoman Empire has prevailed in Iraq for centuries, which means that Iraq has a legislative history in the field of taxes for centuries, in 1982, the General Income Tax Directorate and the Directorate of General Imports were merged under the GCT at 1982. GCT is one of the government institutions directly related to millions of Iraqi society as well as many of companies and citizens of different nationalities, the previous tax laws should be comprehensively reviewed so that there is a comprehensive and clear picture of the historical path of income tax in Iraq. Historical stages of the Iraqi income tax law: Where the stages will be divided according to the tax laws that were established in Iraq according to the years in which these laws were established, as follows:

1st Stage: The Income Tax Act No. 52 of 1927: the income tax imposed in Iraq for the first time during the British occupation of Iraq on 28 May 1927 by Law No. 52 in force in 04/01/1927, as mentioned previously. Iraq is the first Arab country to implement the Income Tax Law it was imposed in Egypt in 1939 by Law No. 14 after it cancel the system of foreign concessions. Income Law No. 52 of 1927 defines income as "the total income mentioned in Article 5 of the Act". Article 5 of Law No. 52 of 1927, on the subject of taxable income, stipulates gains and profits arising from trades, businesses, occupations, businesses or services, as well as interest, liabilities and dividends, as well as pensions and annual allocations. This law was adopted in the narrow mean of income (source theory) mainly in applying, where the "English tax legislation" is the main source of the Iraqi income tax law. It did not distinguish between the individual person and juridical body, the tax has been classified as in

kind, since no family allowance or minimum subsistence was allowed. The single tax system was adopted the tax is imposed on the total income derived from the capital or the common component of both.

2nd Stage: Income Tax Act No. 36 of 1939: In 1939, the Income Tax Law No. 52 of 1927 and its amendments were superseded by Law No. 36 of 1939, This law came to the income tax with some new principles and important changes in the price of tax and exemptions. This law defines the income tax as "the total income in Article 2 of this law and the remaining after the deducting and exemptions provided for in this law, it was decided to subject profits and income arising in Iraq which are not subject to any other tax to the income tax. This law is the principle of distinguishing between married and single in terms of permission, and also decided to grant special permission to children within a higher limit as this principle is one of the most important principles of personal tax.

3rd Stage: Income Tax Act No. 85 of 1956: As a result of the economic, political and financial developments that took place in the post-war world countries (including Iraq), which resulted in an increase in government revenues from oil revenues and changes in the social and urban level, as well as the noticeable activity in the real estate speculation market, which was reflected in successive amendments, during which the Iraqi government decided to change the financial and economic conditions in Iraq and the emergence of some deficiencies when applying the Income Tax Law No. 36 of 1939 and the ambiguity of some of its acts, because of the many amendments made to it, which has become difficult for employees and taxpayers knowledge of its interpretation of texts, therefore, a committee of Iraqi experts was assigned to draft a new law to deal with the error and ambiguity that accompanied the old law, in order to keep abreast of the developments then; Income Tax Law No. 85 of 1956 was passed. This law defines the income tax as "the revenue of the net taxpayer who receives it from the sources specified in Article 2 of this law". This law replaces the word "income" In the previous law with the word "revenue", to be broader than the previous law, the law is clearer, and modern theory is mainly used in the explanation of income, it expands the rule of tax coverage, including occasional and capital profits, the law discriminates between married and single persons, it also distinguishes between resident and non-resident, and makes the maximum rate of tax increase to 15% for both resident and non-resident.

4th Stage: Income Tax Law No. 95 of 1959: After the revolution of July 14, 1958 and what was approved by the government to review all Iraqi taxes, the Income Tax Law No. 85 of 1956 and its amendments were superseded by Law No. 95 of 1959, perhaps the most important principle of the new law is to integrate the income of the taxpayer "resident" taxable income tax and subject them to a uniform scale in accordance with the principle of justice, to bear the burden of tax instead of the multiple tables that came in the previous law.

5th Stage: Law No. 113 of 1982: This law came after the Income Tax Law No. 95 of 1959, and the income was defined by the same definition of the previous law No. 95

of 1959, article 2, paragraph 2, refers to the expression of income which is "the net income of the taxpayer obtained from the sources set out in article II of this law", the second article classified sources of income as:

- profits of business or of a commercial nature, industry or occupations,
- interest and commission,
- agricultural land rent allowances, salaries, pensions, benefits and wages, and
- any other source exempted by law and not taxable any tax in Iraq.

The income sources that are taxed in this law are the same sources mentioned in the previous law No. 95 of 1959, the follower of the articles of this law finds that the Iraqi legislator took a middle position between the traditional theory and modern theory, as in the previous law No. 95 of 1959. The current law also takes the theory of source as well as the theory of enrichment, through what is mentioned in Article II of Law No. 113 of 1982, and mentioned in some paragraphs that are characterized by periodicity and consistency such as salaries and rent of agricultural lands and others, and the sixth paragraph stipulates that every source of income that is not subject to any tax subject to income tax.

2. The objectives of tax policy in Iraq: Tax policy is one of the most important parts of fiscal policy. It is one of the most important tools of government policy. The objectives of tax policy change and evolve according to the development of the economic, social and political system of the government. The role of fiscal policy is mainly to contribute to ensure the continuation of the operation of the productive apparatus as much as possible, and to work to reduce and control the incidence of inflation and stagnation. That is to ensure economic stability and balanced growth of the national economy as well as its traditional function of financing public expenditures. Tax policy also plays a prominent role in the redistribution of national income, in order to assess the role of tax policy in Iraq; it will be studied in three dimensions, as follows:

A Financing role of tax policy "Financial objective": Tax policy is a "financing objective" which is an important tool to finance the government's treasury with the financial resources of "private loans", taxes and fees. The loans represent the exceptional sources of such funding the relative importance of each of these sources varies in the current budget structure depending on the nature of the prevailing economic and political conditions in the country concerned. In the 1980s Iraq relied mainly on oil revenues to meet the requirements of the economic development process, which was reflected in the role of the tax policy. It tended to reduce the tax burden on those responsible for the existence of another source of funding through which the government can implement its programs. In order to determine the extent to which the role of tax policy in financing the government budget, it is necessary to know the reality of the budget and the impact of tax policy. It consists of two groups, the 1st: the budget of the government sector funded centrally (and includes both the current budget and the investment budget); 2nd: the unified budget of the units of the socialist sector with economic activity productive self-financed. The budget of the

government "current budget" as the axis revolves around the work of the government and its activity in various fields, has developed the concept of budget and its role in economic activity by the evolution of the role of government in economic life. After the concept was limited to the rules of rights and accounting, so that it reaches the limits of the economic and political fate of the government.

B. Economic Role of Tax Policy "The Economic Objective": The increasing role played by the tax policy, "the economic objective", and the fiscal policy in general in achieving the objectives of stability, growth and social balance. Although this role differs in terms of content and scope in both developed countries and developing countries due to different economic conditions between them. Tax and fiscal policy are among the most important policies used to guide economic activity and contribute to the growth and stability of all countries, regardless of their economic and political systems. They are a key tool for achieving stability promoting growth and addressing problems of underdevelopment, raise the standard of living and take care of the owners of limited income. It is natural to say that tax policy is not the only tool to influence the course of economic life, but one of the many tools may become more important sometimes and diminish another time, in accordance with the requirements and requirements of economic and political conditions prevailing in the country concerned. However in any case, tax policy should play a role for the stimulus taxes should motivate its investors to invest raise the efficiency of production and accelerate development. This requires that taxes do not distort the structure of costs or investment returns, so that resources are misappropriated and wasteful, taxes contribute to maintaining the full and stable use of resources. The establishment of an economic and development facility, the improvement of existing branches of production and the exploitation of all idle resources through the creation of an efficient and sufficient production apparatus for their operation. It means the mobilization of economic resources and the mobilization of available national resources and directing them towards sound economic development, stability taking into account the avoidance of inflation or stagnation and work on the redistribution of national income and try to increase, in order to raise the standard of living and achieve economic stability. The most important economic role of tax policy to achieve economic and social stability is to address inflation and reduce it. The financial policy is not limited to inflation it is in fact a complementary role that should be accompanied by the roles of other economic policy. Goods and services and also to increase production and investment of available capacities, and direct investment, adding new economic values. The role of fiscal policy can be explained by its ability to influence demand by its effect on the volume of consumer spending towards its reduction, leading to lower demand, one important tax policy function is to restrict private consumption growth.

C. The social role of tax policy: Justice in the distribution of tax burdens requires that taxes be levied on all persons who are able to contribute to the public burdens without exempting some classes, excluding exemptions granted by the legislator for certain reasons. The role of tax policy can be the social goal by measuring the

effectiveness of the policy in reducing, reducing inequality in incomes among members of society. Fair redistribution of national income means how national income is divided among the various categories to which it is entitled, as a result of their contribution to the production process, or as the end result of the productive process distributed in the form of cash income among the elements that contributed to the process. It is the distribution that provides each person with an equal degree of satisfaction with the goods and services purchased by the marginal income units, it means that public authorities intervene to bring about changes in the economic conditions of the members of society, in order to reduce the inequality in the distribution of income through the use of Financial Policy Tools. Mainly, financial policy can bring about a change in the distribution of real incomes by means of tax rates on goods and services and the change in public services provided quantity and quality.

2.1.7. Measure Tax Evasion

The measurement of tax evasion is an accurate calculation of difficult or almost impossible things in practice, this is due to the special nature of tax evasion, and it is a hidden activity by nature, the taxpayer makes the maximum effort to hide it; it is expected to be achieved at all stages of taxation, and on the other hand, the methods of tax evasion that may be invented or used by the taxpayer is a matter dependent on the level of science and style of thinking, and the extent of appreciation for the probability of risk, which makes the evasion self-behavior may be difficult to find a measure to estimate.

$$\text{Tax Evasion} = \text{Leakages Tax} - \text{Exemptions}$$

This makes us conclude that:

$$\text{Leakages Tax} = \text{Tax Evasion} + \text{Tax Exemptions}$$

It is clear from the above equations that tax exemptions are the only variable that can prevent leakage to evasion, and show that there is no measure means extracting the size of tax exemptions in GCT and in the Ministry of Finance, and I adopted on the above indicator in addition to the adoption of another method deal with measuring the size of tax evasion as follows:

$$\text{Leakages Tax} = \text{Actual Tax Outcome} - \text{Planned Tax Outcome}$$

This method is based on the pre-planned tax administration estimates of the tax revenue and thus subtracted from the actual tax revenue; the difference divided on planned (estimated) tax revenue. This is what will be show in the data of Table 1, which indicates a clear difference between the two criteria (actual and planned). The track data for the same table shows that the difference for the period 1980-1989 average record of about 36.43%, the highest percentage was achieved in 1987 (about 1.4%), this is a clear indication of the existence of a continuous difference between the two total revenue, the second period 1990-2000 was an average of 128.56%, this

is much higher than in the first period. If it is clear that the statistics extracted from the data and rates of the table mentioned, there is a good tax savings and a real tax return is good compared to the planned proceeds, but there are many factors that made the forecast of the planned proceeds always low compared to the actual outcome, and this is because there are administrative factors working in addition to the policy of distributing surplus in the form of bonus for working staff.

Table 1. The financial statements of the actual revenue of taxes and the pre-planned revenue and the difference between them

Years	Surplus or Deficit in Tax Revenue (%)
1981	19.1
1982	46.7
1983	80.3
1984	28.5
1985	33.2
1986	8.3
1987	1.4
1988	61.1
1989	49.3
Average duration	36.43
1981- 1989	
1990	11.08
1991	7.7
1992	15.9
1993	43.9
1994	196.4
1995	661.3
1996	108.2
1997	234.7
1998	73.87
1999	37.3
2000	23.8
Average duration	128.56
1990 – 2000	

Source: own preparing based on Taha, (2008)

2.1.8. Arabic Studies

Ezz 1980, tax evasion in the Egyptian tax law. The study dealt with the concept of tax evasion from the economic point of view. In the study discussed the development of the tax system and how to achieve the financial and economic goals. I took these

topics as a prelude to the phenomenon of tax evasion, which is the focus of the research. The study dealt with the definition of evasion, in addition to mentioning some phenomena that do not represent evasion such as transferring tax burden, depreciation of tax, capitalization of tax and tax compensation, sometimes confused with the concept of tax evasion. The study discussed the causes of tax evasion and described the factors that determine tax evasion, focusing on the weak practice of tax administration, which I considered to be the most important factors that help tax evasion, the study dealt with the types of evasion and its consequences, as well as methods of combating tax evasion, the study concluded by recommending the drafting provisions and the good development of legislations which should be a natural reflection of the social and economic conditions prevailing in society and the establishment of deterrent sanctions for violators.

Theoretical and Empirical Analysis of income Tax Evasion and Tax (Murray,1986): The study reviewed the increasing risks of the phenomenon of tax evasion and tax avoidance in the countries of the world, to the extent that foreshadows the collapse of the contractual relationship implicit between the citizen and the government. The study relied on the hypothesis of the similarity of the factors affecting the tendency towards both tax evasion and tax avoidance. The results of the study confirmed that there is a link between this phenomenon and changes in the variables related to tax policy and tax administration, which requires the need for a major tax reform to overcome the problem of tax evasion and avoidance. As for this study will be on the identification of internal and external factors, which are important factors that lead to the continuing problem of evasion of income tax collectors in Iraq, as well as determining the extent of the impact of each factor by taking into account the opinion of the taxpayer through a questionnaire to determine which factors are most influential in the continuation of the problem of tax evasion with the measurement of the size of tax evasion of organized activities in Iraq and the measurement of tax leakage to the branches of Baghdad and the provinces of the GCT.

The phenomenon of international tax evasion and its effects on the economies of developing countries (Suzy,2000). This study dealt with international tax evasion from its economic perspective, which is done through international companies in general activity and international tax evasion in Egypt. It dealt with the initial concepts of tax evasion at the international level, leading to a comprehensive study looking at the process of tax evasion through international companies' activity as the main element of international tax evasion. Adding to the mechanisms of tax evasion through these companies the study concluded that international companies are the best example of tax evasion at the international level due to their ramifications in many regions of the world, describing them as being and still reflect international tax evasion in accordance with its economic concept. The tax evasion in Egypt under the title of international tax evasion and the tax system in Egypt, which dealt with the economic and legal analysis of the Egyptian tax system, through a detailed explanation of the characteristics of the Egyptian tax law. The research deal with

how to deal with international tax evasion in Egypt, during the mechanisms of tax evasion in international companies' activity.

Tax evasion with refer to the income tax in Iraq (Al-Jumaili,2000): The objective of the study aims to highlight the tax evasion cases in the Iraqi income law, exemptions, and legal allowances, as well as the failure to adopt statistics that prove the existence of tax evasion. The research recommended to dependence on statistics that prove the existence of tax evasion, and to address the reasons that lead to evasion and accurately within the scope of income tax in Iraq.

The phenomenon of tax evasion in income tax (Rasha,2004): The study tackled the concept of taxation from its economic perspective and its objectives, and sources of income that are taxed in order to reach the concept of tax evasion in general. Its causes and forms and the negative effects it leaves, the practical part of the study dealt with the practical treatments that could be effective in reducing this phenomenon. The recommendations included adopting the principle of disclosure and providing adequate tax information, studying the degree of probability of discovery of tax evasion, and penalties for irregularities and tax evasion. The study addressed the practical part of the study of the nature of the activity and work practiced by the liberal professions, including doctors, and the means adopted by the GCT in order to reach real revenue for doctors, and the mechanism of tax settling accounts for the doctor, and private hospitals, with some cases of tax evasion by doctors and some private hospitals. The study concluded that the income statement provided by doctors is an approach to the grant granted to them, so that the tax is low and ineffective.

Tax Leakage, and its Financial and Economic Effects, Applied Study in Egypt (Gado,2004): The study deals with the tax leakage in the economic point of view, as a phenomenon consisting of four aspects: tax evasion, tax avoidance, shadow economy, tax planning. It discussed the budget between the tax leakage and some similar regulations and phenomena, such as tax evasion through tax havens, the transfer, the study examined all the ways in which the size of tax evasion can be measured and the extent of its impact on the national economy as a general situation and in Egypt as a special case. The study dealt with determining the reasons for tax evasion and the ways to remedy it, the study also examined the impact of tax evasion on economic stability, its impact on the level of operation and economic fluctuations, and continued the need to pursue informal activities and scattered, leading to an attempt to reduce the size of tax evasion and reduce it and enhance the tax revenue.

Factors Affecting Income Tax in Iraq (Al-Shafei,2005): The objective of the study is to identify the main and secondary factors affecting the tax revenue. The study considered tax evasion as one of the main factors affecting tax revenues and found that the weak tax awareness of the taxpayers increases the cases of evasion and refrain from paying the tax because the taxpayers are not aware of the obligation to pay the tax and not feel the results of what they pay taxes to the state, however, the study is based on one factor of evasion, while there are factors other than weak tax

awareness, which is the reason for tax evasion as financial factors, economic factors, other administrative factors.

Factors that lead taxpayer to evade of income tax in Iraq (Al-Rawi 2008): The purpose of the study is to highlight the importance of income tax in financing the public treasury of the state with the necessary funds and then identify the reasons that lead to evasion of income tax by the taxpayers. The study also focused on one side income tax collectors and study conclude that the existence of some loopholes in the income tax law leads to their exploitation by taxpayers to evade the tax. The study recommended that the real reasons that lead to the resort of taxpayers to evade the tax and to find out the reasons make taxpayers not to pay the tax.

Evaluation of the performance of tax administration and its relation to tax revenues (Khadr,2008): The aim of the study was to evaluate the tax administration in order to raise the tax revenue. It discussed, raising the level of tax administration in order to achieve the objectives set by the tax administration, including tax collection and collection by taxable persons. During the performance evaluation elements that lead to improved performance is reflected on the proportion of tax proceeds. The study concludes that there is limited use of ways and means that contribute significantly to the development of tax administration work, including information technology. The study recommended to raise the tax revenue and the extent of the contribution of tax revenues in the public revenues of the government, the utilization of the assessment process to manage the tax in order to identify the points of imbalance and weakness in tax performance and knowledge of the mechanism used in the process of evaluation of performance and how was done and what are the criteria for judging the process of evaluation.

Analysis of the reality of tax evasion in Iraq and methods of treatment (Taha,2008): The purpose of the study is interested in finding out the real reasons for the phenomenon of tax evasion in Iraq and the development of solutions and ways proposed to address this phenomenon. As well as the study concerned income tax collectors in particular. The study concludes that the weak tax awareness of the taxpayers is one of the most important reasons leading to the expansion of the practice of tax evasion in Iraq. The study recommended to raise tax awareness among the taxpayers through the media, which show the role of tax in the development and construction of the government, because it was interested in knowing the motives that pay the taxpayers, in general, to resort to evasion of tax, and images of the practice of tax evasion by taxable persons.

Tax evasion in the field of electronic commerce (Ibrahim,2010): The purpose of the study dealt with tax evasion in a particular field, which is the electronic commerce practiced by online taxpayers and the extent of the effect of evasion in that trade on the tax proceeds and the extent of the evasion that occurs as a result of dealing through electronic commerce. The study conclude that the main results is that the lack of e-government contributes to increased tax evasion practices and recommended to limit the evasion of this trade through some means and methods that

help to reduce the phenomenon of evasion through electronic commerce. To knowing the basic and secondary reasons those lead to evasion of tax by the taxpayers especially in the field of electronic commerce.

2.1.9. Tax Evasion Measure Studies

Allingham - Sandmo (1972) Income tax evasion: a theoretical analysis: Allingham model use the taxpayer's point of view, it's supposed that an individual is assumed to receive a fixed amount of income (I), and must choose how much of this income to report to the tax authorities, and how much to underreport (Alm, 2012). Allingham reached a conclusion that the taxpayer will declare less than his actual income if the expected tax payment on undeclared income is less than the regular rate.

In Allingham and Sandmo equation W refer to Actual income, X refers to declared income, θ refer to the tax rate, with probability p and penalty π , then the equation will be:

$$E[U] = (1 - p) U(W - \theta X) + pU(W - \theta X - \pi(W - X))$$

Yitzhaki (1974) tried to review Allingham's model, he thinks that this is hardly public economics. In fact, it is very private, then he reached to his opinion that the tax authorities are not really interested in an individual taxpayer's expected tax yield, Yitzhaki has shown that the substitution effect disappears so that a higher tax rate will increase reported income via the income effect, this prediction is often at odds with the actual evidence.

In this case, Yitzhaki's equation will be as follow:

$$I_c = I - tR - f[t(I - R)]$$

Frey and Weck-Hanneman (1984) found that Spain's tax morality was lower than the average for 17 OECD countries; the study used this classification and several other factors to estimate the size of the shadow economy. They also suggested that the size of the shadow economy is likely to be small for the United States and uncertain for Spain.

Cowell (1990) discussed tax evasion and the shadow economy, and developed microeconomic models that seek to explain the reason for tax evasion. It carefully demonstrates evasion and reflects the influence of the hidden economy, especially when it is influential in evasion. Cowell provides a model for interaction between the legal private sector, the hidden economy and the public sector in risk-related decision-making. He explains this model in different directions and examines how evasion behavior changes due to changing policies on tax rates, audit rates, and penalties. Cowell also takes into consideration what could be the ideal policy regarding evasion, using a model as the main tax agency agent for taxes.

Alm (1990) developed a model for assessing the behavior of individual tax compliance. The model recognizes the importance of marginal income tax rates, contributions and tax benefits in payroll, and the possibility of disclosure and penalty for unpaid taxes. The results indicate that taxation rises with higher benefits for payroll tax contributions and decreases with higher marginal tax rates, the rule also includes more severe penalties and more disclosure of evasion as a substitute for income avoidance.

Alm (1995) tried to explore the main factors (economic and non-economic) that affect tax compliance, detection and punishment, tax burden, provision of public goods, overweight and low probability, social standards, the results indicate that all these factors have a significant effect on tax compliance. More importantly, the role of social standards in compliance is examined by comparing compliance experiences administered in different countries (Spain versus the United States). Countries whose culture and date of compliance vary considerably, these comparisons show that the level of compliance varies from country to another, providing evidence that societal attitudes towards tax compliance have a significant impact on individual behavior, overall, Alm's results suggest that a government compliance strategy based solely on disclosure and punishment may be a reasonable starting point but not a good endpoint.

Sarmad (2003) in the Tax evasion and its economic effects in selected Arab countries with special refer to Iraq. The study dealt with the concept of tax evasion from the economic point of view. Its definition and clarifying structure, it presented the forms of tax evasion of various types, namely international and internal tax evasion according to regional standard, illegal tax evasion and tax avoidance under the criterion of legality and total and partial tax evasion according to the size criterion. The study also examined the causes of tax evasion through five aspects, financial, economic, legislative, administrative and social aspects, with mention of the financial, economic and social effects of tax evasion. It also dealt with the study of the reality and dimensions of the problem of tax evasion in selected Arab countries represented by Egypt and Syria as a case study by examining the characteristics of the structure of the tax system in the Arab countries as a comparative study. The study concluded that the backwardness of the Arab tax system is an extension of the backwardness of the economy in which it operates, and the main economic reasons for the problem of tax evasion, the study aimed at identifying the extent of the financial, economic and social effects of evasion on the economy and society, while seeking to develop treatments to alleviate their severity, the study also adopted the measurement of the size of tax evasion with the following equation

$$\text{Tax evasion} = \text{Tax evasion} + \text{Exemptions}$$

However, the study relied on the actual tax revenue as part of an equation to calculate the size of the evasion; this is not a reliable indicator to calculate the size of the evasion because the amount of the proceeds does not indicate the size of the taxpayers who paid their obligations.

2.1.10. **The relationship between accounting conservatism and determine the tax value studies**

Taxes, Conservatism in Financial Reporting and The Value Relevance of Accounting Data (Kelle,2005) study aimed at examining whether taxes affect the level of accounting conservatism in the financial reports and the appropriateness of information in these reports for evaluation purposes. Especially that there is a gap in the studies of tax studies as a motive for the accounting conservatism compared to other motives, such differences shall be motivated by the application of the accounting conservatism. The study assumed that the more positive tax differences (the accounting is greater than the tax) the more conservative the financial reports of the company. The study found strong evidence that taxes are a strong driver of accounting discretion. Taxation also affects the preparation of a financial report because of the convergence between income according to accounting standards and income according to tax legislation; tax payments also reduce the resources available to the company, which confirms that taxes are a strong driver of discretion.

The Influence of Tax Costs on Accounting Conservatism (Kim-Jung,2007) study aimed at determining whether the accounting conservatism in the financial reports is tax-based. There are few studies that study the relationship between tax payments and accounting conservatism. The study also assumes that the level of the accounting conservatism in the financial statements is related to the level of the tax burden, and that the tax as a motive for the accounting conservatism is more prevalent in the companies in which the income according to accounting standards corresponds to the income according to tax legislation. In addition, the tax as a motive for the accounting conservatism is less prevalent in companies with non-tax payments up. The study concluded that the accounting conservatism is used as a strategy to reduce tax payments and the taxpayer is responsible for determining the level of the accounting conservatism in the financial statements the conservatism may increase as the need and ability to reduce the tax burden increase, accounting and income according to tax legislation The less differences between them, the stronger the relationship between the tax burden and unconditional conservatism.

Frank, et al, (2009) study aims to clarify the relationship between the unaudited financial report and the unrecorded tax report. The non-discretionary financial report is intended to prepare a report based on income management to increase it. The non-conservative tax report is intended to reduce taxable income through tax planning. The study assumes that there is a positive correlation between the non-discretionary financial report and the non-discretionary tax report. The study found that there is a strong positive relationship between the financial report and the tax report. The costs and effort to close the financial report and the tax report can be reduced. The discrepancy between the financial accounting standards and the tax laws and regulations gives companies the opportunity to manage and increase the accounting income and reduce the income according to tax legislation for the same period, which increases the differences between them. Finally, managers try to reduce the

income declared in the report to the tax authorities on the declared income of the shareholders, which increases the costs of preparing the financial report, due to the contradiction between the motives for the preparation of these financial and tax reports.

Mills and Newberry (2008) study aimed at clarifying the relationship between the accounting conservatism and the differences between the income according to tax legislation and the Income according to accounting standards as well as clarifying how to use these differences in the analysis of the financial statements. The study found that the level of accounting conservatism in companies with significant positive differences (accounting greater than tax) is equal to the level of accounting conservatism in companies that have no differences. The level of accounting conservatism in companies with negative differences (tax is greater than accounting) greater than the accounting level of firms with no differences. The level of conditional and unconditional conservatism in companies with positive differences is greater compared to companies with no differences. Finally, the level of conditional and unconditional conservatism in companies with negative differences is lower compared to companies with no differences.

Dwimulyani (2012) study aimed at clarifying the relationship between the accounting conservatism and the judicial disputes with the tax authority about the tax returns is the practice of the accounting conservatism an engine for such tax disputes. The study assumed that there was a link between the exercise of accounting restraint and tax disputes. The practice of accounting conservatism could be considered a strong advocate of judicial disputes. The study concluded that the concerned bodies should issue accounting standards to study the level of accounting practice in the companies when preparing the standards. In addition to that all the sample companies are willing to reduce tax payments by applying the accounting conservatism, which makes their accounts biased from the point of view of the tax authority.

Tax Aggression, Financial Conservatism and Financial Transitory Losses (Ray, 2012) study aimed to examine tax evasion as one of the forms of preserving wealth from the point of view of companies as well as study activities and reports used by companies to reduce the tax burden. The study assumes that companies are more tax-savvy during the years of losses, and financial reports of companies are more conservative during the years of losses, and there is a link between exaggeration in the financial report and manipulation of the tax report, the study concluded that there are two perspectives on tax evasion, the first is a traditional view: evasion is a form of wealth conservation. The flexibility available in accounting standards is used to influence and reduce income according to accounting standards by applying conservative accounting policies, to achieve any income and to achieve the company losses, and therefore not pay taxes for this year and allow the transfer of losses for next year. The second view of contemporary that the evasion deceit of tax interests and shareholders at the same time and this is only in companies with weak governance structure.

2.1.11. **The Reasons for Tax Evasion Studies**

Neck, Wachter, and Schneider (2011) investigated how the possibility of tax avoidance affects the extent of tax evasion and hence the shadow economy. Using comparative statistics the study revealed that the complexity of the tax system affects participation in the shadow economy negatively. Furthermore, the study demonstrated that a decrease in the maximum acceptable number of working hours in the official economy increases the labor supply in the shadow economy.

Mughal and Akram (2012) studied relationship between variables of reasons/causes of tax avoidance and evasion are also examined. They are analyzed by using percentages arithmetic mean, standard deviation, variance, central limit theorem, cumulative normal distribution calculator, factor analysis, and correlation technique. The results indicate that all variables of reasons/causes of tax avoidance and evasion in Pakistan are correct. Furthermore, there exists a highly significant positive relationship between individual variables of reasons/causes of tax avoidance and evasion in Pakistan at 100% significance level.

Akinyomi and Okpala, (2013) examined the factors that are influencing tax evasion and tax avoidance in Nigeria. The results of the analysis revealed that the low quality of the service in return for tax does significantly influence tax avoidance and evasion in Nigeria. Furthermore tax system and perception of fairness, low transparency and accountability of public institutions, and high level of corruption do significantly influence tax avoidance and evasion in Nigeria. The study recommends that urgent steps should be taken by public office holders to live up to expectation when it comes to transparency, accountability and the war against corruption.

By Khan and Ahmad (2014) the tax evasion is the main problem of Pakistan which needs to be eliminated by following of recommendations: tax system must base on the ground of realities, tax rates should be low. There should be proper check and balance of government, tax awareness in public should arise by different channels.

2.1.12. **The Factors Effect on Tax Evasion Studies**

Al-Akechah (1993) study aimed to show the violations committed by the establishments classified as irregularities related to the trading account and violations related to the profit and loss account. As well as the absence of legal materials related to irregularities and lack of tax awareness.

Mittone and Bosco (1997) focused on the role of ethical determinants as well as monetary factors in determining the decision to evade income tax. The study concluded that the adoption of the decision to evade income tax is similar to the decision to invest and manage the financial portfolio and that this decision is affected by the degree of desire to risk the person, as well as the effectiveness of the moral strengths of the person concerned.

El-Tarman (2004) aimed to identify the relative importance of the factors affecting income tax evasion in the hotel sector in Jordan. The study concluded that there are four main factors Tax evasion is represented by political factors, economic factors, social factors and legal factors. The researcher was able to draw his conclusions by distributing a questionnaire to tax assessors and hotel accountants to identify their views on the impact of the four main factors that affect tax evasion.

Fouad (2010) studied the effect of accounting information systems in the prevention of tax evasion in Egypt. The study aimed to clarify the impact of accounting information systems in the prevention of tax evasion in Egypt, the study pointed out that the increasing use of electronic systems, which became a reality in Egyptian society, The study pointed out that the use of electronic accounting information systems side effects on the monetary authorities, as their operations will affect the calculations of national output will not show this Electronic operation in those accounts and therefore will not be taxed. The researcher concluded that although the concept of auditing is not changed in the accounting information systems environment, there is confusion among different types of accounting information systems.

Al-Da'as (2011) aimed the causes of violations committed by the administrations of the Jordanian companies, which lead to a discrepancy between the income declared by it, and the income estimated by the tax authorities, and then try to propose some successful solutions to reduce those irregularities, and from the point of view of taxpayers. Total of 36 questionnaires were prepared and collected in the Income Tax Department.

Alobeini (2012): The Impact of Tax Governance Mechanisms on Tax Revenues. The study aims at explaining the effect of the mechanisms of tax governance on tax revenues through a questionnaire of 119 tax auditors and 205 external auditors. The study concluded that there is an impact of the mechanisms of tax governance on tax revenues. Tax revenues at all stages through taxation, collection, and prevention of evasion. Tax control positively affects one of the mechanisms of tax governance through the activation of control procedures and increased control. The tax liability is positively impacted by directing and directing taxpayers to pay their financial obligations to the tax authorities. The impact of tax risks on tax revenues has been inversely related. Finally, tax incentives positively affect tax revenues by encouraging small taxpayers through incentive credits.

2.2.Accounting Conservatism Studies

2.2.1. Concept of Accounting Conservatism

The literature of financial accounting showed that accounting conservatism is the oldest accounting principles, which is due to apply to the 14th Century. It has been applied in ancient times to meet the conditions of uncertainty for the protection of

creditors; it has spread particularly during the economic crisis in the thirties of this century, because of numerous cases of bankruptcy. The existence of the accounting conservatism has been made the applied research by academics has increased significantly over the past decade. With the increasing demand for accounting conservatism by the authors and users of the financial statements since the beginning of the twentieth century, as an important mechanism to reduce taxable income. The need to apply the accounting conservatism with the emergence of the agency's theory to solve problems between managers and shareholders, the application of cost or net realizable value, when evaluating the inventory, is one of the most examples of the application of accounting conservatism. In addition depreciation methods are applied through a low estimate of the useful life of the assets, which is a tax incentive for applying the accounting conservatism. All estimates of assets should take the less (sometimes pessimistic) direction rather than the trend of optimism, as this preserves the financial position of the company to ensure that no formal profits are distributed. It can be said that an accounting conservatism tends to bias accounting measurement, and as expected in accounting that net assets are below long-term market value (Stephen, 2002). The global financial crisis of 2008 the increase in applied research, as it restricted the ability of companies to borrow, making companies seeking self-financing, and banks became more cautious in lending and more accurate in the assessment of accounting numbers, which led to a lack of investment in general, and therefore is considered accounting conservatism of the most important. The features of the financial reports to be prepared and issued in such a manner circumstances, accounting conservatism has a significant impact on job measurement and accounting disclosure (Hágen-Tégla,2016). The APB of the American Institute of Certified Public Accountants in List 4 of 1970 in paragraph 171 stated that the accounting conservatism refers to the tendency towards early recognition of unsatisfactory events (expected losses) and the minimization of net income values net assets due to uncertainties surrounding the preparation of financial statements and measurement of assets and liabilities. Paragraph 3 of the Financial Accounting Standards Board's Statement of Financial Reporting Principles states that asset values are often minimized and liabilities are inflated under uncertainties, managers and accountants have an instinctive tendency to have accounting measurement oriented towards a less optimistic estimate for each net income and assets this does not mean the creation of secret reserves or the intentional reduction of net assets and income, the term prudence is used when referring to an accounting conservatism. As stated in the Financial Accounting Standards Board (FASB) in 1980, which describes the qualitative characteristics of the accounting information, the accounting conservatism is a cautious reaction to uncertainty that ensures that all risks are adequately considered potential and uncertainties surrounding the work performed by the enterprise. International Accounting Standard Board (IASB) explained that the general concept of the conservatism is to exercise prudence in the personal judgments required to prepare the estimates included in the financial statements under uncertain circumstances so that the assessment of assets and gains is not overstated and the values of liabilities and losses are not reduced (Hellman,2008). As stated in the Statement of Accounting Concepts No. (3) of 8/1990 concerning the

qualitative characteristics of financial information issued by the Public Sector Accounting Standards Board of the Australian Accounting Research Foundation and the Accounting Standards Review Board (ASRB) in paragraph (25) prudence is often mentioned in accounting literature, it means that there is an urgent need to be cautious when dealing with uncertainty surrounding the measurement and disclosure of elements of financial statements and that prudence's derived from the reliability feature. Paragraph (37) of the Framework for the Preparation and Presentation of Financial Statements issued in 9/2009 on the Australian Accounting Standards Board (AASB) states that prudence is required when the financial statements address uncertainties surrounding the operations of an entity such as the extent of the possibility of collection in respect of the preparation of accounting estimates under such circumstances. The accounting conservatism can be defined as choosing among the accepted accounting methods and procedures, which will result in lower profits declared by slow recognition of expected profits, rapid recognition of expected losses, asset valuation at low value and high value commitments to reverse the potential Uncertainty surrounding the activities of the facility. Through the previous definitions we can reach (Mohamed, 2014):

1. There is no unified definition of the accounting conservatism in both the accounting versions issued by the professional bodies and in the studies by the academicians, there is no uniform wording for the description of the accounting conservatism, although there is no difference between them in the content, in accounting practice, the difference is that each definition focused on a particular aspect of the accounting conservatism without the other facets, the definition of FASB focused on the objective of the conservatism, stating that the conservatism was based on the deferred revenue recognition rule until there was sufficient evidence to justify its recognition, the IASB definition emphasized that the degree of conservatism is dependent on the auditor's desire to prepare the accounting estimates, if these accounting estimates are prepared with moderation and prudence, therefore, the conservatism is not justified to form secret conservatism or to inflate allocations.

2. There is no general agreement on whether the accounting conservatism is one of the principles or accounting policies, Basu believes that the accounting conservatism is one of the accounting principles (Basu, 1997), while Kamal believes that the conservatism is an accounting policy that plays an important role in the preparation of financial statements under uncertainty (Kamal, 2008). On the other hand, I believe that the principle of accounting conservatism is the oldest and most comprehensive accounting principles; it was spread during the major economic crisis of the 1930s, whereas the accounting conservatism is an accounting policy. Accounting policy is the guide that explains how accounting principles are applied; therefore, the nature and concept of accounting policy are consistent with the concept of accounting conservatism.

3. The main reason for the misperception of an accounting conservatism is the belief that everything that an accounting conservatism makes is to urge the accountant to estimate the net assets and net income below their value. The conservatism is seen as an accounting bias towards reducing the book value of

shareholders' equity, while this view is unfair to the role of the conservatism in the accounting practice. This reduction is only in certain circumstances, namely uncertainty about the future work of the establishment, and therefore the accounting conservatism is healthy skepticism is necessary in such circumstances. In other words, an accounting conservatism can be considered as a natural reaction in uncertain circumstances.

4. The oldest definition of an accounting conservatism is that the accountant must expect all losses to be realized and no profits are expected, while the conservatism has a much more important role in accounting practice at present, when properly applied. The auditor instructs the accountant in difficult situations, which are the uncertainty and when choosing from alternatives to accounting methods.

5. Notwithstanding the difference between the previous definitions, but they are consistent in one thing, there are varying degrees of accounting conservatism because of the freedom available to management to choose from accounting policy alternatives in the preparation of financial statements using the flexibility of accounting standards.

2.2.2. Classifications of Accounting Conservatism

There is different accounting conservatism classifications exist:

1. Classification of the Conservatism in terms of Voluntary and Mandatory Conservatism:

A. Voluntary Conservatism: An optional conservatism is the choice made by management to achieve management objectives, such as choosing alternatives to accounting policies that maintain the overall direction of the company's profits and not reduce them. These policies include for example the method of decreasing depreciation, which leads to higher annuity premiums in the early years of the life of the asset rather than the straight-line method. The voluntary conservatism is the basic support of the company performance (Hágen-Tégla,2018).

B. Mandatory (Compulsory) Conservatism: Compulsory conservatism are compulsory choices imposed as a result of an external decision by the company, such as those issued by professional accounting entities, such as the Accounting Standards Board and Securities Exchange Commission.

2. Classification of the Conservatism in terms of Permanent and Temporarily Conservatism:

A. Permanent Conservatism: A permanent conservatism consists of management choices that are made permanently over time and often involve mandatory conservatism imposed by accounting standards.

B. Temporarily Conservatism: The temporary conservatism consists of management choices that are adjusted and changed according to the positions and decisions

required to achieve specific objectives in certain periods, for example, the method of changing stock valuation.

3. Classification of the Conservatism in terms of Absolute and Partial Conservatism:

A. Absolute Conservatism: The absolute conservatism in the management's choice of all elements of the conservatism consists of revenues, expenses, losses, assets and liabilities in order to make the accounting system more conservative;

B. Partial Conservatism: A partial conservatism consists of specific choices of limited elements whose values or values may be adjusted to achieve progress or partial objectives.

4. Classification of the Conservatism in terms of Maximum and Minimum Conservatism:

A. Maximum Conservatism: The conservatism is to the maximum level of management choices that reach the maximum level of increased losses or to minimize profits to achieve certain administrative motives.

B. Minimum Conservatism: The conservatism is the lowest level in choosing a normal conservatism policy that does not affect the results of the company's business from time to time and has no specific objectives except to adhere to a management policy and one evaluation method.

5. Classification of the Conservatism in terms of Conditional and Unconditional Conservatism:

A. Conditional Conservatism: In other words, the conditional conservatism means that the profits of the company will be affected by the expected losses faster than affected by the expected profits. It represents the tendency of accountants to acknowledge bad news faster than good news (profits), which means that the timing and terms of recognition of the expected losses are not the same as the timing and terms of recognition of the expected gains. The conditional conservatism is to accelerate the recognition of the expected losses and to take them into account in the income statement and to postpone recognition of the expected profits. This is sometimes called timely recognition of losses or asymmetry in earnings timeliness, which means that a conditional conservatism depends on the occurrence of events and that the main motive behind it is to resist administrative motives biased to exaggerate the assessment despite the occurrence of events that call for pessimism.

B. Unconditional Conservatism: Is to choose to treat some intangible assets as expenses and not to capitalize it such as research and development costs, thus, the value of the company increases in the market, although its carrying value is the same. An unconditional conservatism leads to an estimate of the carrying amount of the equity. The unconditional conservatism is applied through the accounting treatment of intangible assets and the deterioration of tangible assets in decreasing

depreciation methods compared to their economic depreciation, therefore, the greater the unconditional conservatism in a given period. The greater the consequent reduction of the conditional conservatism in the following periods, because many of the cash expenses relating to the asset were taken into account immediately and recognized as expenditure. There is a negative relationship between the conditional and unconditional conservatism. The unconditional conservatism is independent of the occurrence of events it results from the accounting procedures used to measure and record assets with book values that are less than their market values during their useful life. The unconditional conservatism can be measured by the ratio between market and book values of the company, and that the main motive behind the application of the unconditional conservatism was the difficulty in determining the true economic values of certain assets and liabilities.

Through the previous classifications (Mohamed, 2014):

- The various classifications provided by the previous studies of the accounting conservatism, although they appear to be different in terms of the names of these classifications, are considered synonyms in terms of content. The contents of the conditional conservatism agree with the content of the mandatory conservatism as well as the existence of correspond between the content of the unconditional conservatism and the content of the conservatism voluntary. The existence of two types of conservatism does not mean that they are separate in practice. Companies consider that both types complement each other in achieving the purposes of the financial report, even if the relationship is negative. Both types of conditional and unconditional conservatism are exercised when applying binding accounting standards, which gives the opportunity to choose between accounting alternatives and the preparation of some accounting estimates. This means that the absolute conservatism or conservatism to the maximum level is the outcome of the exercise of conditional and unconditional conservatism and interaction between them.
- The conditional word in the conditional conservatism is due to the obligation of accounting standards in this type of conservatism in addition to the volatile economic conditions and uncertainty, which made the accountants instinctively take the precautionary side and less optimistic when measuring and disclosure accounting for fear of distribution of dividends to the shareholders. That is conservatism inevitable and instinctive. The unconditional conservatism is due to the desire to reduce net assets, which depends on the management's desire to influence profits. Unconditional conservatism is independent of events and results from the selection of accounting alternatives that lead to a lower value of net assets, the main criticism in the criticism.
- Based on the above, the best terms for naming the types of accounting conservatism are the conservatism of profits and the conservatism of the financial position because these titles show the effect of each type directly, so we go with some refer to the classification of the accounting conservatism to a conditional conservatism (conservatism profits) and unconditional conservatism (the conservatism of financial center).

2.2.3. Accounting Conservatism, Advantages and Disadvantages

Although the accounting conservatism still affects the accounting practice, it has recently been subjected to many criticisms. Profit-management operations have led to undue profits from many enterprises and the collapse of companies such as WorldCom and Enron for a lot of criticism from the users of the financial statements. There is a divergence of views on the extent to which the accounting conservatism should be adhered to or abandoned through exposure to the positive effects and negative effects of the application of the accounting conservatism. There are views that the application of the conservatism achieves several benefits which are reasons for sticking to it the financial statements. On the other hand, there are views opposing the application of the accounting conservatism, has been strongly criticized. The most important that it provides the opportunity to distort the information content of the financial statements, there was also a growing controversy over the continued absence of the accounting conservatism from the accounting practice during the joint meetings between FASB and IASB to prepare the conceptual framework. There were many discussions about the qualitative characteristics of the accounting information. The dispute focused mainly on the discrepancy between the accounting conservatism and the neutrality of the information, to the extent that some views held that the accounting conservatism is not a desirable qualitative characteristic of information and should therefore be abandoned and not applied in accounting practice. These disagreements and criticisms of the accounting conservatism are what called for the need to examine both. The supporting and opposing opinions of the accounting conservatism to try to answer some questions such as whether the objections and criticisms of the accounting conservatism. In the conceptual framework between FASB and IASB are not considered as desirable qualitative characteristics of the information finance because it distorts the information content of the financial statements as some believe. Alternatively the contradiction between the accounting conservatism and neutrality. The characteristics of accounting information are necessary to be taken into account to judge the usefulness and usefulness of accounting and financial information, which represent the target outputs of the accounting system. These characteristics give information the value and importance, the usefulness and usefulness of accounting information cannot be judged independently of these characteristics which should be enjoyed by accounting information. These characteristics represent an important part of the conceptual framework of financial reporting, they are considered as the bridge between the concepts of measurement, verification and accounting objectives. For several years FASB and IASB have sought to standardize accounting practices through the Joint Conceptual Framework Project. The new project consolidates the objectives of accounting, financial reporting, qualitative characteristics of the information and elements of the financial statements narrowing the gap between the bases and concepts on which accounting information is prepared and presented. Thereby facilitating comparability and international harmonization and complements the views of the FASB and IASB as to what the conceptual framework of accounting should be. FASB and IASB on

17/5/2005 the qualitative characteristics of financial information and the following questions were asked:

- what is the role of the accounting conservatism and what is the usefulness of its continuation in accounting practice?
- does the accounting conservatism conflict with the impartiality of the information? If yes, why keep it?

In this session, the problems arising from the exercise of the accounting conservatism were discussed; FASB and IASB requested reconsideration of the criteria for dealing with the impairment of assets. FASB and IASB declared that it was unwilling to keep the accounting conservatism within the qualitative characteristics of the financial information provided. It was not understood that it was not within the qualitative characteristics optimism is also undesirable; there is no member within FASB and IASB who wants to prepare financial statements that interest a party at the expense of another party's interests or to achieve a predetermined outcome. Especially that behavioral research confirms that a person is more likely to self-interest when preparing estimates; and so on at the end of the meeting it was recommended that gradual changes be made to balance the qualitative characteristics of financial information. On 15 June 2006, discussed one of the qualitative characteristics of financial information, neutrality, FASB has defined neutrality as a deviation from bias in accounting information, which aims at achieving a predetermined result, as confirmed by the IASB when it states that the financial statements do not be neutral if a method is chosen to measure or display these data in a way that affects the decision-making process in order to achieve a predetermined outcome. FASB and IASB meeting clarified that the conflict between the neutrality of information and the accounting reservation is sharp, and it is important to remember that the first objective of the financial reports is to provide useful information to current and potential investors and creditors, how can the current investors be assisted, for example, the assets they own are devalued as a result of the application of the conservatism, this leads to decide to sell it, and is it possible to help potential investors, for example, to reduce net income, which may lead them to invest in other companies that looks better for them. FASB and IASB explained at this meeting that the accounting conservatism is an attribute or characteristic of the accountant and not of the characteristics of the accounting data. The decrease in the net assets and income leads to exaggeration in subsequent years. Therefore, the accounting conservatism must be discussed in the amended framework but not as a qualitative characteristic of the information. FASB and IASB decided at the end of the session not to regard the accounting conservatism as a characteristic of the qualitative characteristics of the information and that there is a tendency to move away for accounting conservatism from the accounting practice, the deliberate exaggeration of the magnification of assets and income or deliberate exaggeration in magnification the liabilities and expenses makes the data neutral and has no credibility, the conceptual framework did not include an accounting conservatism as a desirable feature, but prudence should be emphasized in the face of uncertainty. On 29/5/2008,

the draft exposure was published on the objectives of the financial report and the qualitative characteristics of the information, in this draft, it was declared that neutrality is one of the sub-characteristics of the faithful representation, without neutrality, the economic events are not expressed and honestly disclosed, in spite of the conflict between the accounting conservatism and the neutrality of the information, the work remains with the accounting conservatism in the accounting practice, although it is not considered to be the desired qualitative characteristics of financial information, it remains a necessary requirement to prevent human bias in management, especially when it has an interest in such bias when preparing accounting estimates under uncertainty. On September 30, 2009, the IASB stressed the contradiction between neutrality and conservatism, however, to understand this contradiction, the conservatism is not always desirable, financial reports implicitly aim at restricting certain behaviors; therefore, the conservatism may be contrary to the integrity of the information. The information therefore cannot be abandoned in the exercise of the conservatism. As stated in the Statement of Accounting Concepts No. 3 issued on 8/1990 concerning the qualitative characteristics of financial information issued by the Public Sector Accounting Standards Board of the Australian Accounting Research Foundation and the Accounting Standards Review Board (ASRB) in paragraph (26) this list is that the conservatism leads to deliberate bias towards reducing revenues and assets and exaggerating the value of expenditures and obligations and thus contradicts many of the qualitative characteristics of financial information.

The discrepancy between neutrality and accounting conservatism can be seen by identifying the points of criticism directed at conservatism in the conceptual framework, namely:

- the contradiction between the accounting conservatism and the neutrality of financial information: The neutrality is contrary to bias and not with the accounting conservatism, and there is a big difference between the bias and the conservatism, where Leithy sees that the bias in the accounting means that the scale of accounting tends in hand, on the other hand account instead of being equally for both of them (Leithy, 2003), while Kamal finds that the phenomenon of bias is a general phenomenon accompanying any measurement process, for example the bias of the accounting measurement accompanying the use of the policy of conservatism (Kamal, 2009)
- accounting conservatism is not a qualitative characteristic: The discussion of a conservatism as not a desirable qualitative characteristic of financial information is not a criticism, the conservatism should not be considered as a qualitative feature of the financial information; it is seen as a constrains that governs the accounting process to ensure rationalization of the process and the measured bias to achieve his interest, and therefore a necessary and fundamental constraints, especially in times of economic downturn; and
- keep (or not to keep) for the accounting conservatism in accounting practice: Despite all the criticisms of accounting conservatism by FASB, IASB in the preparation of the conceptual framework, they eventually agreed that the accounting

conservatism should be maintained in accounting practice because it is a safety factor derived from the imposition of continuity to ensure the preservation of capital.

The opinions that support the survival of the accounting conservatism in accounting practice:

1. The conservatism has been practiced for centuries. It means that the accountant must expect all losses and not expect any profit, this statement may be understood to mean that the accounting conservatism leads to a misleading measurement of the net income and assets, this does not mean that the accounting practice is completely avoided, to strict control, and not to the disappearance of the practice of accounting, neutrality will not be achieved without the accounting conservatism, which is necessary to prevent human prejudice. The authors of the financial statements are expected to face uncertainties surrounding many unavoidable events and conditions, such as doubtful debts and the estimated useful life of fixed assets. These uncertainties are treated with conservatism when preparing conservatism in making the required estimates in case of uncertainty so as not to result in inflating assets or income or to reduce obligations and expenses. Apply of conservatism does not imply the creation of secret reservations, excessive allocations or deliberate reduction of assets income or a deliberate exaggeration of the obligations and expenses. In this case the financial statements are not neutral and it will not be the credibility of the property is available. Accountants must be on the prudent side in the measurement process, by not being overly optimistic, therefore, as a result of adopting the accounting conservatism principle help to show of reserves, allowances and inventory valuation, the accounting conservatism has a favorable logic in protecting shareholders against rights holders while maintaining the rights and capital intact. It protects managers in the face of owners of capital and therefore has a positive impact on labor relations, in calculating the depreciation of assets and applying the accrual basis and the preparation of accounting estimates of various types. The application of the accounting conservatism must be under strict control until the quality of the financial report is achieved, also, many of the decisions taken by accountants in the field of asset valuation and profit determination depend on the performance of some estimates and the exercise of personal judgment. In the sense that there will be one true value but choose between several values represent alternatives in the field of appreciation. The idea of accounting conservatism that in cases where different estimates and methods have reasonable evidence to choose which value is less effective for improving the profit or financial position of the entity, the erroneous application of the accounting conservatism has resulted in undue profits of many enterprises, by those who use the financial statements, in cases where there is no doubt, there is no justification for applying the conservatism.

The conservatism is the most widely used accounting practice in contemporary accounting. It is used to reduce extreme optimism when preparing accounting estimates and the presence of more than one alternative to prepare them and the existence of more than one alternative to the preparation, and does not understand that it is flawless, there are many disadvantages is that it lacks an objective criterion for application in various cases, which made the conservative financial statements

not comparable, and therefore began to be criticized several, which called for both the FASB, IASB to think about the abandonment in the practice of accounting and so far the conservatism between the rejection and support, the accounting conservatism reduces the process of manipulation of profits by reducing the opportunistic motives of the management and thus the exercise of the accounting conservatism benefit that it limits the management of profits, which makes the accounting profit reflects the real profit even if it is low, this is better than the users of accounting information. The practice of accounting conservancy leads to the provision of more appropriate accounting information from the perspective of contractual relationships, uncertain practices result in measurement errors that may adversely affect the appropriateness of accounting information, and it can be improved by Japanese methods, like 5s. (Tangl-Vajna, 2015).

Finally, the conservatism has a long history and necessary in the practice of accounting because the nature of the human soul seeks to achieve its interests and be very optimistic, especially when assessing personal property. There is no contradiction between neutrality and conservatism and accounting, but on the contrary, neutrality cannot be achieved without conservatism. The criticism of the accounting conservatism should be reconsidered in the conceptual framework, the accounting conservatism must remain in tandem with neutrality, and we need an accounting conservatism to ensure that unbiased information is an advantage to one party over another. Mohamed (2014) finds that:

- the concept of neutrality requires the necessity of exercising the accounting conservatism to ensure that the profits or financial position are not exaggerated. The application of the conservatism does not mean the creation of secret liabilities or the reduction of amounts in the net assets and income.
- accounting conservatism is necessary and important when measuring the items of income and assets, especially if applied properly. If the conservatism is a tendency towards pessimism, the tendency towards pessimism is very important to stop the tendency of many project owners and managers to be optimistic and overvaluation of assets and net income. The objective is not to exaggerate the net book value of assets and net income (taking the prudent or less optimistic side) under uncertainty. The accounting conservatism is a safety factor against exaggeration or overestimation when assessing assets and income, which may lead to the distribution of graphical profits, its survival from the application of the imposition of continuity and the maintenance of capital intact, that protects the rights of shareholders and not only the creditors and therefore the accounting conservatism is a preventive factor for shareholders and creditors alike.

2.The opinions that oppose the survival of the accounting conservatism in accounting practice: The qualitative characteristics of accounting information are subject to many limitations, including accounting conservatism, any discussion of the qualitative characteristics of the accounting information is incomplete without refer to the principle of accounting conservatism. The conservatism is the reaction to the uncertainty faced by the accountants; therefore, the accountants have been influenced

by the conservatism for many years, especially if these statements are intended to be deliberate when assessing net income or net assets. Accounting conservancy reduces the risk of uncertainty for external lenders, but these conservative statements are often overstated in years a mechanism entailing bias of financial statements, in addition to oppose the conservatism with the credibility and neutrality and comparability characteristics. It may lead to distortion of information content of the financial statements and wasted appropriateness of accounting information for the purposes of the needs of the various parties of beneficiary service. Hendriksen (1992) believes that the criticism of the conservatism is that the accounting conservatism is a weak method to take the element of uncertainty in the assessment of assets and income, and leads to a total distortion of the accounting data. In addition to the way to address the problems primitive and its effects are terrible and their results surprising, with the objective of disclosing all relevant information. It also contradicts the principle of conservatism itself, it is pessimistic in determining the income at a particular session by adopting the lowest market price. The excessive pessimism in adopting the lower values in the higher assets and values in the liabilities and not proving the unrealized profits for sale contradicts the imposition of periodicity accounting. It reduces the profits of a generation of shareholders in a particular accounting cycle for the benefit of others in successive cycles. Finally, the conservatism principle is a combination of the historical cost method and the replacement cost. It is based mainly on historical cost data; the market price is less dependent on the principle of following the same pattern, and the inability of the data to compare and not to continue to apply the same accounting principles from time to time. The conservatism is an obstacle to the supremacy of shareholders' priority. This is what led to the conceptual framework for disposing of the conservatism. If it is removed from the accounting practice, the conceptual framework eliminates the fundamental impediment to the majority view of the shareholders, which helps to reduce the negative effects related with the majority of creditors' views. One of the accepted trends in accounting between businessmen and accountants is to expedite the process of recognizing and charging expenses too quickly, on the understanding that this measure is in accordance with accounting considerations. This may lead to over-expenditure of one year and therefore the revenue is not properly matched. There is a significant contradiction between the definition of FASB and the conservatism as a cautious reaction to dealing with uncertainties to try to take the potential risks sufficiently into account and accusing the conservatism of deliberate overstatement of assets and income and deliberate overstatement of liabilities and expenses. Accounting estimates under uncertainties and how to take potential risks into account in such a way as to ensure that the estimates are not overly optimistic and not overly optimistic when preparing these estimates for personal interests. It is also expected that the authors of the financial statements will face uncertainties of the existence of many events and circumstances that cannot be avoided and should recognize such cases through the disclosure of their nature and the extent of their impact. There is no way to solve this problem except by applying the accounting conservatism. On personal assessment and there must be controls to ensure that these estimates are not overstated to achieve specific results in advance. It should also be

noted that no accounting policy has been subjected to criticism such as the one presented to the accounting conservatism, it means that when there is uncertainty. The alternative is chosen which leads to a reduction in the value of the assets and income, but this leads to an understanding that it is a reduction or a deliberate exaggeration of the assets and income. FASB's rationale for abandoning the accounting conservatism is weak and insufficient, this is a failure to improve the existing framework, and the conservatism must continue to be applied to address the very optimistic trends of self-interest, i.e., the line of defense against bias inherent in the same financial statements. Uncertainty and management of personal interests remained to be achieved through overstatement. Finally the opinions referred to are based on the fact that accounting conservatism distort the information content of the financial statements, and the conservative accounting procedures that result in conservative values in a given period, the same procedures produce non-conservative values in subsequent periods, these conservative measures do not distort information content of the financial statements because they did not deliberately reduce (or exaggerate).

2.2.4. Measurement of Accounting Conservatism

Measurement of the accounting conservatism has been the goal of many researchers in the fields of financial accounting. There are several approaches to measure the accounting conservatism. The most important of these approaches is the direct accounting measurement of the financial statements, which depends on the market values and their relation to the accounting values. The accounting income and its relationship to gross receivables, as part of the development of accounting thought in the field of financial markets. Various accounting standards and concepts have been presented based on the nature of the information content of the accounting numbers applied and the nature of the information content of stock prices and their changes that reflect investors' decisions and the information they use when making investment decisions. There is no need to measure the accounting conservatism in the financial statements of companies to explain the difference in the level of application of the conservatism between them. The observation that there are differences between the financial values and the accounting policies used in preparing these lists for these companies is not an acceptable measure of certain phenomena. The following is a study of the models of measurement of the accounting conservatism presented by accounting thought, which differ in terms of the model used in the measurement, as well as in the level of measurement of the accounting conservatism, despite the differences between these studies, according to the approaches used in the measurement of accounting conservatism to:

1. Measurement models based on the relationship between profits and returns of shares: The basic idea of these models is that the accounting conservatism can be

measured by examining the relationship between accounting profits and equity returns, according to the efficient market hypothesis, share prices should reflect all. Available information relevant to the company immediately and without bias, whether this information is good news (expected loss) or unpleasant news (expected losses), unlike accounting profits, if conservative accounting practices are applied. They do not reflect bad news (expected losses) and good news (expected gains) at the same time and at the same time. The expected losses reflect faster compared to the expected gains, as a result of the application of conservative accounting practices. This measure was adopted in accordance with the accounting conservatism to the approach to the different timing of recognition of expected losses compared to the expected gains.

2. Measurement models based on the relationship between profits and the level of benefits: The main idea of these models is that the accounting conservatism can be measured by the fact that the accounting profit figure resulting from the meeting of income from expenses is the most widely used measure by many parties. The accounting gains include cash flows adjusted by the accounting adjustments required on the accrual basis, and therefore the total adjustments are responsible for the introduction of the conservatism to the number of accounting profits and not cash flows (Khalil, 2003). As the cash flows generated by operating activities do not suffer from the problem of asymmetry the appropriate timing for recognition of gains and losses, in the sense that the accounting adjustments are the responsibility of the accounting conservatism, therefore, the accounting conservatism can be measured by measuring the benefits.

3. Measurement models based on the valuation of net assets: The basic idea of these models is that the accounting conservatism can be measured by the fact that the institutions applying conservative accounting policies result in a reduction in the net asset value. The net book value of the assets is less than their market value in the application of conservative accounting policies. The market price of shares or their changes as a measure to determine the effect of conservative accounting policies on the accounting values of assets by comparing them to the real value of the entity and its net assets, therefore, the ratio of the market value of net assets to their book value, one of the case of accounting conservatism linking the elements of the financial position and market variables.

2.2.5. The Motives of the Accounting Conservatism

The motives behind the request for an accounting conservatism is necessary in an attempt to provide the theoretical justifications that explain conservative behavior in the financial reports. In order to gain a better understanding of the rationale for an accounting conservatism, the conduct of the management, the accountant (the preparer of the financial statements). The auditor the accounting standards professional bodies (IASB, FASB) the SEC). Self-motivated management tends to be reluctant to make financial statements in some cases due to a number of reasons: the

association of directors with the company for a limited period, and the correlation of their cash and non-monetary returns with net profit more than net assets. The accounting thought provided several explanations for the continuation of the application of the accounting conservatism, and the different motives of the accounting conservatism, which represent the reasons for adherence to the continuation of its application in accounting practice, despite the criticism directed to accounting conservatism as follows:

1. Contracting explanation of conservatism: Accounting conservatism research has increased significantly over the past decade; this research aimed at justifying all the accounting conservatism and test motives and their effects on the financial statements practices, the theory of the agency has shown that the company can be defined as a set of contractual relations. The existence of any economic entity achieved through one or more of the contracts agreement, and the theory of the agency that the separation of ownership from the administration was the cause of many of the problems that motivated researchers to seek to examine the motives of choice between methods and accounting alternatives. That it is obvious that the management chooses the alternative that generates higher profits in the preparation of the financial statements. The increase in profits increases the remuneration of managers, which is known as the management incentive plan, which is one of the most important contract agreements and the main reason for the problems. The more inclined to choose the accounting alternative that achieves high profits, the impact of debt is the famous agreements on the preparation of financial statements. The contractual interpretation is one of the oldest interpretations of the accounting conservatism, which seeks to achieve the interests of the shareholders and the lenders. There are many parties interested in the company's work who seek to safeguard their interests through the accounting conservatism. The accounting conservatism guarantees the shareholders the continuity and quality of future profits, the largest on the payment of obligations, also limits the exploitation of management to achieve personal interests at the expense of shareholders and creditors. The contractual interpretation is the primary source of the conservatism and is intended to focus on formal contracts between the related parties in the company such as debt contracts and bonus contracts. The terms of dividends provided for in debt contracts are evidence of the accounting conservatism sought by creditors to ensure that dividends are not overpaid to maintain a minimum amount of net assets to protect their loans, and in reward contracts associated with the profit. Managers will also receive higher amounts than they are entitled to, however, discretionary income will provide less management rewards based on current performance and deferred project awards Receptive to the wearer. The study of the contractual interpretation of the accounting conservatism represents the study of the ethical behavior of the parties concerned, with the information available to these parties. The accounting conservatism restricts opportunistic administrative behavior by placing restrictions on this behavior and balancing administrative bias and the requirements for verifying information when disclosing the measurements accounting agreed that are used to inform investors about administrative performance, and thus affect such measures in

the decisions of allocation of resources by investors and the wealth of managers. The impact on the well-being of managers gives them the motivation to bias and the determination of incentives on the basis of profits drives the administration to overestimate the evaluation to achieve its interests. The contractual interpretation of the application of the accounting conservatism shows important characteristics of accounting measurements:

A. Timeliness: Contracting parties to the entity require that the measures used to assess performance, including net income and net asset value, be time or time scales. Knowing these measurements in a timely manner makes them more efficient and beneficial to decision makers, timely disclosure. It prevents them from making incorrect decisions based on information provided to them by managers who overcome their personal interest before the interest of the establishment, timing of the measurements improves the efficiency of the restrictions on the actions of managers, especially as the management's discretion depends primarily on the value of the net income;

B. Verifiability: It is often difficult to verify information that makes accounting measurements more time-consuming and informative. There is no doubt that the information on the expected increase in net cash flow resulting from the development of a new product is difficult to assess for the performance of the manager. A measure of profit or cash flows must be verifiable in order to support contractual purposes; contracts exclude any unobservable measure of future net cash inflows.

2. Litigation explanation (litigation stockholders): Management may face litigation risk when inflating profits and net assets. Management and auditors have a greater incentive to comply with accounting restraint. Managers tend to make conservatism in advertising higher profits and values to avoid being sued by parties that rely on accounting information to make their investment decisions. The management's estimates of profits have failed, so the reserved conservatism ion avoids the company to bear more of the potential judicial costs that may result from under-valuation of assets. There are two types of legal liability as a motive for an accounting conservatism from the perspective of both the company and the external auditor, as follows:

A. Legal responsibility of the company: the responsibility for preparing and presenting the financial statements of the company is primarily the responsibility of its management. The management is also interested in the information contained in the financial statements, although it has access to additional financial and administrative information to enable it to perform its basic functions in planning and decisions and controls. The department is able to determine the form and content of such additional information to meet its own information needs. The report on such additional information is outside the scope of this framework, however, the financial statements published are based primarily on the information used by the management on the financial position and performance assessment and changes in the company's financial position (IAS 1: 2010). This means that the liability costs incurred by the

company are greater if conservative policies are not followed in the preparation of the financial statements and the value of the company decreases as a result of the higher costs. When the company follows conservative policies in the preparation of the financial statements, the liability costs are lower in this case. The accounting conservatism can be moderated by the Lean- Kaizen methods. In this way the decision making process and the reality of the information much more trustable (Tangl-Vajna, 2016)

B. Legal responsibility of the auditor: the responsibility of the auditor is based on comparing his professional behavior with his actions. The responsibility varies from one society to another and from time to time, due to the constant change in responsibility towards the public good. The most cases that were established on the auditor related to professional negligence, professionals in the auditing profession (in general) have duties to provide a reasonable level of care in the performance of their work, as required by the law and contract between them and their clients. The responsibility is to demonstrate reasonable professional care when performing their work. In the case of the auditor fails to give the required professional and reasonable care, it means the failure to provide the minimum required of it professionally. Therefore the possibility of exposure of others who depend on their decisions on the financial statements by the auditor to give an opinion of the damage or loss. It is doubtful that the auditor will attempt to prevent judicial action against him or to defend himself in the event that this occurs. The best way to prevent judicial proceedings against the auditor is to eliminate the grounds on which the lawsuit is based, such as allocating a large effort of audit to high-risk areas. Important errors and frauds can be detected, as well as verify that the client has corrected the errors discovered so as not to harm the third party as a result of his reliance on financial statements with material distortions. The auditor's responsibility is to audit the accounts of the company to examine the financial statements and to present his neutral technical opinion in accordance with the approved auditing standards. Rules and customs, and to perform due diligence and to ascertain the significance of these statements on the fairness of the company's financial position and the outcome of its operations, and the extent to which the concept of accounting estimates and personal judgments affect the financial statements for the purpose of providing more fair and objective financial statements that can be reliably users.

3. Regulatory explanation: The regulation of financial markets and financial transactions has a direct impact on the nature of accounting disclosure. Through the instructions and disclosure requirements approved by the securities bodies, which played a role in directing the accounting conservatism. The regulation has made accounting more conservative, more clearly than disregarding gains or reductions in income, which encouraged regulators to establish international standards governing accounting work such as income reduction, asset values and increased liabilities. Accounting organization is intended to prepare accounting and monitoring standards compliance with these standards, such as the money market authorities, and that the responsibility of these entities help increase the demand for the accounting

conservatism. This responsibility is not as legal and direct as the auditor and the company, but the responsibility placed on them is the responsibility of the political and social pressures imposed on the organizers of the profession.

4. Corporate Governance: One of the factors influencing the level of application of the conservatism is the issuance of the executive rules for corporate governance, as increasing the effectiveness of the mechanisms of corporate governance leads to an increase in the level of the accounting conservatism in the financial statements, the conservatism when it prevents the exaggeration in the evaluation of profits opportunistically and which managers resort to maximize incentives and rewards, it reduces information asymmetries and reduces theory of the agency problems, which are the main objectives of governance. A conservatism contributes to supporting governance against opportunistic management practices when pursuing a profit management strategy to maximize its benefits at the expense of other parties and in accordance with the concept of conservatism to expedite the recognition of losses, it provides information to examine and verify such losses and then take appropriate corrective decisions to exclude failed projects or isolate the managers of those losses.

2.2.6. Accounting Conservatism Measurement Model Studies

Feltham and Ohlson (1995) analyzed the relationship between the market value of the entity and the accounting data relating to the operating and financial activities. Assumed that the carrying amount of the financial activities is equal to its market value. The application of conservative accounting policies results in a difference between the book value and the market value, at the end of any accounting period for its value at the beginning of the accounting period equals the income according to accounting standards less the net distributions; the study used the following linear function:

$$P_t = b_1 + b_2 oX_{at} + b_3 o_{at} + b_4 v_{1t} + b_5 v_{2t}$$

where

P_t : market value of the property of the enterprise at a certain point in time t

b_t : the book value of the property of the entity at a certain time in time t

oX_{at} : unusual operating income at a certain point in time t

o_{at} : represents the carrying amount of operating assets less operational liabilities at a certain time t

The study concluded that the difference between the book value and market value of net operating assets is due to the application of conservative accounting policies, this difference can be used to measure the accounting conservatism, the study pointed out that different measures should be introduced to measure the impact of the declaration of accounting data on the market value of equity.

Basu (1997) aimed at clarifying the term of the accounting conservatism and measuring it by studying the relationship between the income and the returns of the shares, as well as studying the effects of applying the accounting conservatism on the

declared financial statements. The study assumed that the accounting conservatism is the relative speed of recognition of bad news compared to the speed of recognition of good news; this assumption was tested by the following equation:

$$X_{it}/P_{it-1} = \beta_0 + \beta_1 R_{it} + \beta_2 DR_{it} + \beta_3 R_{it} * DR_{it} + \tilde{v}$$

where

X_{it} : the company's earnings per share (i) at the end of the period (t)

P_{it-1} : company's share price (i) at the beginning of the period (t)

R_{it} : market returns per share of the company (i) at the end of the period (t) whether positive or negative.

DR_{it} : binary variable equal to one when the market returns of a share in a company (i) in the year (t) are negative and zero when the market returns of the share in the company (i) per year (t) positive.

\tilde{v} : - random changes not explained by the model.

The study concluded that the relationship between stock returns and income can be used to measure the speed of response to bad news. The sensitivity tests in the study also confirmed that income is faster in response to bad news than fast response to good news. The results of sensitivity tests can also be used for the relationship between stock returns and income in understanding the characteristics of cash flows and benefits during the study period.

Givoly and Hayn (2000) study aim is to identify changes in the patterns of income, cash flows and accruals in the past four decades with a view to identifying structural changes in the accounting reporting system and to examine whether changes in the characteristics of the time series of income. Maturities and cash flows have been related to the increased practice of the accounting conservatism in recent years, the study used 4 measures to determine the extent of the accounting conservatism and the change in the level of its practice:

1. accumulation over time of negative non-operating accruals
2. the measure of the conservatism based on the relationship between income and returns of shares used in the study of Basu (1997)
3. indicators based on the characteristics of the time series of income and cash flows and differences in ratios between them during the study period,
4. the market value/book value ratio of equity.

The four indicators were applied to all companies for which data were available on the composted base for the period from 1998 to 1950; the first indicator of non-operating negative accrual benefits was calculated as follows:

1. total pre-depreciation benefits = (net income + amortization) - cash flows from operating operations.
2. operating benefits = change in accounts receivable + change in inventory + change in prepaid expenses - change in accounts payable - change in tax payable.
3. non-operating benefits = total pre-retirement benefits - operating benefits

The study selected non-operating benefits as an indication of the existence of an accounting conservatism, as these benefits consist of several elements, such as the effect of changes in future estimates and doubtful debts, the accounting for such elements is left to the management's discretion for accounting policies applied, the study found that there is a change in the characteristics of the time series of income , cash flows and benefits, which shows that the relationship between accounting for income and economic performance is not stable, and it was concluded that the increase in the conservative financial report is the direct result of the increasing report of losses by US companies.

Penman and Zhang (2002 study aimed to answer the questions about the quality of income when an institution applies conservative accounting policies. The temporary increase in income by reducing doubtful debts is an undesirable poor increase. There are increasing concerns about accounting figures being manipulated, Accounting, The study illustrated several examples of conservative accounting policies, such as the application of LIFO rather than FIFO, extinction methods that reduce the useful life of assets, and the full processing of research and development expenditures in the same year of expenditure rather than capitalization, affect the quality of the income statement and the financial position. It may result in secret reserves in order to enhance management's ability to increase future income whenever it needs. Therefore, the study assumed that the accounting conservatism can be measured by the secret reserves, on the basis that the practice of the accounting conservatism is the reason for the existence of the secret reserves in the financial statements, therefore, the estimation of the value of the secret reserves represents the measurement of the value of the accounting conservatism, the secret reserve can be measured through the LIFO reserve and the reserve estimated expenditure for research and development, and the estimated conservatism for advertising expenses, explaining that each type of expenditure increases the value of the company, however, accounting standards allow for the capitalization of these expenditures only on certain terms and are therefore treated as expenditure and increased by the market value of the company, but the book value remains as it is, and the difference between them is a secret reserve, and thus are measured accounting conservatism the following equation:

$$Cit = ERit / NOAit$$

where

Cit: the accounting conservatism estimated through the Company's financial position in period t

Erit: estimated secret reserves through the company's financial position i in period t related to inventory, R & D, and advertising expenses

NOAit: net operating assets, which are calculated as follows: Book value of operating assets - Operating liabilities. Financial assets and liabilities are excluded because they are based on market value and therefore do not affect the accounting hedge and are therefore excluded from the conservatism account.

The study also explained that the change in the level of the conservatism can be calculated in the statement of financial position through the following relationship:

$$QA_{it} = ER_{it} / NOV_{it} - ER_{it-1} / NOV_{it-1}$$

where

QA_{it} : change in the level of conservatism in the statement of financial position for the previous period

If the result is positive, it means that the rate of formation of secret reserves is greater than the rate of growth in operating assets, the study found that the change in the secret reserves from one period to another represents a change in the level of the conservatism from one period to another, and there is a strong correlation between the accounting conservatism and low quality of income.

Ball and Shivakumar (2005- Earnings quality in UK private firms: comparative loss recognition timeliness) study aimed to provide a new measure based on the relationship between the benefits and cash flows from the operations to measure the accounting conservatism applicable in private companies. There are no shares issued to these companies to use their prices to represent bad economic news and good. This model is designed to be applied to private companies. The measurement of timing asymmetry is not appropriate to apply to these companies, there are no stocks issued to these companies that use their prices to represent bad and good news, and this measure depends on the following equation:

$$ACC_t = \beta_0 + \beta_1 * DCFO_t + \beta_2 * CFO_t + \beta_3 * DCFO_t * CFO_t + \tilde{v}$$

where

ACC_t : accrued balances = (change in inventory + change in debtors + change in other current assets) - (change in creditors + other current liabilities + depreciation)

CFO_t : Cash flows in period t

$DCFO_t$: is a binary variable = zero when the cash flows are equal to zero or less and one equal if the cash flows are greater than zero.

\tilde{v} : random variable

The study concluded that the immediate recognition of losses is one of the characteristics of the quality of the financial report, the financial reports of the public sector companies are higher than the financial reports of the private companies, the level of the conditional conservatism is higher in public sector companies than in the private companies, final, income according to accounting standards is the barometer used to evaluate financial reporting.

Revsine et al, (2007) aims at clarifying the relationship between tax planning and the practice of accounting conservatism, considering that tax planning is one of the most important modern motives for applying the accounting conservatism. The tax planning aims to study the future of the company and determine the losses and liabilities that may be exposed to it, and formatting allowances to meet them, and this planning is based on information on deferred taxes. The study assumes that the level of the accounting conservatism in any company depends on the set of accounting

alternatives applied by the company. The conservative accounting choices mean more income quality in the company. The level of the accounting conservatism can also be measured from the income tax information, income according to tax legislation, it can be measured the conservatism of income for one year, and most companies strive to reduce the tax burden through tax planning. The study concluded that comparing the ratio between income according to the accounting and income criteria according to the tax legislation from one year to another year. The change in the economic conditions and the changes in the tax law can be identified. The percentage can also be used in comparing the accounting choices, adding the study to the basic restrictions. The use of this percentage in the measurement of the conservatism is a comparison of this percentage over several years is misleading if changes in the tax law, and when comparing this ratio between different companies must be careful to vary some of the tax rules that apply from one activity to another.

2.2.7. The Accounting Conservatism Evaluation and Analysis Model Studies

Beaver and Ryan (2000) aimed at identifying the sources of the deviation in the ratio between the book value of the property rights and their market value, and the deviation is that the carrying value is greater or smaller than the market value. The ratio between them is always greater or smaller than one. The study assumes that there are two sources of deviation: the bias of the accounting recognition and the lags in recognition, the bias is the continuous part of the deviation of the ratio and the lags represents the temporary part of the deviation of the ratio. The study found that the bias is due to the application of conservative accounting policies, historical cost and economic environment variables (such as inflation), the bias is the continuous part of the deviation of this ratio, therefore, the effect of bias (continuous component) is greater than the effect of deceleration (temporary element) the deviation of the ratio between the book value of equity and its market value per unit on a permanent basis.

Zhang (2000) aimed at explaining the effect of applying conservative accounting policies on the relationship between accounting data and the value of the company, in addition to how the application of conservative accounting policies affects the ratio of the market value of equity to its book value and how it affects the valuation of the market value of equity, which is estimated by capitalizing income. The study concluded that the ratio of the market value of the equity to its book value is not equal; the accountant is responsible for applying the accounting conservatism. In the absence of market value and book value questions are raised about the impact of accounting data on the value of the company. Understanding the relationship between market value and book value, finally, the application of the accounting conservatism leads to an average income less than or equal to the economic income. The application of the accounting conservatism leads to a reduction in the income according to accounting standards from the actual income. It provided that the long-term growth rate exceeds the company's zero investment and that the rate of return exceeds the nominal discount rate.

Giner and Rees (2001) aimed to demonstrate the differential velocity of the income response to the bad and good news discussed by Basu (1997) as a measure of accounting conservatism. In addition to analyzing the relationship between current income and changes in share prices, and it concluded that Basu studied the relationship between current earnings (for one financial period) and current changes in stock returns. Has not studied the relationship in the case of a time series of earnings and changes in share prices in previous periods, and did not explain how they affect, these annual income on prices are in the case of different laws governing financial markets. Asymmetric recognition is always seen as an accounting conservatism, and prudence should be taken from considering the timing asymmetry a comprehensive measure of the accounting conservatism, especially with a negative relationship between this measure and other measures of conservatism. The sample used in the study included companies from England, Germany and France from 1990 to 1999 to study the effect of the applicable laws and the difference in capital markets on the relationship between income and returns of shares. A strong correlation was found between income and negative returns compared to the relationship between income and positive returns despite all the differences between them in terms of state intervention in economic activity and laws governing the work in the three environments. The most important shortcomings in Basu (1997) that he did not take effect considerations the environment into consideration when developing the measurement model conservatism accounting. Finally, through the comparison between the income and share prices, they find that the income have limited ability to reflect expectations of future cash flows, due this limited capacity to the application of conservative accounting policies, credibility, objectivity and other characteristics required in the accounting information.

Park (2002) using the Feltham-Ohlson (1995) model to assess the value of an enterprise to clarify the common effects of an accounting conservatism and optional disclosure on the value of an enterprise, as well as the joint effects of the accounting conservatism and life cycle stages on the value of the enterprise. The study concluded that Feltham - Ohlson (1995) presented a theoretical model for valuation of an entity that suggests that an accounting conservatism plays an important role in assessing an entity as a limitation on the usefulness of information and thus enhancing the quality of information in the financial report. Feltham - Ohlson (1995) also provided a theoretical framework that included income, book values, and optional disclosure to assess the market value of equity. This framework links the market value of equity and book value of net operating assets, the discretion of the management in selecting the accounting policies applied affects the level. The accounting level affects the assessment and expectations of investors for future extraordinary operating income.

Ball and Shivakumar (2006) study aim was to examine the role of accounting on the basis of entitlements in the asymmetry of the recognition of losses and gains, especially since this role is not clear and has not been studied thoroughly, and provide a new vision of accounting on the basis of maturity, which occupies a central

position in the financial report. In addition to understanding the role of entitlements in the study and the measurement of a conditional conservatism, entitlements have a crucial role in the asymmetry of recognition of gains and losses. This measure was applied to the data of American companies available during the period from 1987 to 2002. It was concluded that the results of the study have a clear and important role in understanding the relationship between the benefits and the future cash flows, discussing this relationship without taking the same timing of recognition of gains and losses presents misleading results. Accounting on an accrual basis has an important role to play in improving the efficiency of contracts; the addition of the value of the benefits to the value of the operating cash flows makes the income figure less biased. The relationship between them is not linear as some previous studies have assumed. Finally, the benefits have an important economic role: reducing the deviations and bias in operating cash flows, working capital, and mitigates fluctuations in investment cash flows arising from varying levels of investment.

Ryan (2006) aimed to provide useful guidance to researchers in the field of measuring conservatism to understand the relationship between the different measures of accounting conservatism. The study found that although the scale of the time discrepancy is widespread, there are some limitations on this scale, some of which are directed at the reverse regression relationship assumed by Basu (1997), and others are directed at estimating the timing discrepancy, these limitations are:

1. share returns are a reflection of all information and not information about income according to accounting standards only
2. not all bad and good news on the accounting period is not necessarily reflected in the period in which it occurs for various reasons, including the difficulty of assessing the amount of decline or deterioration in the value of the assets
3. income and returns it is difficult to calculate the impact of individual shock on income and returns. The aggregation affects the measurement process.
4. the time immortality measure does not reflect the management's desire to show a certain amount or level of income according to accounting standards for certain purposes such as reducing it to achieve tax breaks or inflating it for high rewards.

The study has shown that, in the absence of these limitations, the timing is not equal to the conditional conservatism, there may be an asymmetry of timing, no conditional conservatism, and vice versa, therefore, the study proposed several approaches to improve the model of time asymmetry as a measure of conditional conservatism, that which:

1. previous studies have confirmed that income caused revenues and not vice versa, and thus measures that depend on the returns to be biased and this must look for variable bad and good news to represent rather than revenue. The study suggested the use of operating cash flow as a variable to represent the news, but there is a difficulty in neutralizing components Cash flows that reflect the news, as well as cash flows, are also affected by the choice of available accounting alternatives
2. attempt to transfer income and returns to the present value of the expected income and the expected value of the proceeds to mitigate the above constraints, but this conversion process requires more time and cost than the benefit, in addition to

trying to control the factors that affect the asymmetry of timing and not necessarily due to conditional conservatism, so it is better to use more than a measure of conservatism in one study.

Dietrich et al, (2007) in *Asymmetric Timeliness Tests of Accounting Conservatism* study aim to assess the validity of the model asymmetry presented by Basu, 1997. The study concluded that the basic assumption of this model is that stock prices reflect information without bias, while income according to accounting standards reflect bad news faster than good news. In addition asymmetries of timing as a measure of accounting conservatism include insoluble biases that make the measurement results inaccurate; these biases are inherent in the variables of this relationship and in the design factors of the data collection and selection of the type and size of the sample. Model is defective to provide evidence of the existence and practice of the accounting conservatism. There is an implicit assumption that the sensitivity of the income according to accounting standards response to the publicly available news in a timely manner and assuming that the response is immediate. The model assumes that the returns of the shares are moving according to the information on income according to accounting standards only, this is not true, it depends on many other sources of information, to control all factors affecting the returns of shares.

Givoly et. al., (2007) in study titled *Measuring Reporting Conservatism* aimed to test the validity and validity of the measurement of the time discrepancy presented by Basu (1997) to measure the accounting conservatism to study the effect of the characteristics of the information environment on the scale of the time asymmetry. It found that the validity of the regression model to measure the conservatism is questionable from the point of view of econometrics. This measure suffers from large measurement errors that make it insufficient to evaluate all the dimensions of the conservatism, the stock returns are a dependent variable and used as a separate variable in the opposite direction of regression. The scale makes the results non-interpretable and therefore the estimated level of the conservatism is inaccurate. There is a negative correlation between this measure and the other measures of the accounting conservatism, indicating that the conclusions of this measure are incorrect.

Pae's (2007) study aimed at explaining the effect of discretion on the management of the company on the evaluation of the optional entitlements and its relation to the conditional conservatism and studying the relationship between the conditional conservatism and the unconditional conservatism. The study assumed that the non-optional benefits do not reflect the conditional conservatism and concluded that the income benefit component is responsible for the rapid response of the income to the expected losses rather than the cash flow component. There is also a negative relationship between the conditional conservatism and the unconditional conservatism because of the non-optional benefits. The application of the unconditional conservatism precludes the application of the conditional

conservatism. The use of maturity models in the study of the relationship between benefits and cash flows, changes in income and measurement of the accounting conservatism, also, companies with major financial leverage to be more in application of accounting policies conservative. This study has provided evidence that the negative relationship between the conservatism conditional and the market value of net assets at the beginning of the year mainly due to the benefits is optional element. There is a negative relationship between conditional conservatism and conservatism. The balance sheet at the beginning of the year is the cause of the negative relationship between the conditional conservatism and the unconditional conservatism.

Roychowdhury and Watts (2007) in *Asymmetric timeliness of earnings, market-to-book and conservatism in financial reporting* aimed at showing the relationship between two measures of accounting conservatism that are widely used, namely the measurement of the time and the ratio of the market value of the equity to the book value. The study used a sample of 45,664 observations for the period from 1972 to 1999, and was based on the hypothesis that there is a positive correlation between the time immorality scale and the market value ratio of equity to its book value when the time mismatch measures a cumulative timing over long periods, and the relationship is negative when measuring cumulative timing over short periods. Timing is more efficient than the ratio of the market value of equity to its book value when it measures cumulative timing over long periods. The study found that the high degree of asymmetry of the earnings response to the returns of the shares (as a variable represents the bad and good news) over long periods accompanied by the increase in the ratio of the market value of the equity rights to their book value. The ratio of the market value of the equity to its carrying value is equal to one at the beginning issuance of the company's shares. Finally the bad news is reflected on the returns of stocks and on income according to accounting standards in a timely manner. The good news is reflected only on the returns of shares and deferred accounting recognition for future periods.

Wang et. al., (2008) study aimed to answer several questions about the accounting conservatism:

1. what are the most widespread and used measures to measure the accounting conservatism?
2. do we get the same results about the level of the conservatism during a period using different measures?
3. what are the differences between accounting conservatism measures?
4. is there a bias in accounting standards?

The study concluded that the accounting conservatism has become the last decade of the main and vital topics in the field of experimental research because there are several standards of conservatism that have no consistency.

The study also identified 5 measures of conservatism which are the most widespread and used:

1. Feltham - Ohlson, (1995) ratio of market value to book value MTB;
2. Basu (1997) asymmetry of income timing;

3. scale Givoly and Hayn (2000) Non-operating negative accrual benefits;
4. Penman and Zhang (2002) confidentiality measure;
5. scale Ball and Shivakumar (2005) asymmetry of cash flow benefits.

The study also identified several main challenges facing any measure of accounting conservatism:

1. the absence of general agreement on the accounting conservatism and theoretical construction;
2. the bias inherent in the five measures of the accounting conservatism;
3. excessive reliance on one measure of discretion in each study which certainly leads to bias. In order to meet these challenges, the study proposed several solutions:
4. the necessity of clarifying the true meaning of the accounting conservatism and the different characteristics and aspects of it;
5. clarifying the relationship between the different measures of the accounting conservatism; and
6. controlling the external factors affecting the measurement models; a measure of conservatism in one study and attempt to design composite measurement models from more than one of these five scales.

Wang et. al., (2009) study concluded that the basal timing factor (Basu, 1997) is biased in the case of a risk of default in the company. This bias increases with increasing the level of risk of default. Basu also presented the first and most popular measure of accounting conservancy, but it has been subject to many studies that have highlighted many criticisms and weaknesses in this measure. Basu cannot distinguish between conservative and venture companies, financial analysts use the company's economic news to estimate the company's value, during the observation of operational conditions, especially that the net income figure reflects only one year's circumstances. So other factors are taken into accounts such as entitlements and income management. The study proposed an adjustment to the original Basu (1997) scale by reducing its bias because of the impact of default-adjusted-Basu risk and through the following model:

$$NIBI_{it} / Vit-1 = a_0 + a_1 DTR_{it} + b_0 TR_{it} + b_1 TR_{it} DTR_{it} + e_{it}$$

where

NIBI_{it}: net income before interest expense.

Vit-1: the total value of the company at the beginning of the period equal to the total market value of equity and debt.

TR_{it}: the rate of return on the total value of the company, which is calculated as follows:

$$TR_{it} = (Vit - Vit-1 - CFF_{it}) / Vit-1.$$

CFF_{it}: net cash flows from financing activities

DTR_{it}: binary variable is equal to one if TR_{it} is greater than zero

TR_{it}: is less than zero.

This study removed some of the extreme values from the original regression model. The statistical analysis presented by the study showed that the extreme values in

companies with high default risk have different characteristics from companies in which the risk of default is low or medium.

Jarva (2010) study aim was to provide evidence that the asymmetry of cash flows leads to biases in the measurement of the conditional conservatism, and also to indicate the extent of the variability in the cash flows that affect the conditional conservatism measure. The study concluded that when the benefits are used as a dependent variable instead of the income in the Basu (1997) model, the time immobilization coefficient decreases from 58% to 28%. The Basu (1997) model cannot clarify whether the decline in income due to the application of policies accounting or other activities. In addition, the use of cash flows and benefits in the Basu (1997) model instead of income and stock returns is not suitable for companies with negative returns; therefore, other variables should be used to represent poor and good economic news in the Basu (1997) model instead of stock returns. The recent studies on the use of entitlements should be conducted as a dependent variable in the Basu (1997) model, with strong control over all factors affecting the determination of non-elective benefits.

2.2.8. Studies that illustrate the Contractual Motive to apply of the Accounting Conservatism

Guay (2008) in the study: Conservative financial reporting, debt covenants, and the agency costs of debt aimed at explaining the economic role of the financial report. The contracts of the debt agreements and the accounting conservatism in the event of conflicts of interest between borrowers and lenders assumes that the cost of debt varies according to the level of the accounting conservatism in the financial report. The study concluded that the accounting conservatism is one of the mechanisms to reduce the conflict of interest between lenders and borrowers by reducing the costs of debt financing. The debt agreements on the basis of the declared accounting numbers require the contracting parties to apply a high level of accounting conservatism to reduce the opportunistic motives of management. The conservative financial statements of the borrowers protect them when the debt agreements are concluded; therefore, the debt agreements are considered one of the motives or interpretations of the accounting conservatism in the financial report.

Zhang's study in 2008 suggested that borrowers are the most conservative and most likely to liquidate debt in the short term from less conservative borrowers and those interest rates are lower for more conservative borrowers. The results of the study pointed out that the accounting conservatism provides remote benefits to the lenders by indicating that the borrower has a reasonable risk in a timely manner. This may accelerate the dissolution of the debt contracts to reduce the expected losses. The conservatism also achieves tribal benefits to the borrowers by reducing the debt interest rate, and the accounting conservatism also enhances the efficiency of debt

agreements, lenders wish to minimize risks and an accounting conservatism is one of the mechanisms for achieving this.

Gigler et. al., (2009) focused on identifying whether the accounting conservatism increases (or decreases) the efficiency of the debt agreements, taking into account the nature of the conservatism (conditional and unconditional). The results of this study did not support the positive relationship between the accounting conservatism (unconditional) and the efficiency of the debt agreements assumed by Watts 2003, where the opposite of the content of the accounting reports. The study also found that there are some elements necessary to understand the relationship between accounting and debt efficiency. The first is that conservative accounting principles not only lower asset values but also change the information content of accounting reports; the other element is not to rely solely on the interest rate on the loan as a measure of efficiency. Efficiency is met by the availability of all the ideal conditions for contracting.

Li J. (2013) aimed to develop the theoretical model presented by the studies of the conservatism to understand the role of the accounting conservatism in the debt agreements. The study assumed that the application to apply the accounting conservatism depends on whether it is possible to reschedule the debt or not. It concluded that the ideal debt agreements include conditions that give the lender the right to liquidate when the accounting information does not clarify the reality of the status of the borrower. The accounting conservatism also reduces the efficiency of the debt agreements if rescheduling is possible or impossible, there is, therefore, a significant rise in the level of application of an accounting conservatism, which may increase the efficiency of debt agreements.

Sunder's (2009) purpose is to clarify the role of the conservatism applied in the debt agreements. The applied conservatism means the cumulative effect of applying the conditional and unconditional conservatism from the establishment of the company until the measurement date, in addition to studying the direct and indirect effects of the conservatism applied to the debt agreements. The study assumed that the conservatism increases the trust of lenders in assessing the assets of the borrowing company; the study also highlighted the importance of the accumulated effects of immediate recognition of losses, which limits the opportunistic motives of managers to increase their incentives at the expense of other parties. The study explained the lenders' response to the level of conservatism applied to the organization and status contract terms it plays a direct role in debt agreements by reducing loan risk by assessing the assets of the borrower at minimum.

Hui et. al., (2012) aimed at clarifying the reasons for the preference of suppliers and customers for conservative accounts when making deals among themselves in the light of the increasing demands from customers and suppliers of any company to prepare conservative accounts as this gives them an advantage in setting terms of trade between them. The study hypothesized that there is a positive correlation

between the accounting conservatism and the bargaining power of both suppliers and customers. The correlation is positive between the accounting conservatism and the bargaining power of the suppliers of the company is more pronounced in companies operating in industries with higher material costs compared to labor costs, the accounting, and accounting capacity of customers. The positive correlation between the accounting and negotiating ability of the company's suppliers or customers is less pronounced in companies working in the distressed industries, like companies working with unique goods. The study found that customers and suppliers of companies are interested in accounting performance for companies, especially in short term transactions, which helps them assess the ability of the company to meet their obligations in the short term in addition to evaluating the feasibility of dealing with companies in the long term and the ability of the company to pay compensation and mortgages. Accounting also has a strong advantage for suppliers and customers in setting terms of trade, which demonstrates and confirms the contractual interpretation of the adherence to the accounting conservatism.

Watts and Zuo (2012) study aimed at clarifying the effect of the accounting conservatism on the value of the company during the global financial crisis in 2008. It also clarifies the impact of conservative financial reports during the financial crises on the returns of shares and how the accounting conservatism has contractual benefits that enhance the value of the company in such circumstances. The study assumes that there is a positive correlation between the accounting conservatism and the returns of the shares of companies during the period of the financial crisis. In addition there is a positive correlation between the accounting conservatism and the borrowing capacity of companies during the period of financial crisis. There is also a positive correlation between the accounting conservatism and capital investments of companies during the period of financial crisis and the positive correlation between the accounting conservatism and the returns of the shares of companies during the period of financial crisis is more obvious in companies with high costs of the agency. The study concluded that the accounting conservatism enhances the value of the company during the financial crisis through two axes: improving its ability to borrow and reducing administrative opportunism, the financial crisis has reduced liquidity in the banking sector and companies have had to seek sources of financing to meet the bank borrowing deficit, the negative on the returns of shares of companies with conservative financial reports compared to other companies, and more that the ability of these companies to invest and borrow increased during the financial crisis.

Ahmed and Duellman (2013) in the study titled Managerial Overconfidence and Accounting Conservatism aimed to demonstrate the relationship between excessive trust of managers and the application of accounting conservatism, where excessive confidence is meant to overstate the future returns of any project studied and expected to achieve positive cash flows. The study hypothesized that there is a negative relationship between excessive trust of managers and conditional and unconditional accounting. There is also a weak correlation between excessive trust of managers and accounting conservancy in companies with strong external control.

The study found that there is an interest in academic studies in studying the relationship between excessive administrative trust, investment decisions of companies, financing decisions, income distribution policies, and erroneous financial management expectations, and pointed out that the application of the rules of governance on a large scale imposes strict control on companies. This control weakens the relationship between excessive trust of managers accounting conservancy, and excessive administrative trust have a negative impact on the exercise of conditional and unconditional accounting.

2.2.9. Studies illustrating the Cost of Litigation to apply the Accounting Conservatism

Liu and Thornton, 2008: Litigation Risk, Price-to-Book and Conservatism in Financial Reporting: The study aimed to clarify the relationship between the expected costs of litigation and the application of the accounting conservatism, as well as determining the impact of recent changes in the litigation environment on the information role of the conservatism, the cost of litigation is disproportionate to the decisions of auditors, managers, and companies, there is a significant difference in litigation costs when asset valuations are overstated compared with asset devaluations, litigation costs are also a motive for the conservatism of managers and auditors in the preparation of financial reports, accounting alongside the contract payer, finally, the accounting conservatism reduces the expected litigation costs for possible litigation against the company in the event of overvaluation of the assets compared to their reduction, the amplification facilitates and increases collective claims by investors to sue the company, the auditor, and management to compensate for the expected losses.

Hwang and Chang, 2010: Litigation environment and auditors' decisions to accept clients aggressive reporting: The study aimed at identifying whether the litigation environment affects the decisions of the external auditor to accept the customers of the non-custodial financial statements, the study assumes that auditors are less willing to accept unsecured financial statements in the current litigation environment after Andersen's crisis, which was one of the top four audit firms in the world, and the assumption that there is a tripartite impact of litigation costs, customer risk, by accepting less conservative financial statements, the study found that the litigation environment has a positive impact on the degree to which auditors are prepared to accept unsecured customer reports, and that the litigation environment interacts with the risks of the client's business and customer pressure to affect At the end of the decisions of the auditors to accept to continue with the client or not.

Alam and Petruska, 2012: Conservatism, SEC investigation, and fraud: The study aimed to explain the relationship between the accounting conservatism and fraudulent financial reports to determine the level of accounting conservatism in fraudulent companies, the study assumes that there is a significant difference in the level of the accounting conservatism in companies that provide financial reports fraudulent compared to companies that provide real financial reports, and also

assumed a correlation between changes in the level of accounting conservatism and changes in the risk of the litigation environment, and finally assumed that there is a significant difference in the level of accounting conservatism in companies that provide fraudulent financial reports compared to companies that provide real financial reports after the Sarbanes-Oxley Act, issued in the United States after Anderson's crisis and covering up manipulation of Enron's financial statements, the study concluded that the US Stock Exchange is currently required to apply the highest levels of accounting restraint to reduce information asymmetry between management and owners. In addition, there has been a significant reduction in the level of the accounting conservatism in the period of fraudulent financial reporting by companies, the issuance of the Sarbanes-Oxley Act, led to a significant increase in the level of accounting hold in these fraudulent companies, finally, the study found that managers exploited the disparity in accounting conservatism levels to achieve many economic benefits.

Ettredge et. al., (2012) aimed to find out whether companies that issue more conservative financial statements are less likely to sue them because the overvaluation of net assets and income is a motive for such cases against companies. Especially that these issues are very expensive for the company and managers in terms of resources and reputation. The study assumed that the reduction of the practice of the accounting conservatism from the suits of compensation against the company, and concluded that the results of the examination are consistent with the preconceived expectations that litigation is a strong motivation to adhere to the application of the accounting conservatism because it limits the overvaluation of assets and income and thus reduces the costs of litigation material and moral. In addition to the existence of a conservatism correlation between the level of the accounting conservatism and the number of cases against the company for violating the General Accepted Accounting Principles.

2.2.10. Studies showing the Motivation of the Marginalization to apply the Accounting Conservatism

Bushman and Piotroski (2006) aimed at explaining how the published accounting figures are affected by the institutional structure of the state, which is defined in four areas (the state judicial system, capital market laws, political economy, and tax systems). The study showed that as long as there is a correlation between the financial report and the tax declaration, there is a strong and direct motive to reduce the present value of tax payments; therefore, tax considerations are considered one of the motives of the conservative financial report, as, for the judicial system of the state. The study showed that the conditional conservatism is increasing in the financial statements in countries where there are good judicial systems, especially if the compensation and contracts depending on the published accounting figures. It also found that the capital laws and labor laws vary from country to country, the

requirements of financial disclosure by most stock exchanges around the world aim to prepare conservative financial reports.

Wynn and Chung (2008) aimed to identify the different motives of the entities concerned with the development of accounting standards when issuing different standards. The study concluded that these entities fall under the responsibility of trying to explore the effects of the application of the standard before it was issued, especially with the increasing cases of the collapse of large companies, which was the reason for the high criticism of the standards-setting bodies and those involved in the supervision and control of companies, motivated to increase the issuance of conservative standards.

Andre and Filip (2012) study aimed at explaining the effect of the issuance of the IFRS in 2005 and the obligation to apply it at the level of application of the accounting conservatism and whether the differences in the level of application of the accounting conservatism between countries still exist after the issuance of these standards, considering that these standards are more neutral than the applicable standards in each country on its own. The study assumes that there is a decrease in the level of the accounting conservatism in general after the application of the financial reporting standards, the difference in the level of application of the accounting conservatism between the various countries after the obligation to apply the financial reporting standards. The study found that there is a significant and significant reduction in the level of the accounting conservatism in all countries after the adoption of the criteria of the financial report. The reasons for the low level of conservatism are due to the legal and institutional incentives. The most important of which are the application of the rules of governance and the extent of growth in the financial markets and the differences between the accounting and income according to tax legislation. GAAP and financial reporting standards those involved in the issuance of the standards should also assess whether the level of the accounting conservatism is good or bad, especially with a lot of criticism of the accounting conservatism, the most important of which is its opposition to the neutrality of the information.

2.2.11. Studies illustrating the Motive of Governance to apply the Accounting Conservatism

Ahmed and Duehman (2007) aimed to clarify the relationship between the accounting conservatism and the characteristics of the board of directors (one of the elements of governance). The motivation to study this relationship is the conflict between the interests of managers and other parties in the company. The study found that there is a negative correlation between the percentage of executive members and the level of accounting conservatism, there is also a positive relationship between the percentage of non-executive members and the level of accounting conservatism. In addition, there are many ways to reduce agency problems; companies should choose the optimal combination of mechanisms. The accounting conservatism is one of the

means of reducing the costs of the agency. In other words, the separation of ownership from the administration entails the problems of the theory of agency; therefore, governance is considered one of the reasons for the conservatism.

Lara et. al., (2007) aimed at explaining the relationship between the accounting conservatism and the governance mechanisms, the study hypothesized that the degree of conservatism in companies with strong governance mechanisms compared to companies with weak governance mechanisms, the study concluded that the benefits of accounting practice are to reduce the opportunistic motives of managers, which make them work for themselves at the expense of the interests of other parties and thus contribute to solving the problems of the agency, also, governance plays an important role in activating the practice of accounting conservatism, the conservatism and the elements of governance, in addition, the strongest companies in the governance mechanisms are more conservative, this positive relationship is due to the fact that the conservatism is one of the mechanisms of solving the problems of the agency between the administration and the external parties and thus can be considered as one of the mechanisms of governance, corporate governance is a major reason for the increase in the demand for accounting conservatism in the recent period of this contract, it reduces the costs of the agency and the legal responsibility of both management and references.

Lafond and Watts (2008) aimed at showing the effect of administrative ownership on the financial report conservatism; the administrative ownership refers to the transfer of the management reward from the cash form to the management's ownership of a share, assuming that the management's actions are directed to the shareholders as part of the management. The study assumed that the accounting conservatism is negatively correlated with administrative ownership, and found that the greater the administrative ownership, the greater the management's attempts to avoid the report of losses or low income. It works in the preparation of financial reports work to settle the income between the financial periods to achieve the benefits of their own, and companies with less administrative ownership are more conservative. Increasing the problems of the agency increases the demand for an accounting conservatism. Therefore, the problems of the theory of agency can be considered as one of the motives or explanations for the continued application of the accounting conservatism.

Lim's (2011) study aimed to examine the relationship between the Board of Directors, the Audit Committee and the External Auditor as the mechanisms of governance and the level of application of the accounting conservatism in the financial statements of Australian companies. The hypothesis of study that whenever the Governing Council was more independent of the greater degree of accounting conservatism in the financial statements, and whenever the Governing Body larger the higher the degree of accounting conservatism in the financial statements, in addition to that whenever the Audit Committee more independent of the greater degree of accounting conservatism in the financial statements, and finally, when the

external auditor of the four largest auditors, the extent of the conservatism is higher in the financial statements of the company. The study found that there is a positive relationship between the application of the mechanisms of governance and the extent of the accounting conservatism in the financial statements, the extent of the exercise of the accounting conservatism is affected by the independence of the Board of Directors, the Audit Committee and the size of the Board of Directors. However, the study showed the weakness of the relationship between the extent of the accounting practice and the external auditor.

Ramalingegowda and Yong (2012) tried to answer the following question: Why do shareholders require conservative financial reports? The study aimed at studying the relationship between the accounting conservatism and institutional ownership. The study hypothesized that there is a positive correlation between ownership by the regulatory institutions and the demand for the accounting conservatism, the relationship between ownership by regulatory institutions and accounting conservatism is more positive in companies where information is not asymmetrical, companies with strong external control. The study concluded that the shareholders are an important source to request the continuation of the conservatism to my accountant as one of the mechanisms of governance, the separation of ownership from the administration and the lack of information between management and shareholders leads to more demand for conservative financial reports, control, and accounting conservatism are more pronounced in companies where information is becoming more asymmetrical because the strict control by the government increases the benefits of the conservatism and therefore the higher the percentage of ownership of the regulatory institutions in the company the greater the demand of shareholders and executives financial reports conservative.

2.3. National and Organizational Culture Studies

2.3.1. The concept of Organizational Culture

Organizational culture plays an important role in influencing the behavior of individual employees by focusing on the values and beliefs that the administration wants to instill in the minds of workers, such as customer care, teamwork, respect for time, and dedication to work. Organizations with a strong culture provide more material and moral work than new an organization whose culture has not yet spread and has not become entrenched in new workers. This concept has emerged clearly in the research publications of the institutions and institutions of the administration since 1981, there are many definitions of the culture of the organization according to the view adopted by researchers, some of whom knew through the components and some of them knew the impact of those elements and components on the behavior of workers and some of them knew through their functions:

Peter and Waterman (1980) defined it as the dominant system of values organized through the cultural production of its members, which is the stories, legends and logos of the Organization. Edgar Schein (1985) defined organizational culture as a

pattern of assumptions - developed, invented, or discovered by a group while learning how to deal with the problems of external adaptation and internal integration - that they could be considered valuable. Gibson et. al. (1994) saw the culture of the organization as something similar to the culture of society: it consists of values, beliefs, perceptions, assumptions, norms, standards, man-made objects, and common behavioral patterns. Greenberg - Paron (2004) defines it as a cognitive framework of attitudes, values, standards of behavior and expectations shared staff. Kurt Lewin think that the culture of the organization is a set of assumptions, beliefs, values, norms and standards that are shared by the members of the organization. It is the human environment in which the employee works, culture is something that is not seen and felt but is present in every place; in any case, several examples of the definition of organizational culture were identified during the review of the relevant literature:

1. A pattern of shared values and beliefs that helps individuals understands the nature of organizational work and provides them with criteria that define desired and undesirable behavior within the organization (Deshpande and Webster, 1989).
2. A pattern of common basic assumptions in which the group learns how to solve its external adjustment and internal integration problems that are well formed to adopt standards that show new employees how to perceive, feel, and think about these problems and how they are together (Schein, 1992).
3. A system of common meanings for workers and that distinguish an organization from another. (Robbins, 1998).
4. A pattern of common beliefs, values, standards, activities and behaviors that have evolved in time and issues of interest in organizational culture is the possibility of analyzing them at three levels. (Schein, 1997).

The first level represents man-made objects, this level is easily discernible, but it is difficult to detect (Roman-Velazquez, 2005). It includes the physical and intangible objects and patterns that reflect the technology (Ott, 1989). From the natural environment, company presentations, behavior and daily operations. (Bennett, 2006)

The second level represents the adherent values that represent the apparent values and criteria that are desirable by the organization, these values become goals, objectives and philosophies that serve as the source of the identity and the core message of the group. (Roman-Velazquez, 2005: 69) Both organizations may have the same values but possess different humanities that reflect those values. (Bennett, 2006).

The third level is the basic assumptions, which mean the beliefs, perceptions, ideas, and feelings that represent the deepest level of culture and are the source of values and actions (Veilazquez, 2005). The basic assumptions are explanatory images used by workers to understand situations, (Van Maanen and Barley 1985). These assumptions reflect the very deep beliefs historically associated with the establishment of the organization and are difficult to change (Bennett, 2006).

These values refer to the attitudes, beliefs and ideas of a particular organization, these values reach individuals through social relations and the continuous interaction between them, the administration also contributes significantly to instilling the values it adopts in its members, specific values such as compliance with regulations and laws, customer care and improved efficiency, the organization expects its members to adopt these values and to reflect on their behavior.

Before addressing the dimensions of the concept of organizational culture prevailing in organizations, it is necessary to distinguish between "Organizational Culture" and "Organizational Climate". Ekvall interested in this dimensions, who decided that the organizational climate reflects frequent and observable patterns of behavior, trends and feelings, life in the organization, while organizational culture embodies the deeper foundations of the organization.

Ashforth mentions a nice difference between organizational culture and organizational climate: both are within a spectrum, the organizational climate is "individual feeling", while the organizational culture embodies "collective unconsciousness", this is an intelligent and in-depth differentiation implicit within the beliefs, traditions, customs and structure of the organization.

The importance of differentiating between the two terms from several considerations, the most important of which is the fact that it reflects the interaction between the cultural component shaping the work environment within the organization, accordingly, it is possible to determine that the organizational culture is the generator that produces the organizational climate that constitutes the space in which individuals work in its positive and negative aspects of members of the organization, their levels of motivation and the quality of their performance in various departments, divisions and branches of the organization, it can be said that the quality of the organizational climate is indicative of the quality of organizational culture and vice versa.

2.3.2. Types of Organizational Culture

The types of organizational culture can be classified as follows:

1. In terms of the universality of culture: It's divided to:

- The dominant culture: a culture in which most members of the organization participate and direct their behavior, where their spread is widespread.
- Partial culture: A culture in which small groups of workers participate, which may be at the level of the departments of the organization and may be at the level of professional groups such as engineers and accountants.

2. In terms of the strength of culture: It's divided to:

- Strong culture: The culture of the organization is meant to be a culture that is representative of the values of the majority of the members of the organization, a strong culture exists when there is great agreement and firm adherence by the majority of the organization's members to prevailing values and beliefs, the strength of culture can be judged by assessing the degree to which values and

beliefs are consistent and how well they are compatible, the survival of a strong culture continues for a long time in most cases. A strong culture is a culture where managers and leaders care about customers, shareholders, and employees, but the weak culture is a culture in which manager's care only about themselves, by direct work or by technology, and give little attention to people, customers, owners and employees. It can also be pointed out that the culture of the organization is strong if it is spread and is trusted and accepted by all members of the organization who share a homogeneous set of values, beliefs, traditions, norms and assumptions governing their behavior and attitudes within the organization.

- **Weak culture:** There is little agreement and adherence of the members of the organization to common values and beliefs, the culture of the organization is described as weak when it is not strongly embraced by the members of the organization and when it is not widely accepted, despite the importance of this type of organizational culture it has little effect In the performance and effectiveness of the organization. The weak culture is the one that is not embraced by the members of the organization and does not enjoy the trust and broad acceptance of most of them, in this case, the organization lacks the common cohesion among the members of the values and beliefs, the members of the organization will find it difficult to agree with the organization or with its goals and values. We can call it an anarchist organization.

3. In terms of patterns of culture: It is divided to:

- **Culture of influence / power:** Power is concentrated in specific persons who make decisions and work to find positions those others must implement.
- **Culture of the role:** It is often referred to as the bureaucracy in its real form, and the interaction it's important among functional specialties through job description, procedures, rules and systems, the job description is more important than the skills and abilities of the members of this culture this culture is compatible with organizations that are stable, not permanent.
- **Culture of the task:** This culture is characteristic of organizations that are very interested in research and development activities, as these organizations are more dynamic, are constantly subject to change and have to find temporary job teams to meet their future needs.
- **The Individual Culture:** this culture is characteristic of the model of conscious management, as individuals within the organizational structure collectively determine the way the organization will go, if there is a formal structure, it tends to serve the needs of individuals within the structure, it is noted that organizations that follow this culture reject the official hierarchy of accomplishing things, but they exist only for the sole purpose of meeting the needs of members.

2.3.3. The importance of Organizational Culture

By reviewing the organizational culture it can play a major and important role that it can play at all levels and within the organization. It may lead to the success of the

organization if it contributes to the creation of a climate that promotes improvement and performance and may result in the failure of the organization obstacles to the efficiency and effectiveness of the system. To illustrate the importance of organizational culture, it is necessary to clarify the role played by the organizational culture within the organization, where there are a number of roles played by the organizational culture in the organization in general, and we will mention here the impact of organizational culture on both the organization and the workers:

1. The impact of organizational culture on the organization: Culture is a hidden force with a multi-faceted impact and certainly, the culture plays many roles in the organization and one of the most prominent roles played by culture in the organization that it:

A. Affects the management style, reflecting the management style and approach of managers in achieving the organization's goals in terms of leadership style, decision-making style and problem solving as the values, standards and beliefs prevailing in the organization - the culture of the organization - greatly affect the pattern used by managers to achieve objectives.

B. Affect the performance of the organization as the organizational culture affect the work procedures and contribute significantly to the effectiveness and efficiency of the organization and so that it must be a strong culture.

C. The cultural norms prevailing within the regulatory environment effectively influence the organization's ability to adapt to any change.

D. Helps to create an identity for the organization and provide the organization and its employees with a sense of identity, many organizations through their culture can be judged as old and powerful organizations or weak and messy.

E. Supports the stability of the organization as a social system, through the sense of staff members and their commitment to achieve their goals, which helps to stabilize the organization and growth.

F Organizational culture is an influential force within the organization as it stimulates and inhibits specific types of individual and collective behavior within the organization.

2. The impact of organizational culture on workers - The organizational culture affects the workers as follows:

A. Develop a spirit of loyalty and belonging to the organization as the organizational culture provides the employees with a sense of identity and the more it is possible to identify the ideas and values that prevail in the organization as strong workers links the message of the organization and increased their sense that they are an important part of them.

B. Motivate employees and create motivation to work.

C. Help individuals adapt to the external and internal environmental conditions of the organization.

D. Provide the workers with many common rules of conduct and this function is of particular importance for new employees and is important for the old employees

culture leads the words and actions of employees, which clearly defines what should said or done in each case and thus stability of expected behavior of the individual in different times and behavior are expected from a number of employees at the same time.

2.3.4. Characteristics of Organizational Culture

Organizational culture is characterized by a set of characteristics that derive from the characteristics of general culture on the one hand, and the characteristics of administrative organizations on the other. The characteristics of organizational culture can be defined as follows:

- 1. Culture: A complex system** consisting of a number of components or sub-elements that interact with each other in the formation of a culture of society, organization or culture of managers, and include culture as the system of the following three composite elements; the moral aspect (the integrated pattern of values, morals and beliefs), behavior aspect (habits, traditions of the members of society, literature, arts, and various practical practices), and the physical aspect (all that the members of the organization produce such as buildings and foods...).
- 2. Culture is an integrated system:** as it is going to continue to create harmony between the various elements, and therefore any change in one aspect of the lifestyle is soon to be reflected on the rest of the components of the cultural pattern.
- 3. Culture is a cumulative system,** continuous and continuous, where each generation to deliver it to the next generations and are learned and inherited through generations by learning and culture is increasing through the addition to the components of these elements and characteristics and ways of interaction elements and characteristics.
- 4. Culture is an acquired system,** variable and developed: the continuity of culture does not mean passing it through generations as it is and does not move instinctively; it is in constant change as it introduces new features and loses old features.
- 5. Culture has the characteristic of adaptation:** It is characterized by flexibility and adaptability in response to the demands of human biological and psychological, and to be appropriate to the geographical environment and development of cultures surrounding the individual on the one hand, and in response to the characteristics of the environment of the organization and what is happening on the other side.

2.3.5. Dimensions of Organizational Culture

Opinions differ in the main dimensions of organizational culture, which can be summarized in the following elements:

- 1. The flexibility of regulation:** its ability to respond to and adapt to the variables of internal and external conditions.

2. The nature of the work: The requirements of the work in terms of its routine nature, which devote boredom and challenge creativity or it raises the challenge of the worker, and push it to experience, innovation and creativity.

3. Focus on achievement: Most projects emphasize achievement, as a basis for reward, promotion and progress.

4. The importance of administrative development and training: This is the degree to which the administration pays attention to the training and development of employees, investing in the human element is one of the most important types of investments because it causes self-confidence in the trainee to achieve goals and raise their morale.

5. Types of power: The central authority; suggests hardness and inflexibility, thus limiting creativity, because the employee does not have to make a decision.

6. The method of dealing between employees and management: The approach adopted by the management determines the mode of dealing with its employees, the management, which requires honesty, sincerity and reciprocity, obtain the cooperation of the employees and their dedication to work and their interest in the project interest, that the workers' agreement is a threat to them, and here the problems are increasing, which affects their performance.

7. Types of reward and punishment: The goal of reward and punishment is the repetition of certain behavior desirable or modified, the reward given to the achievement and the lack of absenteeism and creator to devote the desired behavior, and vice versa, the punishment falls on many absenteeism and incomplete and lawless order, but sometimes may be rewarded to the unfulfilled, but to the person who adheres to the literal instructions and laws, which leads to unhealthy climate and disruption of creativity.

8. Job security: This is the set of guarantees and functional benefits required by workers, such as security from losing a job without legitimate reasons, security from arbitrary administrative procedures, which leads to psychological stability and morale, thus improving performance and documenting loyalty.

2.3.6. Functions of the Organization's Culture

The functions of the Organization's culture are summarized in four main functions:

1. Organization members give organizational identity: The participation of workers in the same standards and values gives them a sense of unity, which helps to develop a sense of common purpose.

2. Facilitates collective commitment: A sense of common purpose encourages the strong commitment of those who accept this culture

3. Strengthen the stability of the system: organizational culture encourages constant coordination and cooperation among the members of the organization by promoting a sense of common identity and commitment.

4. Behavior by helping individuals understand what is going on around them, the culture of the organization provides a source of common meanings that explain why things happen to something.

2.3.7. The Impact of the Culture of the Organization

Many studies indicate the impact of the culture of the organization on many aspects and dimensions of the organization, including:

1. The impact of the organization's culture on effectiveness: The effectiveness of the organization requires the compatibility of culture with strategy, the environment and technology; in relation to the culture relationship to the strategy it is necessary that the organizational culture be appropriate and supportive of the organization's strategy; be appropriate to the values and beliefs adopted, as for the culture relationship with the technology used, the culture of the organization should be appropriate to the type of technology used, routine technology requires values and standards that differ from those that are appropriate for non-routine technology.
2. Organization culture and organizational structure: Culture influences the type of organizational structure, processes and management practices (leadership, decision-making, communication ...), the alignment of structure and processes to the culture of the organization helps to achieve more profits and excellence.

Culture and belonging (organizational loyalty): Employees in organizations with strong culture are characterized by a high degree of commitment and belonging to the organization, a broad consensus on the values and beliefs of central and strongly adhere to by all increases the staff and loyalty and strong adherence to this is an important competitive advantage for the organization with positive results.

Hofstede (1991) in study titled Culture and Organization. This study conducted in the United States for individuals working in IBM and representing 53 countries. The Arab countries in the rank of 7 of the 53 countries covered by the study in terms of divergence in power distance between the manager and the employee is a sign of the existence of a disparity in power between different administrative levels. Ranked 27 in terms of uncertainty avoidance index meaning that the unknown is largely avoided by the Arabs countries, and that the Arab countries ranked 27 in terms of individuality, and ranked 23 in terms of the tendency towards masculinity and thus can be said that Arab societies are characterized by functional influence avoid unknown and tend to collective performance and masculine in leadership.

Al Rashed's (1994) study comparing between some of the regulatory practices of managers operating in Jordan between Jordanian banks and foreign banks, and finding that the managers on both sides differ greatly in their practices related to the management of power and influence. Jordanian managers do nothing without referring to the official and the direct manager. The centralization is severe and excessive and the independence is weak. In a different way, independence is very strong among foreign managers and they have the ability to make decisions largely as a result of decentralization and delegation of authority, the study also found that senior management in Jordanian banks does not trust others while foreign managers feel the importance, confidence, and ability to make decisions.

Langan J. and Tan P. (1997) aimed at a technical benefit test (network group) in examining the culture of the organization and achieving cultural performance control in order to measure the level of adoption of a new culture, two stages of collecting information through private interviews with company managers and employees, the results show that there is progress towards the selection of the desired new culture and its adoption by the management, three effective cultures reflects clearly the transformations of culture.

Lok P. and Crawford J (1999) aimed to test the relationship between organizational culture and subcultures, as well as the relationship between leadership style, job satisfaction, and employee characteristics. The study was based on Assuming a relationship between nurse commitment and hospital culture, hospital department, leadership style and job satisfaction; Commitment to work units or departments is more strongly linked; The dimensions of job satisfaction are the higher orders of the Maslow pyramid than the small orders; Increase in job satisfaction with increasing age and decrease in the degree of scientific; and The number of years in the career level and the years of experience positively affect the commitment.

The study found that the organization's subculture was more relevant to the organization's commitment, satisfaction with the degree of control over the working environment was found to be of the greatest relevance to the degree of commitment, and finally, the change in leadership style had an impact on commitment compared to other variables.

Nissley et. al., (2003) study specifically examines the regulatory actions of the US industrial firm Maytag Co., the researchers promised that Maytag's actions as regulatory treatments were recipes that reflected the organization's culture, as a result of the study; the Maytag's actions have the strength in the life of the organization.

M. Majken's (2001) study aimed to show the extent to which the identity of the institution and its symbol are associated with the culture of this institution in contemporary institutions, the study concluded that contemporary institutions need to define their identity as a bridge linking the external location of the institution to the market and the internal culture of the institution and its environment.

Khazandar (2003) examines the importance of differentiating between the two terms stems from several considerations, the most important of which is the fact that it reflects the interaction between the cultural component shaping the work environment within the organization, accordingly. It is possible to determine that the organizational culture is the generator that produces the organizational climate that constitutes the space in which individuals work in its positive and negative aspects, members of the organization, their levels of motivation and the quality of their performance in various departments, divisions, and branches of the organization. It can be said that the quality of the organizational climate is indicative of the quality of organizational culture and vice versa.

Buhaniyah (2003)" Comparison of traditional and modern institutional culture" study aimed to find a comparison between traditional institutional culture and modern culture to adopt it as an input to comprehensive development; the study concluded the following results:

- a. In traditional culture individuals abide by bureaucratic orders and regulations, in modern culture individuals develop through teamwork and initiative;
- b. In traditional culture managers tend to become isolated and politically empowered by following a slow strategy of change while in modern culture managers give importance to all individuals and initiate change even in situations of danger and uncertainty;
- c. In traditional culture there is no possibility of organizational disorder through individuals, in modern culture individuals work collectively and thus fear their influence in the institution; and
- d. In traditional culture attention to the needs of the institution first, in modern culture to pay close attention to customers, customers and employees within the institution.

Marinova (2005) focused on clarifying the effect of organizational culture on the various behavior of the workers. The study uses the organizational culture assessment tool (OCAI), which includes four cultural types: tribal culture, culture of creativity, hierarchical culture and market culture, the study aims to measure only the current organizational culture of the organization, the cultural values of each type of culture differ in their impact on the behavior of employees.

Ha's (2007) objective is to show the strengths and weaknesses of the organization's culture and to define the existence of the culture of the organization, as well as to show the characteristics that determine the strength of the organization's culture that which: depth of culture; the scope of culture sharing; and clarity of organization for all individuals. The researcher pointed out that the strength of the organization depends also on the number of workers and geographical dispersion, the researcher concluded a mechanisms in the organization used to pay the expenses of transactions, market firstly, bureaucracy secondly, they are used in the mysterious and complex circumstances, in the case of increasing ambiguity and complexity, culture becomes prevalent as members of an organization share a common set of values, goals, and beliefs.

Widjaja et. al., (2007) objectives were to analyze the current and expected organizational culture of four medium-size restaurants in the Netherlands using the OCAI tool. Researchers used the interview methodology as an additional method of data collection, conducted a series of interviews with the staff in the restaurants, the basic results of the research showed that the culture of the tribe is the dominant culture currently and the future favorite by the workers.

Chin-Loy and Mujtaba (2007) examined the interactive relationship between organizational culture types (tribal culture, culture of creativity, hierarchical culture and market culture) and knowledge management practices and their impact on organizational benefits (competitive advantage, creativity, and growth), the researchers used OCAI to measure the four types of organizational culture by distributing the questionnaire to a sample of 142 responses in 49 North American companies, the results showed that knowledge management practices vary in their impact on organizational benefits depending on the type of culture they follow.

Al-Rifai (2008) objective is to show the concept of organizational culture, its importance, its components and types, and the extent to which organizational culture

relates to administrative development. The study also focused on how to build organizational culture, management and stages of change through Vision and commitment determined by the senior management of the institution in accordance with the quality of the culture that need to achieve; Communicate through staff understanding of the basic principles of culture; and Strengthening systems: like education, training, performance management and reward systems.

Nummelin (2006) “Measuring organizational culture in Construction sector”. This study focused on measuring the organizational culture in the construction sector in Finland, which included 600 individuals who were sent an online questionnaire, the organizational culture assessment tool (OCAI) has also been used to determine the current and desired organizational culture by employees within sample research organizations, the results have shown that sample research organizations adopt a market culture while employees prefer a tribe culture.

Alheirsh (2008) objective was to identify general characteristics of the Jordanian Arab administration based on Hofstede's cultural dimensions in management and organization and to identify the extent to which these dimensions affected the attitudes of individuals in Jordanian commercial banks. The study reached the following results: Employees in Jordanian commercial banks feel a high degree of influence; Employees of Jordanian commercial banks feel a high degree of avoidance of the unknown; Employees in Jordanian commercial banks tend to be collective in performance; Employees of Jordanian commercial banks tend to be masculine in performance and leadership; and Individuals in Jordanian commercial banks do not have a long-term view of the future. The study recommended the need to introduce management knowledge through educational institutions and adopt applications and methods that tend to be independent, decentralized and collective.

3. MATERIAL AND METHODS

3.1. Tax Evasion

During the global financial crisis, governments faced a significant decrease of state budget revenues and a sudden need to finance major enterprises, e.g. banks, as well as to increase support of certain groups of inhabitants. These factors urged the states to review carefully the main sources of state revenues, i.e. taxes. Countries wishing to increase income not only amended the tax systems, but also began to intensify the fight against tax-evading individuals and businesses (Anciute and Kropiene, 2010). The tax evasion is one of the problems that threaten the economy of countries, especially those that highly dependent on taxes to finance its expenditures, simultaneously, the tax evasion control is costly, so sought specialists to find ways to measure tax evasion as soon as the lowest cost. Tax authorities and researchers have used many of the methods in that field, and have varied depending on the viewpoint of researchers, some of whom tried to link the measurement of tax evasion with the factors of production, others used survey, and recently begun using mathematical and statistical methods. Because of the importance tax evasion we must try to measure it, and this is what will the researchers try to addressed in this paper, which will highlight the most important methods of measuring tax evasion, starting with Allingham - Sandmo (1972) as well as Yitzhaki (1974), and then recent studies such as Anciute - Kropiene (2010), Alm (2012) and Korndorfer et. al. (2014), and indicate the viewpoint of each study and its importance.

3.1.1. Definition and Reasons of Tax Evasion

Modern tax legislation did not provide a definition of tax evasion but was confined to census forms and manifestations, leaving the definition of jurists and commentators, because any definition cannot include all techniques evasion. Tax evasion is a high-risk lesion, the taxpayer considered evading from pay the tax if resorted to some techniques of cheating or fraud to hide the fact that the taxable amount. Investopedia defined tax evasion an illegal practice where a person, organization or corporation intentionally avoids paying his/her/its true tax liability. Those caught evading taxes are generally subject to criminal charges and substantial penalties. Tax evasion often entails taxpayers deliberately misrepresenting the true state of their affairs to the tax authorities to reduce their tax liability and includes dishonest tax reporting, such as declaring less income, profits or gains than the amounts actually earned, or overstating deductions. Tax evasion is an activity commonly associated with the informal economy". Researchers argue that tax evasion is the not paying tax to financial authorities deliberately, in fully or partially, for any reason whatsoever.

There are many reasons of evasion, and can't be identified in this research, because they are depending on the financial legislation economic, social and political conditions, the level of public awareness the efficiency of appliances and the effectiveness of the procedures, but the researchers try to highlight the most

important of these reasons as follows (Olimat, 2013, Juma, 2004, Khatib, 2000, Amour, 2007):

- 1. High Tax Rate:** It consider that taxpayer pays to state more than it deserves, in addition to the sense that the amount paid will effect on his business activity.
- 2. State Policy in Expenditure:** Means the state directed tax revenue in the intended destination, and the taxpayer touch it themselves of community, and public services and providing them with security and stability in their lives.
- 3. Tax Awareness:** It's the taxpayer's awareness of the importance to pay the tax and benefits that would accrue to him and to the community.
- 4. Punishment Reasons:** Tax evasion is a crime which is punishable by law, if there were a deterrent punishment on the evader paid Him/Her/It to pay the tax on time, and vice versa.
- 5. Economic Reasons:** The evasion rate is lower in times of thrive and prosper than times of economic crisis.
- 6. Administrative and Organizational Reasons:** This is reflected in the complexity of administrative procedures for assessing and collecting tax.

3.1.2. Tax Evasion Measuring Methods

1. Traditional Methods

Even though traditional methods are one of the first methods used to measure tax evasion, but they are still methods used by researchers and tax authorities alike, so the old of these methods does not mean neglecting, or that it is not effective, it is still effective, but in certain areas, especially after it has been developed by researchers from the tax authorities and it will cover the following traditional methods:

1. Survey: The survey is one of the primary methods used in the measurement of tax evasion, where directed questionnaire either to taxpayers, academics or specialists in this area, and when directed to the taxpayer, they explain how willing taxpayers to evade tax, and thus measured as well. Even though survey is one of the first methods used in measurement of tax evasion but it is still effective widely. Elffers's paper (1987) shown that the correlations between self-reports and scores on the behavioral outcome measures were uniformly no significant, Although underreporting of tax cheating contributed to diminishing these correlations. Yu and others (2008) suggested two new models, Triangular Model and Crosswise Model. Ya (and others) derive the maximum likelihood estimates and large-sample confidence intervals for the proportion of persons with sensitive characteristic. The proposed models have four advantages (Ya et. al, 2008):

- a-Neither model requires randomizing device.
- b-The models are easy to operate for both interviewer and interviewee.
- c-The interviewee does not face any sensitive questions.
- d-Both models can be applied to both face-to-face personal interviews and mail questionnaire.

While Kirchler (and others, 2010) focused the surveys on tax compliance and non-compliance. Study relied on survey data in which taxpayers are asked to report their intended tax behavior. Korndörfer and others, (2014) asked taxpayers whether or not they have evaded taxes in the past or whether or not they have reported all of their income on former tax returns. They have tried to estimate the prevalence of tax evasion. Moreover, survey data have the advantage of simultaneously measuring a variety of covariates that are hypothesized to be associated with tax evasion, thus making empirical investigations of explanatory hypotheses possible. (Korndörfer et al., 2014).

2. *Relationships with Economic Factors*: It is one of the most accurate measures of tax evasion in the traditional methods, but it depends on several factors, including:

- a. The validity and accuracy of the raw data.
- b. The experience of evaluator of tax.
- c. The accuracy of equation used.

This method relies on the relationship between the expenses, wages, and raw materials with the volume of production, real income and thus measure the tax evasion.

3. *TCMP and NRP Methods*: The TCMP is a line-by-line verification of over 150,000 tax returns. The program will provide Congress with data to formulate tax policy and create statistical models. It also will provide the basis for the computer program that scores all tax returns to make selections for the IRS's regular audit programs (<https://www.questia.com>). TCMP audits in the past were nothing more than a time consuming expensive and intrusive way for the IRS to update its computer database at the taxpayers' financial and emotional expense. In a TCMP audit, the IRS asked taxpayer to verify every entry on the tax return (<http://irs-audit.net>). Then IRS work to establishing another program replacing TCMP, IRS found National Research Program (NRP) that aim to implement a successful strategy to collect data that will be used to measure payment, filing and reporting compliance data. The guiding principles for NRP are (<https://www.irs.gov>):

- a. Minimize taxpayer burden as data are collected.
- b. Ensure that the collected data will meet business objectives and are used as a corporate asset.

For NRP strategic interaction measures there are three classes of compliance measures designed to answer three questions in order (Brown and Mazur, 2003, 9):

- a. Did the taxpayer file on time?
- b. Did the taxpayer report his/her tax liability accurately?
- c. Did the taxpayer pay the full amount he/she reported as tax liability?

Finally, IRS still work with NRP, that receives data from the Service Center Replacement System (SCRS) files, which was transmitted weekly, from Martinsburg Computing Center (MCC) to Detroit Computing Center (DCC), begins with cycle 4 in January 2002 through the last cycle of the tax year.

2. Modern Methods

Modern methods differ in the measurement of tax evasion for traditional methods, The first one rely on statistical and probability equations measurement, and take into account the point of view of the taxpayer (Maximize Utility Expected), and sometimes takes into account the concept of economic crime. And it will be covered the written researches in this area for each of the Allingham-Sandmo (1972) and Yitzhaki (1974), which is the basis for many of the current studies in the measurement of tax evasion.

Allingham and Sandmo mentioned that they got the initial stimulus to write the paper from J.A. Mirrlees in the International Economic Association's Workshop in Economic Theory, which was held in Bergen in the summer of 1971. ALLINGHAM and SANDMO referred to two main strategies that the taxpayer has to choice between:

- a.He may declare his actual income.
- b.He may declare less than his actual income.

The formulation ignores the uncertainty elements (Allingham and Sandmo, 1972):

First: It abstracts from the fact that the tax laws to some extent leave it to the discretion of the courts to determine whether the penalty will be of the type discussed here or take the form of a jail sentence; it may also be a combination of both.

Second: Even if jail is not an alternative, the penalty rate may itself be uncertain from the point of view of the taxpayer.

In Allingham and Sandmo equation W refer to Actual income, X refer to declared income, θ refer to tax rate, with probability p and penalty π , then the equation will be:

$$E[U] = (1 - p) U(W - \theta X) + pU(W - \theta X - \pi(W - X))$$

The initial A-S model allowed, employing the tools of economic theory and mathematics, only partially to explain the behavior of taxpayers. In addition, some model assumptions did not match the actually functioning taxation systems. Therefore, the A-S model has been improved by Shlomo Yitzhaki. He took into account the fact that the penalty is usually imposed not on the concealed income, but it is rather related to the unpaid amount of tax (Anciute and Kropiene, 2010, 54).

In this case Yitzhaki's equation will be as follow (Alm, 2011, 60):

$$I_c = I - tR - f[t(I - R)]$$

When we looking at the A-S and Yitzhaki equations we will find four key variables affect the result of the equation, and they are as following:

- a.Declared income ratio (of the total compaction)
- b.Tax rate
- c.Ratio fine
- d.Probability ratio

Tax authorities and researchers have used many of the methods in that field, and have varied depending on the viewpoint of researchers, some of whom tried to link the measurement of tax evasion with the factors of production, others used survey, and recently begun using mathematical and statistical methods. Because of the importance tax evasion we must try to measure it, and this is what will the researchers try to address in this paper, which will highlight the most important methods of measuring tax evasion, starting with Allingham - Sandmo (1972) as well as Yitzhaki (1974), and then recent studies such as Anciute - Kropiene (2010), Alm (2012) and Korndorfer et. al. (2014), and indicate the viewpoint of each study and its importance.

I found in the previous studies (Allingham 1972, Yitzhaki 1974, Cowell 1990, Alm 1990 and Alm 1995) that the focus on the idea of maximizing the expected benefit from the point of view of taxpayers is sometimes difficult to measure, and sometimes unrealistic, we turned to the idea of measuring the tax commitment. If we can measure the tax commitment (Tax Commitment: Previous studies did not indicate the tax commitment, so the researchers could not build equation on a previous equation or hypothesis tested), it will be easy to measure the tax evasion, which will be an accounting complement to it.

In order to measure the tax commitment, the previous studies (Allingham 1972 and Yitzhaki 1974) were unable to find a better way than the linear relationship between the value of the tax paid and the revenue of the current activity on the one hand and the costs of the current activity on the other. In order for the relationship to be highly linear (we know the impossibility of the relationship being 100%), the model will depend on the following hypothesis:

1. The relationship with the revenue of the current activity is liner (After excluding incidental income items).
2. The relationship with current activity costs is linear (variable costs only).
3. No exceptional circumstances or other emergencies beyond the control of the Company.

The model will be built as follows:

The tax (T) payable is usually founded after the tax rate (r) is multiplied by the net income (by deducting cost "C" from revenue "R") as follows:

$$(R - C) * r = T \dots\dots\dots 1$$

Or the tax rate can be multiplied by the cost value directly and deducting from the revenue (multiplier by the same tax rate), according to the following equation:

$$(R * r) - (C * r) = T$$

$$R*r - C*r = T \dots\dots\dots 2$$

Under the assumptions of the previous equation, any change in income would be offset by a similar change in the amount of the tax (as well as for the costs), and the equation would be as follows:

$$\Delta T = \frac{r * (\Delta R + \Delta C)}{2} \dots\dots\dots 3$$

Equation 3 will represent the "Tax Commitment" equation of the taxpayers. The complement amount of Equation 3 is the tax evasion ratio, as follows:

$$\text{Tax Commitment Ratio} = \frac{CT + RT}{2} \dots\dots\dots 4$$

What should be paid from a realistic and objective tax, when reducing the evasion rate of the optimal percentage of the tax amount will result in the amount of this commitment?

$$1 - \text{Tax Commitment} = \text{Tax Evasion} \dots\dots\dots 5$$

By substitute equation 4 in equation 5, the equation for measuring evaporation ratio is as follows:

$$\text{Tax Commitment Ratio} = 1 - \frac{CT + RT}{2} \dots\dots\dots 6$$

3.2. Accounting Conservatism

3.2.1. Criticism of the Measure of the Accounting Conservatism

It represents a conservatism accounting exception from the lot of postulate and accounting principles, in the more recently the attention less to this exception, and even brought him a lot of criticism by academics and organizations responsible for the accounting profession, and it can be said that the conservatism to address weak uncertainties in the evaluation and measurement of income, and the worst what that distorts the accounting data, and the danger it is important that way too weak and volatile effects, and therefore conservative information is not subject to appropriate interpretations even by most of the readers of accounting information, and perhaps the deliberate reduction of assets and income leads to weak decisions compared to cases of over-liabilities and expenses, so that conservatism has no place in the accounting theory (Hendriksen et. al., 1992). The conservatism has been criticized by accountants over time, the most important criticism is inconsistency: when an asset is deliberately reduced, it will result in over-income when the asset is used or sold, so the amount of income reduced in a certain year through the application of (lower of cost or market rule) compared with the use of cost is in fact added to the income in the subsequent period, The criticism of capriciousness means that the extent to which a conservatism in a financial statement is a matter that depends on the company's policy may be small or large, for example, the expected losses may not be recorded because the expectations can be adjusted constantly and the losses resulting from judicial proceedings can be reversed or eliminated through a more optimistic analysis

if the company is inclined towards such analysis, in addition to the criticism of the concealment: which indicates that although it is common practice that accounting methods are conservative, it is difficult for investors to determine the amount of deliberate reduction in asset values, bias also leads to regular bias in the financial statements rather than a real evaluation.

3.2.2. Defense for Accounting Conservatism

There is a natural tendency for managers and owners to be overly optimistic about the company, and that excessive optimism of this kind quickly translates into overvalued asset values and income. Careful prudence's seen as a necessary remedy to hold excessive optimism, and it is difficult to reduce optimism and stimulate pessimism. A single dollar in the form of a profit creates more optimism than a single dollar generates as a loss of pessimism. Therefore, the consequences of excessive optimism are more than the consequences of excessive pessimism, the stance of the Financial Accounting Standards Board that the accounting conservatism mean "Prudence" while preparing financial statements, FASB and IASB notes that an accounting conservatism should not result in a deliberate and continuous reduction in the value of net assets and profits , and the accounting conservatism is not required to require deferred recognition of income after the existence of evidence of its existence, and should not justify the recognition of losses before there is evidence that it has occurred, and the best way to avoid hurting investors because of the lack of wisdom of procedures, FASB and IASB is to ensure that what Financial statements representing what these statements claim to represent are included in the financial statements. Mohamed concluded to several important results (Mohamed, 2014), there is agreement and unanimity that no model can be used to measure the accounting conservatism in absolute terms, each model is surrounded by some shortcomings. There is no model that can measure the accounting conservatism (conditional and unconditional), there is no single measure that can know all aspects of the accounting conservatism, and these studies recommended the need to apply more than one measure of accounting conservatism in one study. The models of measurement of the different accounting conservatism did not explain the reason behind the accounting level measured in the financial statements, in addition, there is a paucity of studies related to the analysis of the level of the components of the conservatism (conditional and unconditional) and the motivation associated with each component. The accounting conservatism measurement must be developed to derive specific measures of the conservatism by which the level of the accounting conservatism in the financial statements of any accounting environment and the motives for applying this level can be measured. Finally, there is a gap in tax studies as a motive for conservative accounting practices, where there is paucity in the study of tax pay compared to other reasons of accounting conservatism. These results represent shortcomings and weaknesses in the measurement of accounting

conservatism and the Mohamed tries to find solutions through the following proposed models (Mohamed, 2014):

The first suggested model: Revsine (Revsine et al, 2007) introduce a model that measures the degree of a conditional accounting conservatism in a company is presented by the ratio between profit according to accounting standards and profit according to tax legislation:

$$\text{Earning Conservatism} = \frac{\text{profit according to accounting standards before tax} - \text{Permanent tax differences}}{\text{profit according to tax legislation}}$$

This is justified by the fact that most companies strive to reduce the profit according to tax legislation, therefore, the profit according to tax legislation is considered a good measure of the conservatism, and it is noted that the previous percentage is the profit according to accounting standards that depends on the accounting choices of the management. If the choices are conservative, the profit according to accounting standards decreases, which are not included in the calculation of profit according to tax legislation so as not to distort the comparison between the profit according to accounting standards and the profit according to tax legislation, either for the denominator, which is the profit according to tax legislation is calculated as follows:

$$\text{Income Tax} = \text{Tax Rate} * \text{profit according to tax legislation}$$

$$\text{The profit according to tax legislation} = \text{income tax} * \text{inverted tax rate.}$$

It was proposed that the denominator for this percentage be amended to read as follows:

$$\text{Earning Conservatism} = \frac{\text{profit according to accounting standards before tax} - \text{Permanent tax differences}}{\text{Correlation coefficient of profit according to accounting standards and profit according to tax legislation}}$$

The profit according to accounting standards correlation coefficient and the profit according to tax legislation are calculated in two steps: (1) Pearson correlation coefficient is calculated between accounting and tax income; (2) The former factor is adjusted by its interaction with the efficient tax rate.

The second proposed model: Basu, 1997 is the most commonly used measurements in recent studies; it has been instrumental in enriching accounting thought in accounting conservatism measurement, the model in the following equation:

$$X_{it}/P_{it-1} = \beta_0 + \beta_1 R_{it} + \beta_2 DR_{it} + \beta_3 R_{it} * DR_{it} + \tilde{v}$$

Where

X_{it} : the Company's earnings per share (i) at the end of the period (t)

P_{it-1} : company's share price (i) at the beginning of period (t)

R_{it} : market returns per share of the Company (i) at the end of the period (t) whether positive or negative

DRit: binary variable equal to one when the market returns of a share in the company (i) in year (t) are negative and zero when the market returns of the share in the company (i) in year (t) are positive

\tilde{u} : random variable

But this original model cannot test the motivation behind the level of accounting conservatism that has been measured in the financial statements, so it is proposed to introduce several variables on the model to measure the relationship between the level of conservatism and the different motives, and the modification in the model Basu, 1997 by:

First: a variable is introduced which represents the tax burden. It is the efficient tax rate. The original form is modified by adding the ETR variable, which represents the efficient tax rate, to test whether the conditional accounting conservatism, which is measured by the original model, is tax-driven or not. As follows:

$$X_{it}/P_{it}-1=\beta_0+\beta_1R_{it}+\beta_2DR_{it}+\beta_3R_{it}*DR_{it}+\beta_4ETR_{it}+\beta_5ETR_{it}*R_{it}+\beta_6ETR_{it}*DR_{it}+\beta_7ETR_{it}*R_{it}*DR_{it}$$

Second: the modified form by adding variable CORR * ETR, which represents the extent of overlap between the profit according to accounting standards and tax, has been added to test whether the conservatism accounting conditional affected degree mismatches between profit according to accounting standards and profit according to tax legislation. It can even test the role of the accounting conservatism in the emergence of tax differences and their impact on the significance of the financial statements to become the amended model as follows:

$$X_{it}/P_{it}-1=\beta_0+\beta_1R_{it}+\beta_2DR_{it}+\beta_3R_{it}*DR_{it}+\beta_4CORR*ETR_{it}+\beta_5CORR*ETR_{it}*R_{it}+\beta_6CORR*ETR_{it}*DR_{it}+\beta_7CORR*ETR_{it}*R_{it}*DR_{it}$$

Third: the model is modified by adding two variables non-tax costs as follows:

Leverage rate * efficient tax rate

Change in income * Effective tax rate

to examine whether the conditional accounting conservatism is affected by non-tax costs to examine whether the income-reducing firms focus more on the financial report than on the tax planning strategy to reduce tax burdens, and the modified model becomes as follows:

$$X_{it}/P_{it}-1=\beta_0+\beta_1R_{it}+\beta_2DR_{it}+\beta_3R_{it}*DR_{it}+\beta_4LEV*ETR_{it}+\beta_5LEV*ETR_{it}*R_{it}+\beta_6LEV*ETR_{it}*DR_{it}+\beta_7LEV*ETR_{it}*R_{it}*DR_{it}+\beta_8CHNG*ETR_{it}+\beta_9CHNG*ETR_{it}*R_{it}+\beta_{10}CHNG*ETR_{it}*DR_{it}+\beta_{11}CHNG*ETR_{it}*R_{it}*DR_{it}$$

Proposed Third Model: All studies have recommended using more than one measurement model in a single study, therefore, we propose three different measures to measure the accounting conservatism (two measures of unconditional accounting conservatism and one measure of conditional accounting conservatism), the linear relationship between the independent variables shown in the following regression equation and three different dependent variables (Bit-1 / Mit-1, ACCit, ECit), which represent three measures of accounting conservatism:

$$= \beta_0 + \beta_1 \text{ETRit} + \beta_2 \text{LEVit} + \beta_3 \text{PROFITit} + \beta_4 \text{STD.ROAit} + \beta_5 \text{SIZEit} + \beta_6 \text{SALE.Git} + \tilde{v}$$

Where they represent:

Bit-1 / Mit-1: ratio of the book value of the share to the market value of the company's share (i) at the beginning of the period (t)

ACCit: total non-operating benefits of the company (i) at the end of period (t)

ECit: retained profits for the Company (i) at the end of the period (t)

ETRit: the efficient tax rate of the company (i) at the end of the period (t) represents the tax burden (i) at the end of the period (t) to represent the contract payer

LEVit: the leverage ratio of the company (i) at the end of the period (t) to represent the contract payer

PROFITit: the profitability of the company (i) in period (t) to represent the costs of exercise accounting conservatism

STD.ROAit: the volatility of the return measured by the standard deviation of the company's return on assets (i)

SIZEit: the size of the company (i) at the end of the period (t) is measured by the total assets to represent the litigant

Sales.Git: change in sales in the company (i) at the end of the period (t) to represent the motivation of the organization

\tilde{v} : - random variables not explained by the model

3.2.3. The Concept of Organizational Culture

There are many concepts that dealt with the subject of organizational culture, and varied methods addressed by the interested, but there is a consensus on the importance of building a strong organizational culture, and this is what emerged through research and studies, and review some of the definitions of culture organizational culture:

E. Schein defined it as a set of beliefs, assumptions and behavioral standards, resulting from the interactions of individuals appearing in work groups, prevailing values and philosophy that guide the organization and the climate within the organization.

Described by Joh.N Newtom - Keith Davis as a set of things that constitute belief, philosophy, values, beliefs, expectations, and ways of thinking that serve as a guide for individuals in the organization that produce standards that greatly affect the behavior of individuals and groups within the organization.

Morice Thevent assumed that organizational culture is what unites the organization in its practices and what distinguishes it from others.

Peters - Welteman 1982 recognized the organization's culture as shared values that included key beliefs that help the organization's management search for excellence.

One of the definitions is Hoffstead's definition of collective programming of the mind that distinguishes members of an organization from others.

From the above it can be said that organizational culture is a framework that governs, directs and interprets the behavior of individuals within the organization, through values, beliefs, assumptions, norms and common standards that bind members of the organization.

Organizational culture can be divided into two main functions:

1. Integration and internal coordination: Culture contributes to the establishment of a system of collective action and communication methods and statement of acceptable and unacceptable behavior, and contribute to clarify the vision of individuals.
2. External adaptation to the environment: The organizational culture helps the organization to achieve its objectives through the mechanisms of dealing with the external environment such as customers, and respond to their needs and expectations, and competitors and ways to deal with them.

The importance of organizational culture comes from the fact that it is a powerful multi-faceted force in the activities and processes of organizations and in its role in the effectiveness and performance of the organization. The growing thinking about the strength of organizational culture in individuals increases the impact on organizational behavior as an organizational capacity operator.

3.2.4. Hofstede's Theory of Cultural Dimensions

Hofstede's theory of cultural dimensions describes the effects of a society's culture on the values of its members and the extent to which these values relate to behavior, using a structure derived from factor analysis. This theory has been widely used in many areas as a model for research, particularly in intercultural psychology, international management and intercultural communication. Hofstede developed his original model as a result of the use of factor analysis to examine the results of a world-wide survey of employee values by IBM in the 1960s and 1970s. This theory can be used to explain differences between cultures.

The original theory suggested four dimensions through which cultural values can be analyzed: individual-collective; avoidance of uncertainty; distance of power (the power of social hierarchy), as well as masculinity-femininity (orientation versus task versus personal orientation). Independent research conducted in Hong Kong has led

Hofstede to add a fifth dimension, a long-term approach, to cover aspects of values not discussed in the original model. In the 2010 edition of *Cultures and Organizations: Software of the Mind*, Hofstede added a sixth dimension, which is self-restraint.

3.3. Collected Data

The study focused on data collection in two ways:

First: Companies listed in the Iraqi Stock Exchange: The studies focused on 14 companies listed in the Iraqi Stock Exchange were distributed as follows:

Table 2. Significant of Sample of Study

Details	Number of Companies	Sig.
Bank Sector	6	0.00
Insurance Sector	3	0.00
Industry Sector	2	0.23
Investment Sector	3	0.91

Source: Table prepared by the researcher

Due to the weakness of morale in both sectors of industry and investment has been to exclude them from the study, it may be the cause of non-compliance with international accounting standards when disclosure.

Second: Questionnaire: Due to the inability to measure some of the variables of the study through mathematical equations, the questionnaire was adopted, and the questionnaire is distributed as follows:

1. Questionnaire on the reasons of tax evasion in Iraq and Hungary
2. Questionnaire on the External Audit Procedures in Reducing Tax Evasion
3. Questionnaire on Measure the level of organizational culture

The limits of the research were as follows:

Place limits: Research is an applied study on Iraq.

Period limits: covered the period 2010 to 2013.

3.4. Limitations

I had faced three main obstacles when preparing the study:

1. Due to the existence of three main variables of the study was unable to find a standard measure of all variables, tax evasion and accounting conservatism can be measured through mathematical equations, the organizational culture can only be measured through the questionnaire, and finally the national culture has already been measured by Hofstede, this problem was addressed through the use of statistical methods to detect correlation and the significance of the study.

2. Data collection: Due to the weak disclosure in the Iraqi market, I had unable to approve all companies. Table 2 shows the insignificance of both industry and investment sectors in their study, in addition to the lack of data for many years, so I had forced to study the years 2010 – 2013.

3. The questionnaire: I did not find a large response from many companies to answer the questionnaire, so I was forced to reduce the size of the sample.

I relied on two sources of information which represent two approaches for the study, the first related to the survey by using the questionnaire distributed to six banks (sample of study) in the Iraqi environment, by 180 questionnaire, of which only 146 were collected for analysis (81.1%) as shown in Table 1, the second related to empirical study based on the reports and financial statements listed in the Iraqi Stock Exchange for banking sector for the years 2010 to 2013.

3.5. The used Statistical Programs: SPSS and AMOS

SPSS: The Statistical Package for the Social Sciences is a software package used in statistical analysis of data. It was developed by SPSS Inc. and acquired by IBM in 2009. In 2014, the software was officially renamed IBM SPSS Statistics. The software was originally meant for the social sciences, but has become popular in other fields such as health sciences and especially in marketing, market research and data mining.

AMOS is statistical software and it stands for analysis of a moment structures. AMOS is an added SPSS module, and is specially used for Structural Equation Modeling, path analysis, and confirmatory factor analysis. It is also known as analysis of covariance or causal modeling software. AMOS is a visual program for structural equation modeling (SEM). In AMOS, we can draw models graphically using simple drawing tools. AMOS quickly performs the computations for SEM and displays the results.

In calculation of SEM coefficients, AMOS uses the following methods:

1. Maximum likelihood
2. Weighted least squares
3. Generalized least squares
4. Browne's asymptotically distribution-free criterion
6. Scale-free least squares

4. DISCUSSION AND RESULT

4.1. The Reasons behind Tax Evasion

Usually tax evasion technique limited of hiding income in fully or partially for the financial authority, it would be fully hide by not recognizing the existence of activity originally, or activity that has achieved a net loss during the past financial period. The hide part of income shall be one of two ways as well, either through increasing the amount of expenses through fake employment contracts or bring fake receipts for expenses ... etc., and the second by decreasing the sales amount through the hide some receipts or not to prove some deals in the accounting records, and both methods are used one (not limited to) the following evasion technique (Mansour, 2004 and Amour, 2007):

1. Offer the taxpayer's annual tax declaration based on unreal documents.
2. Offer the taxpayer's annual tax declaration on the basis of the absence of documents.
3. Distribution of dividends to the partner or partner's ghost with the intention of reducing the share of his profits.
4. Change the purchase or sale invoices with the intention of reduce the profit or increase losses.
5. Hiding activity or more activities subject to tax.

General Information: From the Table 3 below (Certificate) shows that the bulk of the research sample are BSc degree, and the ratio of BSc in Iraq's sample 67.9%, while 77.4% in Hungary. While the large ratio in Specialist found in management item, the ratio in Iraq 39.6% and in Hungary 54.8%. Finally, from experience axis found that 45.3% from sample have 6-10 years' experience in Iraq, while in Hungary 51.6%.

Table 3. General Information Ratios

	IRAQ		HUNGARY	
		%		%
Certificate	BSc	67.90%	BSc	77.40%
Specialist	Management	39.60%	Management	54.80%
Experience	6 - 10 years	45.30%	6 - 10 years	51.60%

Source: Table prepared by the researcher

Reasons Of Tax Evasion: From the Table 4 below we found that the samples full agreed only in "High Tax Rate" with "Strongly Agree" 28.30% and 80.65% respectively in Iraq and Hungary, while simple agreement in "State Policy in Expenditure" with Strongly Agree (60.38%) and Agree (32.26%) respectively in Iraq and Hungary. Finally, there is no agreement in Tax Awareness, Punishment Reasons, Economic Reasons and Administrative and Organizational Reasons.

Table 4. Reasons of Tax Evasion Ratios

			Iraq	Hungary	
			%	%	
High Tax Rate	Strongly Agree		28.30%	Strongly Agree	80.65%
State Policy in Expenditure	Strongly Agree		60.38%	Agree	32.26%
Tax Awareness	Strongly Agree		84.91%	Disagree	51.61%
Punishment Reasons	Strongly Agree		75.47%	Strongly Disagree	54.84%
Economic Reasons	Disagree		84.91%	Agree	29.03%
Administrative and Organizational Reasons	Agree		54.72%	Disagree	32.26%

Source: Table prepared by the researcher

By refer to the first hypothesis we find that they agree to a certain extent with the results, but we find that among the reasons of tax evasion in Iraq (and that have been added through the results) are both of “High Tax Rate” and “Administrative and Organizational Reasons”. While by refer to the second hypothesis we find that they agree only with “High Tax Rate”, and not agreed with “Punishment Reasons”, in the same time we find that among the reasons of tax evasion in Hungary (and that have been added through the results) are both of “State Policy in Expenditure” and “Economic Reasons”.

Tax Evasion Techniques: From the Table 5 we find that the samples full agreed in “Absence Of Documents” with “Disagree” 81.13% and 41.94% respectively in Iraq and Hungary, and “Hiding Activity” with “Strongly Agree” 84.91% and 51.61% respectively in Iraq and Hungary, while simple agreement in “Unreal Documents” with Strongly Agree (66.04%) and Agree (35.48%) respectively in Iraq and Hungary. Finally, there is no agreement in Distribution of Dividends to Ghost's Partners and Change the Purchase or Sale Invoices.

Table 5. Tax Evasion Techniques

			Iraq	Hungary	
			%	%	
Unreal Documents	Strongly Agree		66.04%	Agree	35.48%
Absence Of Documents	Disagree		81.13%	Disagree	41.94%
Distribution Of Dividends To Ghost's Partners	Disagree		60.38%	Strongly Agree	51.61%
Change The Purchase Or Sale Invoices	Strongly Agree		73.58%	Strongly Disagree	41.94%
Hiding Activity	Strongly Agree		84.91%	Strongly Agree	51.61%

Source: Table prepared by the researcher

By refer to third hypothesis, I find that they agree to a certain extent with the results, in addition to change “The Purchase or Sale Invoices”. While by refer to fourth hypothesis, we find that they agree only with “Distribution of Dividends to Ghost's Partners”, and not agreed with “Change The Purchase or Sale Invoices”, in the same time we find that among the reasons of tax evasion in Hungary (and that have been added through the results) are both of “Unreal Documents” and “Hiding Activity”.

4.2. The External Audit Procedures in Reducing Tax Evasion

The questionnaire was based on the descriptive approach through literature and scientific publications related to the subject, as well as relying on the analytical method through the design of a questionnaire form, which was distributed (250) form on the sample of the community of auditors in Iraq, and the forms collected and valid for analysis (227) (90.8%). The results were statistically analyzed using the SPSS program.

The study focused on the following main problem:

Does the external auditor's actions contribute to reducing tax evasion?

The following sub-problems have emerged:

Is there a variation in the research sample on the contribution of the external auditor's procedures that contribute to reducing tax evasion in terms of gender, age, qualifications and experience?

Hypothesis of Study: Through the previous major research problem, the main research hypothesis emphasized that the external auditor's procedures contribute to reducing tax evasion. Through this main hypothesis we have the following sub-hypothesis:

There is a variation in the research sample on the contribution of the external auditor's procedures that contribute to reducing tax evasion in terms of gender, age, qualifications and experience.

Objective of Study: The main objective of the research is to reveal the possibility of the external auditor's procedures contribution to reduce tax evasion.

Results: For statistical analysis of the paragraphs of the questionnaire was used ready-made statistical package (SPSS20), a special social science package, and statistical analysis will take the logical path follows:

Internal verity test: I have calculated the validity of the internal consistency of the questionnaire using the Pearson correlation coefficient to measure the relationship between the score of the paragraphs and the total score of the axis to which it belongs.

It was found that all the paragraphs were statistically significant at a significant level of 0.05 with the total score of the respective axis except for paragraph X2.

This indicates the consistency or internal honesty of the axes paragraphs as shown in the following Table 6:

Table 6. Pearson correlation between the paragraphs of the main axis with the total degree of axis transactions

Paragraphs of the External Auditor's Procedures		Pearson correlation coefficients
Planning	X1	0.412
	X2	0.452
	X3	0.386
	X4	0.404
Fieldwork	Z1	0.418
	Z2	0.401
Reporting	Y1	0.384
	Y2	0.477
	Y3	0.418
	Y4	0.428

Source: Table prepared by the researcher

Test the validity of the questionnaire:

The consistency is to ensure that the same results are obtained if the questionnaire is re-applied more than once to the same group of the research sample under similar circumstances. This means the consistency of the respondent's response if the same questionnaire is applied several times in similar circumstances. I had tested the validity of the questionnaire according to the coefficient of Alpha Kronbach at the level of the total sample of the study, which amounted to 227 form by 10 paragraphs for each form, and then on the level of paragraphs of the main axis, it was found that the value of alpha Cronbach medium and positive, indicating the stability of the scale, Table 7:

Table 7. Values of the Alpha Cronbach coefficient

Details	Number of items	Alpha Kronbach	The largest value for alpha cronbach when the item is deleted	The moving element when you delete it	Alpha function of Kronbach
Total Sample	10	0.71	0.71	Non	Stability of the scale
Planning	4	0.69	0.69	Non	Stability of the scale
Fieldwork	2	0.74	0.74	Non	Stability of the scale
Reporting	4	0.72	0.72	Non	Stability of the scale

Source: Table prepared by the researcher

Analysis of personal information: Table 7 indicates that the percentage of females 18.5% and males 81.5%, in terms of age was the highest age (30-40) by 42.7%, In terms of qualifications, the highest percentage of the bachelor's degree was 59%, and finally the ratios were not significant in terms of experience.

Table 8. General Information

#	Male		Female		Total					
	f	%	f	%	f	%				
G	185	81.5%	42	18.5%	227	100.0%				
#	Less than 30		30 - 40		41 - 50		More than 50		Total	
	f	%	f	%	f	%	f	%	f	%
A	84	37.0%	97	42.7%	34	15.0%	12	5.3%	227	100.0%
#	BSc		MSc		PhD		Total			
	f	%	f	%	f	%	f	%		
Q	134	59.0%	65	28.6%	28	12.3%	227	100.0%		
#	Less than 10		10 - 20		More than 20		Total			
	f	%	f	%	f	%	f	%		
E x	74	32.6%	81	35.7%	72	31.7%	227	100.0%		

Source: Table prepared by the researcher

Analysis of questionnaire trends: Table (8) indicates that 70% of the research sample agreed on X1 and 98.7% for X2, X3 was supported by 57% and 33%, 81.9% support for X4 and 92.5% for Y1, 42% for Y2, while Z1 supported 65.5%, 81.9% for Z2, and finally 64.8% support Z3 and 92.5% for Z4.

From the above, the indicators of high importance are 98.7% support for paragraph X2, which indicates high support for the research sample of the importance of authorization in the procedures of the external auditor to reduce tax evasion, this explains the importance of authorization and as you choose the right people to give them authorization. In addition, 33% of paragraph X3 is not supported. The research sample considers the importance of the audit conference as one of the external auditor's procedures for reducing tax evasion. This may contradict the strong support for paragraph X2 (Table 8).

Analysis of the relationship between the questionnaire paragraphs and personal information: In Table 9 there is a variation in the sample of the research on the contribution of the external auditor's procedures in reducing tax evasion in terms of gender, where there was a strong contrast to the lack of support indicates 87% of the females for X1, 91% of the males support X3, 83% of the males support X4, and

55% of the females do not support the same question. 74% of the females did not support Y2, and 100% agreed with Z2, and male support Z3 with 77%.

Table 9. Analysis of questionnaire trends

#	Agree		Disagree	
	f	%	f	%
X1	159	70.0%	45	19.8%
X2	224	98.7%	1	0.4%
X3	130	57.3%	75	33.0%
X4	186	81.9%	24	10.6%
Y1	210	92.5%	13	5.7%
Y2	113	49.8%	96	42.3%
Z1	148	65.2%	67	29.5%
Z2	186	81.9%	32	14.1%
Z3	147	64.8%	61	26.9%
Z4	210	92.5%	9	4.0%

Source: Table prepared by the researcher

Table 10. Relationship between the questionnaire paragraphs and gender

#	Details	Agreed	Disagree
X1	Notification	<i>no significant</i>	87% F
X2	Authorization	<i>no significant</i>	<i>no significant</i>
X3	Entrance Conference	91% M	<i>no significant</i>
X4	Data Request	83% M	55% F
Y1	Audit Fieldwork	<i>no significant</i>	<i>no significant</i>
Y2	Exit Conference	<i>no significant</i>	74% F
Z1	Draft Report	<i>no significant</i>	<i>no significant</i>
Z2	Response	100% F	<i>no significant</i>
Z3	Final Report	77% M	<i>no significant</i>
Z4	Follow-Up & Monitoring	<i>no significant</i>	<i>no significant</i>

Source: Table prepared by the researcher

In Table 11 the study did not indicate a variation in the sample of the research on the contribution of the external auditor's procedures in reducing tax evasion in terms of age.

Table 11. Relationship between the questionnaire paragraphs and age

#	Details	Agreed	Disagree
X1	Notification	<i>no significant</i>	<i>no significant</i>
X2	Authorization	<i>no significant</i>	<i>no significant</i>
X3	Entrance Conference	<i>no significant</i>	<i>no significant</i>
X4	Data Request	<i>no significant</i>	<i>no significant</i>
Y1	Audit Fieldwork	<i>no significant</i>	<i>no significant</i>
Y2	Exit Conference	<i>no significant</i>	<i>no significant</i>
Z1	Draft Report	<i>no significant</i>	<i>no significant</i>
Z2	Response	<i>no significant</i>	<i>no significant</i>
Z3	Final Report	<i>no significant</i>	<i>no significant</i>
Z4	Follow-Up & Monitoring	<i>no significant</i>	<i>no significant</i>

Source: Table prepared by the researcher

From Table 12 there is a variation in the research sample on the contribution of the External Auditor's procedures in reducing tax evasion in terms of academic achievement. 74% of the PhD did not agree with X1, while PhD and MSc was 100% agree with X4, PhD and MSc were not agree by 82% and 89% respectively for Y2, and finally PhD and MSc were agree by 74% and 82% respectively for Z3.

Table 12. Relationship between the questionnaire paragraphs and qualification

#	Details	Agreed	Disagree
X1	Notification	<i>no significant</i>	74% PhD
X2	Authorization	<i>no significant</i>	<i>no significant</i>
X3	Entrance Conference	<i>no significant</i>	<i>no significant</i>
X4	Data Request	100% PhD 100% MSc	<i>no significant</i>
Y1	Audit Fieldwork	<i>no significant</i>	<i>no significant</i>
Y2	Exit Conference	<i>no significant</i>	82% PhD 89% MSc
Z1	Draft Report	<i>no significant</i>	<i>no significant</i>
Z2	Response	<i>no significant</i>	<i>no significant</i>
Z3	Final Report	74% PhD 82% MSc	<i>no significant</i>
Z4	Follow-Up & Monitoring	<i>no significant</i>	<i>no significant</i>

Source: Table prepared by the researcher

In Table 13 there is a variation in the research sample on the contribution of the External Auditor's procedures in reducing tax evasion. In terms of experience, those with experience (10-20) and (more than 20) supported X2 by 95% and 93% respectively, while 92% of (less than 10) experience did not support X4, and Y2 with (91%), while (more than 20) support the Z1 with 90%. Finally, (10-20) experience support Z3 with 89%.

Table 13. Relationship between the questionnaire paragraphs and experience

#	Details	Agreed		Disagree	
X1	Notification	<i>no significant</i>		<i>no significant</i>	
X2	Authorization	95%	10-20	<i>no significant</i>	
		93%	M 20		
X3	Entrance Conference	<i>no significant</i>		<i>no significant</i>	
X4	Data Request	<i>no significant</i>		92%	L 10
Y1	Audit Fieldwork	<i>no significant</i>		<i>no significant</i>	
Y2	Exit Conference	<i>no significant</i>		91%	L 10
Z1	Draft Report	90%	M 20	<i>no significant</i>	
Z2	Response	<i>no significant</i>		<i>no significant</i>	
Z3	Final Report	89%	10-20	<i>no significant</i>	
Z4	Follow-Up & Monitoring	<i>no significant</i>		<i>no significant</i>	

Source: Table prepared by the researcher

4.3. Measuring Tax Evasion on Microeconomic Level

The following tables show that there is a difference in terms of revenue and tax evasion relation on the one hand and the tax evasion relationship with the cost on the other hand for the listed companies in the Iraqi Stock Exchange (By used data in the Iraq Stock Exchange Data (<http://www.isx-iq.net>)). However, this generally indicates a positive correlation. Therefore, Tax evasion due to the variation of the linear relationship with the actual reality.

Table 14 shows that the variation in the industrial and investment sectors is insignificant and cannot be adopted as a result for now. The rest of the results indicate a low rate of evasion in the insurance sector at 12.7% and a high rate of evasion in the banking sector at 38.6 %.

Table 14. Tax evasion rate for the four sectors

Details	The relationship between tax and revenue	The relationship between tax and cost	Average	Rate of evasion	Significant
Banks (X1-X6)	0.559867	0.668185	0.614026	0.385974	0
Insurance (X7-X9)	0.884416	0.861588	0.873002	0.126998	0
Industry (X10-X11)	0.383669	0.268921	0.326295	0.673705	0.226
Investments (X12-X14)	0.968275	0.021186	0.4947305	0.5052695	0.907

Source: prepared by researchers, the adoption of the Iraq Stock Exchange Data (<http://www.isx-iq.net>) published by Hussein-Tangl, 2018

As for the sectors discussed separately, in Table 15 for the banking sector, we find that all relations significant in selected six banks, have found that the bank (X3) was less extreme worth in terms of tax evasion for the rest of the banks at a rate of 6.47%, While the bank (X2) was the highest value also in terms of evasion rate of 36.8%, while the rest of the banks represented by (X1), (X4), (X5) and (X6) was the rate of tax evasion in which varied between 10% To 18%.

Table 15. Tax evasion rate for the banking sector

Details	The relationship between tax and revenue	The relationship between tax and cost	Average	Rate of evasion	Significant
X1-X6	0.559867	0.668185	0.614026	0.385974	0
X1	0.905377	0.894054	0.8997155	0.1002845	0
X2	0.741396	0.522122	0.631759	0.368241	0.099
X3	0.982965	0.887666	0.9353155	0.0646845	0
X4	0.877059	0.762206	0.8196325	0.1803675	0.01
X5	0.99177	0.759743	0.8757565	0.1242435	0.011
X6	0.957785	0.784731	0.871258	0.128742	0.007

Source: prepared by researchers, the adoption of the Iraq Stock Exchange Data (<http://www.isx-iq.net>) published by Hussein-Tangl, 2018

Table 16 related to the insurance sector shows that the relationship is insignificant for the insurance company (X7). It was significant in the insurance company (X8) with a high evasion rate of 25.8% and the insurance company (X9) with a rate of 3.81%.

Table 16. Tax evasion rate for the insurance sector

Details	The relationship between tax and revenue	The relationship between tax and cost	Average	Rate of evasion	Significant
X7-X9	0.884416	0.861588	0.873002	0.126998	0
X7	0.430738	0.025096	0.227917	0.772083	0.945
X8	0.759309	0.725749	0.742529	0.257471	0.011
X9	0.875195	0.84734	0.8612675	0.1387325	0.001

Source: prepared by researchers, the adoption of the Iraq Stock Exchange Data (<http://www.isx-iq.net>) published by Hussein-Tangl, 2018

As for the industrial sector, Table 17 shows that the relationship is insignificant for both X10 and X11, although evasion is high at 42.3% and 57.5%, respectively.

Table 17. Tax evasion rate for the industrial sector

Details	The relationship between tax and revenue	The relationship between tax and cost	Average	Rate of evasion	Significant
X10-X11	0.383669	0.268921	0.326295	0.673705	0.226
X10	0.664474	0.48947	0.576972	0.423028	0.126
X11	0.436693	0.411763	0.424228	0.575772	0.208

Source: prepared by researchers, the adoption of the Iraq Stock Exchange Data (<http://www.isx-iq.net>) published by Hussein-Tangl, 2018

Table 18 related to the investment sector shows that the relationship is insignificant for all companies in the research sample (X12, X13 and X14), although evasion is high by 25.3%, 44.1% and 42.6%, respectively.

Table 18. Tax evasion rate for the investment sector

Details	The relationship between tax and revenue	The relationship between tax and cost	Average	Rate of evasion	Significant
X12-X14	0.968275	0.021186	0.4947305	0.5052695	0.907
X12	0.96584	0.528526	0.747183	0.252817	0.095
X13	0.990655	0.127444	0.5590495	0.4409505	0.709
X14	0.96856	0.179046	0.573803	0.426197	0.598

Source: prepared by researchers, the adoption of the Iraq Stock Exchange Data (<http://www.isx-iq.net>) published by Hussein-Tangl, 2018

Examining differences in tax evasion according to different sectors

Hypothesis: The average tax evasion varies by sector (banks, insurance, industry, investment)

Tables 19, 20 and 21 to test the hypothesis can be used (Kruskal-Wallis), where the results confirm the absence of a difference in the average tax evasion in different industrial sectors (banking, insurance, industrial, investment)

Where the value of the significant (0.069), which is greater than (5%), while the value of Chi-Square is (7.095238) at the degree of freedom amounted to (3), which confirms the rejection of the main assumption and accept the alternative hypothesis, stipulates that the average tax evasion varies by industry (banks, insurance, industry, investment).

Table 19. Results of the Kruskal-Wallis test between sectors

Sector	Mea	Chi-Square	Sig.
bank	4.17	7.095	0.069
Insurance	9		
industrial	11.5		
Investment	10		

Source: prepared by researchers, the adoption of the Iraq Stock Exchange Data (<http://www.isx-iq.net>) published by Hussein-Tangl, 2018

4.4. Behavior of tax evasion and national culture

The study was based on two main axes:

1st used results published in Hussein's (my) paper as follows (Table 20):

Table 20. Tax Evasion Reasons (TER)

		Iraq		Hungary	
			%		%
High Tax Rate	Strongly Agree		28.30%	Strongly Agree	80.65%
State Policy in Expenditure	Strongly Agree		60.38%	Agree	32.26%
Tax Awareness	Strongly Agree		84.91%	Disagree	51.61%
Punishment Reasons	Strongly Agree		75.47%	Strongly Disagree	54.84%
Economic Reasons	Disagree		84.91%	Agree	29.03%
Administrative and Organizational Reasons	Agree		54.72%	Disagree	32.26%

Source: Table prepared by the researcher

Table 21. Tax Evasion Techniques (TET)

		Iraq		Hungary	
			%		%
Unreal Documents	Strongly Agree		66.04%	Agree	35.48%
Absence Of Documents	Disagree		81.13%	Disagree	41.94%
Distribution Of Dividends To Ghost's Partners	Disagree		60.38%	Strongly Agree	51.61%
Change The Purchase Or Sale Invoices	Strongly Agree		73.58%	Strongly Disagree	41.94%
Hiding Activity	Strongly Agree		84.91%	Strongly Agree	51.61%

Source: Table prepared by the researcher

2nd: Studying the organizational culture: The results were based on the official website Hofstede through the link (<https://geert-hofstede.com/iraq.html>), and the results were as follows (Table 22):

Table 22. Hofstede Dimension

	Iraq	Hungary
Power Distance (PD)	95	46
Individualism (IND)	30	80
Masculinity (MAS)	70	88
Uncertainty Avoidance (UA)	85	82
Long Term Orientation (LTO)	25	58
Indulgence	17	31

Source: Table prepared by the researcher based of Hofstede website

Analysis of the results: Figure 3 shows that by comparing the organizational culture / PD axis on the one hand and tax evasion on the other hand, it is clear that the distance from power has had an impact on tax evasion as in Iraq, unlike Hungary.

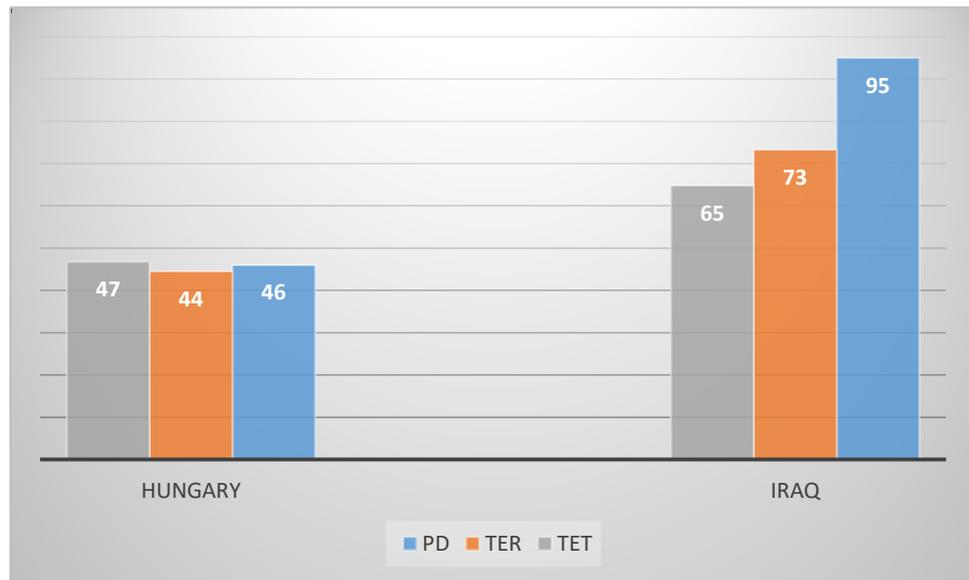


Figure 3. The relationship between PD and Tax Evasion

Source: Figure prepared by the researcher

As shown in Figure 4, the comparison of the organizational culture / axis of IND and the tax evasion on the other hand, although Iraq is a collective society, this helped to increase tax evasion. Tax evasion and this may indicate that the more social ties may help increase tax evasion by influencing relatives and friends by encouraging them to violate this.



Figure 4. The relationship between IND and Tax Evasion

Source: Figure prepared by the researcher

Figure 5 shows that by contrasting the organizational culture / MAS axis on the one hand and tax evasion on the other hand, the male society is more tax-evasive, as in

Iraq, unlike Hungary, where the rate of evasion was low at the time In which the male ratio was low.



Figure 5. The relationship between MAS and Tax Evasion

Source: Figure prepared by the researcher

In the study of Figure 6, we can not study the differences between the organizational culture / UA axis on the one hand and tax evasion on the other, because there are no significant differences between the axis of UA between Iraq and Hungary.

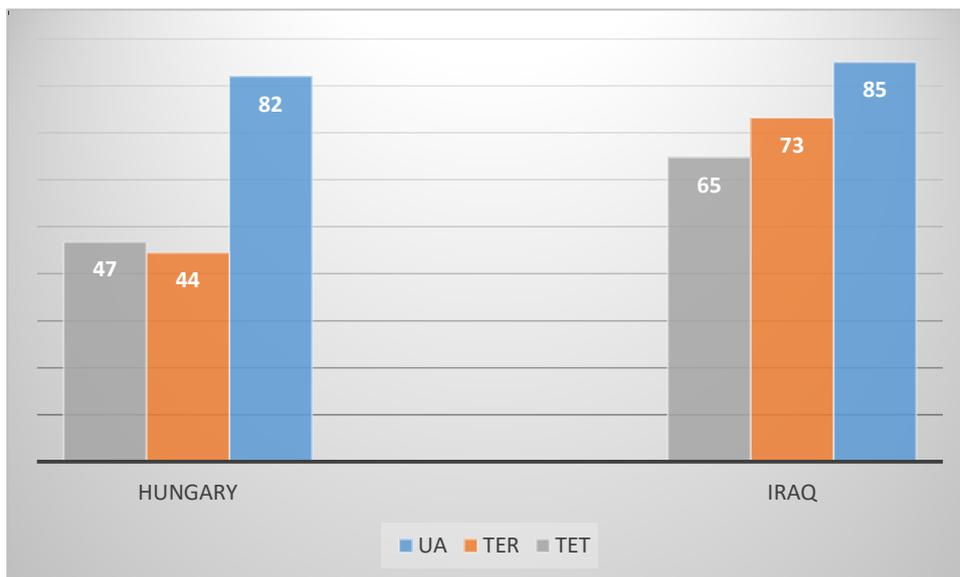


Figure 6. The relationship between UA and Tax Evasion

Source: Figure prepared by the researcher

4.5. Relationships of Tax Evasion, Accounting Conservatism and National (Organizational) Culture

Table 23. Questionnaire distributed collected

Bank	X1	X2	X3	X4	X5	X6	Total
Distributed	30	30	30	30	30	30	180
Collected	20	24	28	26	26	22	146
Percentage	66.7%	80.0%	93.3%	86.7%	86.7%	73.3%	81.1%

Source: Table prepared by the researcher

The study included the national culture and organizational culture as independent key variables, the accounting conservatism as an intermediary variable, and the dependent variable is tax evasion. The organizational culture variable was measured using the National Culture Indicators for the Iraqi environment, they are (Figure 7): Power Distance Index (PDI), Individualism versus Collectivism (IDV), Masculinity versus Femininity (MAS), Uncertainty Avoidance Index (UAI), Long Term Orientation versus Short Term Normative Orientation (LTO) and Indulgence versus Restraint (IND), these indicators put by Hofstede, and he updated his studies later.

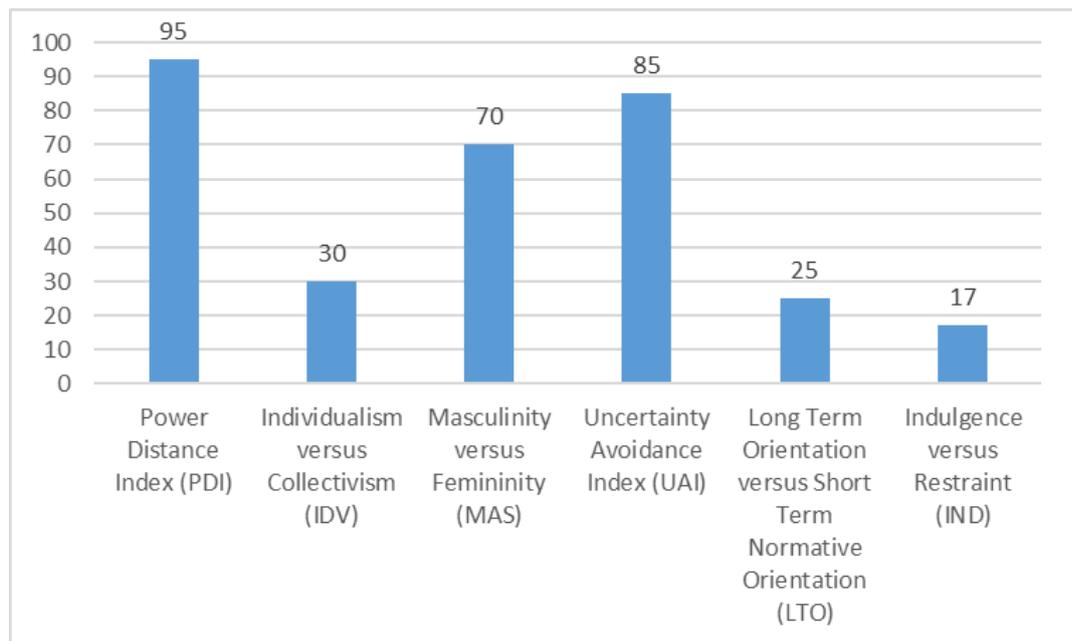


Figure 7. Values of the National Culture Index for Iraq

Source: own calculation by <https://www.hofstede-insights.com/>

The organizational culture variables will be measured through two proxies: conservative culture and creative culture, eight statements were allocated to each proxy within the questionnaire used to collect information from the six banks. The following Table 24 shows the arithmetic mean and the standard deviation of the organizational culture variable, and internal consistency values according to the Alpha Cronbach index of the questionnaire for a sample size of 146.

Table 24. The arithmetic mean and the standard deviation of the organizational culture variable

Variables	Number	Sequence	Cronbach's Alpha	Arithmetic Mean	Standard Deviation
Conservative culture	8	X1-X8		4.226	0.46292
Creative Culture	8	X9-X16		4.1824	0.44531
Total	16		0.683		

Source: Table prepared by the researcher

The accounting conservatism was measured by the following equation (Givoly - Hayn 2000; Ahmed Duellman 2007, Wang 2009, Hollemans 2011, Alkordi - Al-Nimer 2017):

$$\text{Net Accruals Ratio} = \frac{\text{Net Accruals}}{\text{Net Income}}$$

The level of an accounting conservatism can be determined as follows:

1. High conservatism level: If the percentage of total accruals is negative, (cash flows are more than recognized profits) this will be level 1.
2. The level of the conservatism is acceptable: If the percentage of total accruals is positive (less than one) this will be level 2.
3. There is no conservatism (low accounting conservatism); if the percentage of total accruals is positive (greater than one) this will be level 3.

The equation above has been adopted for ease of application; the following table shows the levels of the accounting conservatism for the six banks (Table 25):

Table 25. The level of the accounting conservatism of the sample study banks for the years 2010-2013

#	Bank	Conservatism	level	Range
1	Baghdad	-20.83	1	high
2	Iraqi Middle East Investment Bank	-4.848	1	high
3	Investment of Iraq	-1.2	1	high
4	Gulf Commercial Bank	3.5723	3	Low
5	Mosul Bank for Finance and Investment	3.0887	3	Low
6	Ashur International Bank	-1.59	1	high
		-3.6345	1	high

Source: Table prepared by the researcher

Finally, tax evasion was measured by the following equation:

$$\text{Tax Commitment Ratio} = 1 - \frac{\text{CT} + \text{RT}}{2}$$

Data on accounting restitution and tax evasion were collected by extrapolating and analyzing reports and financial statements of the six banks listed in the Iraqi Stock Exchange. The following Table 26 shows the levels of accounting evasion according to the equation that I proposed it:

Table 26. Levels of tax evasion of the sample study banks for the years 2010-2013

N	Bank	Tax evasion	Range
1	Baghdad	0.1002845	Low
2	Iraqi Middle East Investment Bank	0.368241	high
3	Investment of Iraq	0.0646845	Low
4	Gulf Commercial Bank	0.1803675	high
5	Mosul Bank for Finance and Investment	0.1242435	Low
6	Ashur International Bank	0.128742	high
	Total	0.385974	high

Source: Table prepared by the researcher

Results: The current study included many hypotheses that were derived by the method of induction and deduction of previous studies, the following hypotheses were reported:

The first hypothesis: There is a statistically significant effect of the organizational culture (conservation and creativity) in the accounting conservatism.

The second hypothesis: There is a statistically significant effect of organizational culture (conservation and creativity) in tax evasion.

The third hypothesis: There is a statistically significant effect of the accounting conservatism in tax evasion.

The fourth hypothesis: The influence of organizational culture (conservative and creative) on tax evasion increases when the accounting conservatism is intermediary.

Fifth hypothesis: The national culture along with the organizational culture (conservation and creativity) to show the tax evasion in the banks sample study because of the variance accounting conservatism.

The statistical program SPSS and AMOS have been adopted to reach the results of the above hypothesis test.

The first hypothesis: There is a statistically significant effect of the organizational culture (conservation and creativity) in the accounting conservatism.

In order to test this hypothesis, the relationship between these two variables must be significantly tested; the correlation between these variables can be shown in the following Table 27:

Table 27. The relationship between organizational culture (conservation and creativity) and Accounting conservatism

Variables	Conservative culture	Creative Culture
Accounting Conservatism	0,300**	-0,486**

** Correlation is significant at (0.01)

Source: Table prepared by the researcher

Table 27 shows there is a positive statistically significant correlation between the conservative culture and decreasing of the accounting conservatism, while there is a negative statistically significant correlation between the creative culture and the decline in the accounting conservatism.

In order to verify this hypothesis of influence, the effect of the organizational culture (conservative and creative) on the accounting conservatism was measured by estimating the simple linear regression equation of the effect of conservative culture in the accounting conservatism shown in Table 5, estimating the simple linear regression equation of the effect of creative culture in the accounting conservatism shown in Table 28.

Table 28. Effect of conservative culture in the accounting conservatism

R	R ²	Adjusted R ²	F value	Significance
0.3	0.09	0.084	14.265	0

variable	Regression coefficient (β)	Fixed limit value T	Significance	Level of significance
Conservative culture	0.3	3.777	0	0.01

Source: Table prepared by the researcher

From the table above, we observe the morale of the regression model, where the value of F (14.265), the effect of conservative culture on the decrease of the accounting conservatism, where the value of regression coefficient (β) (0.300), the value of R² (0.09), indicating that conservative culture accounts for 9% of the changes in the accounting conservatism decline.

Table 29. The effect of creative culture in the accounting conservatism

R	R ²	Adjusted R ²	F value	Significance
0.486	0.236	0.231	44.588	0

variable	Regression coefficient (β)	Fixed limit value T	Significance	Level of significance
Conservative culture	-0.486	-6.677	0	0.01

Source: Table prepared by the researcher

From the table above (29), I observe the morale of the regression model, where the value of F (14.265). The negative effect of the creative culture on the decline in the accounting conservatism was significant, with the value of regression coefficient β (-0.486), the value of R² (0.236), which indicates that conservative culture accounts for 23.6% of the changes in the rise of the accounting conservatism, confirms the validity of the first hypothesis of the study.

The second hypothesis: There is a statistically significant effect of organizational culture (conservation and creativity) in tax evasion.

Table 30 shows the relationship between organizational culture (conservation and creativity) and tax evasion.

Table 30. The relationship between organizational culture (conservative and creative) and Tax evasion

Variables	Conservative culture	Creative Culture
Tax Evasion	-0,243**	0,199*

** Correlation is significant at (0.01)

* Correlation is significant at (0.05)

Source: Table prepared by the researcher

In Table 30, we note that there is a statistically significant negative correlation between the conservative culture and tax evasion, while there is a statistically significant positive correlation between creative culture and tax evasion.

In order to verify this hypothesis, the effect of organizational culture (conservative and creative) on tax evasion was measured by estimating the simple linear regression equation for the effect of conservative culture on the tax evasion shown in Table 8 and estimating the simple linear regression equation for the effect of creative culture on tax evasion in Table 31.

Table 31. Effect of conservative culture on tax evasion

R	R ²	Adjusted R ²	F value	Significance
0.243	0.059	0.052	9.002	0.003

variable	Regression coefficient (β)	Fixed limit value T	Significance	Level of significance
Conservative culture	-0.243	-3.000	0.003	0.01

Source: Table prepared by the researcher

From the table above, we observe the morale of the regression model, where the value of F (9.002), the regression effect of the regression coefficient β (0.243-) was significant, the value of the parameter R² (0.059), which indicates that conservative culture accounts for 5.9% of the changes in the low tax evasion.

Table 32. The impact of creative culture on tax evasion

R	R ²	Adjusted R ²	F value	Significance
0.199	0.04	0.033	5.966	0.016

variable	Regression coefficient (β)	Fixed limit value T	Significance	Level of significance
Conservative culture	0.199	2.442	0.016	0.05

Source: Table prepared by the researcher

From the above Table 32 I observe the morale of the regression model, where the value of F (5.966), the value of the regression coefficient β (0,199), the value of the parameter R² (0.040), which indicates that conservative culture accounts for 4% of the changes in the rise in tax evasion, confirms the validity of the second hypothesis of the study.

The third hypothesis: There is a statistically significant effect of the accounting conservatism in tax evasion.

Table 33. The correlation between the accounting conservatism and tax evasion

Variables	Accounting Conservatism
Tax Evasion	-0.555**

** Correlation is significant at (0.01)

* Correlation is significant at (0.05)

Source: Table prepared by the researcher

The correlation between the accounting conservatism and tax evasion: Table 33 shows that there is a negative statistically significant correlation between the reduction of the accounting conservatism and tax evasion. In other words, the higher the level of decreasing in the accounting conservatism, the lower the level of tax

evasion, while the positive correlation between the creative culture and tax evasion. In order to verify this hypothesis, the effect of the accounting conservatism on tax evasion was measured by estimating the simple linear regression equation for the effect of the accounting conservatism in the tax evasion shown in Table (33):

Table 34. Effect of accounting conservatism in tax evasion

R	R ²	Adjusted R ²	F value	Significance
0.555	0.308	0.303	64.056	0

variable	Regression coefficient (β)	Fixed limit value T	Significance	Level of significance
Conservative culture	-0.555	-8.004	0	0.01

Source: Table prepared by the researcher

From the Table 34 I observe the morale of the regression model, where the value of F (64.056), the inverse effect of the reduction of the accounting conservatism in tax evasion was significant, with the value of regression coefficient β (-0.555), the value of the parameter R² (0.303), which indicates that the decrease in the accounting conservatism accounts for 30.8% of the changes in the decrease in tax evasion, confirms the validity of the third hypothesis of the study.

The fourth hypothesis: The influence of organizational culture (conservative and creative) on tax evasion increases when the accounting conservatism is intermediary.

The statistical program (AMOS: Ver.22) was used to measure these direct and indirect effects between organizational culture (conservation and creativity) and tax evasion when the accounting conservatism is intermediary variable. Table 35 presents the results of the statistical analysis to test this hypothesis.

Table 35. The results of the analysis of the direct, indirect and total effects of the conservative culture influence in tax evasion, and the accounting conservatism as an intermediary

Variables			Direct path coefficient value	Indirect path coefficient value	Total path coefficient value
Independent	Intermediate	Dependent			
Conservative culture	Accounting Conservatism	Tax Evasion	0,084**	** -0,159	** -0,243

** Correlation is significant at (0.01)

Source: Table prepared by the researcher

The Table 35 shows the increase in the moral effect of conservative culture in the reduction of tax evasion, when the accounting conservatism is intermediary variable, where the value of increase (-0.159), the value of the indirect effect.

Table 35 refer to the results of the statistical analysis to test this hypothesis, using the AMOS: Ver.22 program to measure direct and indirect effects.

Table 36. The results of the analysis of the direct, indirect and total effects of the creative culture influence in tax evasion, and the accounting conservatism as an intermediary

Variables			Direct path coefficient value	Indirect path coefficient value	Total path coefficient value
Independent	Intermediate	Dependent			
Conservative culture	Accounting Conservatism	Tax Evasion	0,084- ^{**}	^{**} -0,159	^{**} -0,243

^{**} Correlation is significant at (0.01)

Source: Table prepared by the researcher

It is clear from the Table 36 the lack of clarity of the impact of the creative culture of tax evasion, when the accounting conservatism is intermediary variable, where the overall effect when the accounting conservatism is intermediary variable as an independent variable is equal to influence without intermediary (see in Table 32), which results prove the hypothesis fourth partially

The comparison between Tables 35 and 36 shows that the influence of conservative culture will increase in the reduction of tax evasion when intermediary the decline of the accounting conservatism (the downward accounting conservatism), while there is no significant increase or decrease in the effect of creative culture on tax evasion, this may be due to the small sample of the study that included only 6 banks.

Fifth hypothesis: The national culture along with the organizational culture (conservation and creativity) to show the tax evasion in the banks sample study as a result of the variance accounting conservatism.

The total results of the accounting conservatism and tax evasion of banks in the sample of the study showed a high level of accounting conservatism, which is also offset by a high level of tax evasion, while there was variation among banks in terms of organizational culture adopted in each bank, conservative culture and tax evasion supported by the emergence of a direct correlation between this culture and the low level of conservatism, while the results were the opposite for creative culture, where the relationship was positive with tax evasion, while it is associated with a positive development with the rise of the accounting conservatism.

When comparing these results with the level of national culture of Iraq according to the six indicators of the national culture index, the high level of Power Distance Index (PDI) and the unacceptability of the expectations of the less powerful members of the Iraqi organizations, which reached the level of (95%), Figure 1 showed a large accounting conservatism along with the tendency to tax evasion, although this varied in the context of the organization's culture (conservative and creative)

This is supported by the Individualism versus Collectivism (IDV) indicator which shows the low integration of individuals with the community, and the Uncertainty

Avoidance Index (UAI) at 70%, which shows a great concern in dealing with uncertainty among members of society, showing emotional interaction with events, this may affect the options for adopting the accounting conservatism as well as tax evasion, and the Masculinity versus Femininity (MAS) shows a high level of up to (85%), which emphasizes the competition and material in the handling and decision-making, while the national culture shown by the Long Term Orientation versus Short Term Normative Orientation (LTO) that there is a lack of focus on the future, but the limits of the focus only on the short-term planning, which is often overlooked by the present, where the level of the index (25%) only, while the Iraqi national culture shows a significant restriction in The community discourages needs satisfaction as the level of Indulgence versus Restraint (IND) has shown a lower level Between all previous indicators where it reached (17%) only.

Based on the above, it can be said that the tendency of the rise of the accounting conservatism and tax evasion was built on the basis of a national culture that marginalizes members who are weak in power and are characterized by individuality, weak cooperation and collective action, the rule of concern in dealing with uncertainty, focusing on competition and masculine material, with a high level of shortsightedness and weakness in strategic planning and, finally, the rule of restraint and curbing liberalization and ambition under strict social norms. Thus confirming the validity of the fifth hypothesis of the study.

4.6. New Results

1. I found that there is a positive statistically significant correlation between the conservative culture and decreasing of the accounting conservatism, while there is a negative statistically significant correlation between the creative culture and the decline in the accounting conservatism.
2. There is a statistically significant negative correlation between the conservative culture and tax evasion, while there is a statistically significant positive correlation between creative culture and tax evasion.
3. There is a negative statistically significant correlation between the reduction of the accounting conservatism and tax evasion.
4. The increase in the moral effect of conservative culture in the reduction of tax evasion, when the accounting conservatism is intermediary variable, in the other hand there is a lack of clarity of the impact of the creative culture of tax evasion, when the accounting conservatism is intermediary variable.
5. The high level of Power Distance Index (PDI) shows the unacceptability of the expectations of the less powerful members of the Iraqi organizations. The Individualism versus Collectivism (IDV) indicator shows the low integration of individuals with the community. Masculinity versus Femininity (MAS) shows a high level, which emphasizes the competition in decision-making. The Long-Term Orientation versus Short-Term Normative Orientation (LTO) shows a lack of focus on the future. The Iraqi national culture shows a significant restriction in the community discourages needs satisfaction as the level of Indulgence versus Restraint (IND) has shown a lower level.

THE OBJECTIVES AND HYPOTHESIS OF STUDY		NEW RESULTS	
H1	Statistically significant effect of the national and organizational culture in the accounting conservatism .	There is a positive statistically significant correlation between the conservative culture and decreasing of the accounting conservatism, while there is a negative statistically significant correlation between the creative culture and the decline in the accounting conservatism.	APPROVED
H2	Statistically significant effect of the national and organizational culture in tax evasion .	There is a statistically significant negative correlation between the conservative culture and tax evasion, while there is a statistically significant positive correlation between creative culture and tax evasion.	APPROVED
H3	Statistically significant effect of the accounting conservatism in tax evasion .	There is a negative statistically significant correlation between the reduction of the accounting conservatism and tax evasion.	APPROVED
H4	National and organizational culture on tax evasion increases when the accounting conservatism is intermediary.	The increase in the moral effect of conservative culture in the reduction of tax evasion, when the accounting conservatism is intermediary variable, In the other hand there is a lack of clarity of the impact of the creative culture of tax evasion, when the accounting conservatism is intermediary variable.	NONE
H5	National culture and organizational culture show the tax evasion in the banks sample study as a result of the variance accounting conservatism .	The high level of Power Distance Index (PDI) shows the unacceptability of the expectations of the less powerful members of the Iraqi organizations. The Individualism versus Collectivism (IDV) indicator shows the low integration of individuals with the community. Masculinity versus Femininity (MAS) shows a high level, which emphasizes the competition in decision-making. The Long-Term Orientation versus Short-Term Normative Orientation (LTO) shows a lack of focus on the future. The Iraqi national culture shows a significant restriction in the community discourages needs satisfaction as the level of Indulgence versus Restraint (IND) has shown a lower level.	APPROVED

Figure 8. Summarized connection between the objectives and hypotheses with the new results

Source: Figure prepared by the researcher

5. CONCLUSIONS

5.1. The Reasons behind Tax Evasion

In this topic found that the tax evasion rate is one of the main reasons for evade tax in Hungary with 80.65% “Strongly Agree” of the sample, and there is no agreement that the Tax Awareness, Economic Reasons and Administrative Reasons represent as a main reasons for evade tax. In the Tax Evasion Techniques found that 81.13% and 41.94% respectively in Iraq and Hungary full agreed in “Absence of Documents”, while “Hiding Activity” is “Strongly Agree” with 84.91% and 51.61% respectively in Iraq and Hungary.

5.2. The External Audit Procedures in Reducing Tax Evasion

In topic of effect the external audit procedures on reducing the tax evasion found that 70% agreed on “Notification”, and 98.7% for “Authorization”, while “Entrance Conference” was supported by 57%, as well as 81.9% support to “Data Request” and 92.5% for “Audit Fieldwork”, in addition, 42% for “Exit Conference”, while “Draft Report” supported by 65.5%, and 81.9% for “Response”, finally 64.8% support “Final Report” and 92.5% for “Follow-Up & Monitoring”. From all these indicators found that the high importance was 98.7% support for “Authorization”, which indicates high support for the research sample of the importance of authorization in the procedures of the external auditor to reduce tax evasion, this explains the importance of authorization and as you choose the right people to give them authorization. In addition, only 33% agree for “Entrance Conference”, the research sample considers the importance of the audit conference as one of the external auditor's procedures for reducing tax evasion; this may contradict the strong support for paragraph “Authorization”. When analysis of the relationship between the procedures of external audit and personal information found:

1. In terms of gender, where there was a strong contrast to the lack of support indicates 87% of the females for “Notification”, 91% of the males support “Entrance Conference”, 83% of the males support “Data Request”, and 55% of the females do not support the same question. 74% of the females did not support “Exit Conference”, and 100% agreed with “Response” and male support “Final Report” with 77%.

2. In terms of academic achievement. 74% of the PhD did not agree with “Notification”, while PhD and MSc was 100% agree with “Data Request”, PhD and MSc were not agree by 82% and 89% respectively for “Exit Conference”, and finally PhD and MSc were agree by 74% and 82% respectively for “Final Report”.

In terms of experience, those with experience (10-20) and (more than 20) supported “Authorization” by 95% and 93% respectively, while 92% of (less than 10) experience did not support “Data Request”, and “Exit Conference” with (91%), while (more than 20) support the “Draft Report” with 90%. Finally, (10-20) experience support “Final Report” with 89%.

5.3. The Proposed Model for Measure Tax Evasion in Microeconomic Level

In this topic I tried to propose a new model to measure tax evasion in microeconomic level, this model will be use in all other results. Therefore, by used the new model found that there is a low rate of evasion in the insurance sector at 12.7% and a high rate of evasion in the banking sector at 38.6 %. By refer to banking sector found that the bank (X3) was the less tax evasion ratio for the rest of the banks at a rate of 6.47%, while the bank (X2) was the highest value also in terms of evasion rate of 36.8%.

5.4. The effect of Behavior of tax evasion on national culture

In this topic found that by comparing the national culture / PD on the one hand and tax evasion on the other hand, it is clear that the distance from power has an impact on tax evasion as in Iraq. While the comparing of the national culture / IND with the tax evasion on the other hand, although Iraq is a collective society, this is increase the tax evasion ratio. In addition, by contrasting the national culture / MAS on the one hand and tax evasion on the other hand, the male society is more evade, as in Iraq. Finally, I could not found clearly significant differences between the national culture / UA on the one hand and tax evasion on the other in Iraq and Hungary.

5.5. Relationships of Tax Evasion, Accounting Conservatism and National (Organizational) Culture

I found that there is a positive statistically significant correlation between the conservative culture and decreasing of the accounting conservatism, while there is a negative statistically significant correlation between the creative culture and the decline in the accounting conservatism.

While, there is a statistically significant negative correlation between the conservative culture and tax evasion, while there is a statistically significant positive correlation between creative culture and tax evasion.

In addition, there is a negative statistically significant correlation between the reduction of the accounting conservatism and tax evasion. In other words, the higher the level of decreasing in the accounting conservatism, the lower the level of tax evasion, while the positive correlation between the creative culture and tax evasion.

As well as, increase in the moral effect of conservative culture in the reduction of tax evasion, when the accounting conservatism is intermediary variable, in the other hand there is a lack of clarity of the impact of the creative culture of tax evasion, when the accounting conservatism is intermediary variable.

Finally, when comparing these results with the level of national culture of Iraq according to the six indicators of the national culture index, high level of Power Distance Index (PDI) shows the unacceptability of the expectations of the less powerful members of the Iraqi organizations. The Individualism versus Collectivism (IDV) indicator shows the low integration of individuals with the community. Masculinity versus Femininity (MAS) shows a high level, which emphasizes the competition in decision-making. The Long-Term Orientation versus Short-Term Normative Orientation (LTO) shows a lack of focus on the future. The Iraqi national culture shows a significant restriction in the community discourages needs satisfaction as the level of Indulgence versus Restraint (IND) has shown a lower level.

5.6. Recommendations

The relationship and influence between the organizational (and national) culture with tax evasion and accounting conservatism represent a new trend can be study in many countries, we should focus our future studies in developed countries, especially I had found a lot of results that need to be studied more deeply, and need to diversify the research sample in terms of time and place.

6. SUMMARY

The tax system is the financial source in any country, and the tax system represents all the laws and regulations applied by the government. These laws are often influenced by the economic thought of the government, or by the social habit and order in which it prevails. They lead to the difference of the tax system from one country to another and from one system to another. The tax system is affected by these factors combined.

In Iraq, the first appearance of tax laws was early in comparison to the countries of the region. The first law on income tax was issued in 1927, which is one of the first issued laws in the region.

Despite the long period in which the new Iraqi government (after 2003) received power, the gaps that were found not in the existing financial laws and not even in the Iraqi constitution which makes the legislative authority a major responsibility is to amend the financial and fiscal laws in general to suit the situation of Iraq. The new directions that represent with the transformation of the socialist system into a free economic system are a part of these transformations. The main aims of the tax system to finance the government economy and the government have to handle the phenomenon of tax evasion.

In order to deal with tax evasion it is necessary to study the variables and factors affecting it, whether accounting or other factors, it is from this principle. I started to study this phenomenon by linking it to two variables: the first is accounting and the accounting conservatism, and the second non-accounting, the national culture.

Where accounting conservatism is one of the generally accepted accounting principles, which is an outlet for tax evasion through the manipulation of the level of accounting conservatism. This phenomenon is recognized by accounting scientists and is one of the most important defects on the principle of accounting conservatism.

National culture is also the main component of the mood of any people from which they derive their perceptions of the world and their motivations for behavior, which are manifested in both individuals and peoples, in individual consciousness and social and historical awareness. Some have tried to link national cultures to the patterns of the human spirit.

The Hofstede's theory of cultural dimensions is a model used to learn how to communicate between cultures around the world. It is known that human societies differ in many ways and show the importance of such differences in the business world, which led to the direction of research and social studies to examine these differences. How to identify the differences and find the best ways to deal with these differences to achieve the best results it can be a key for eliminating the tax evasion.

Cultural dimensions are one of the pillars of international business. The cultural differences between the countries of the world have made understanding and the impact of these differences on the behavior of individuals a necessity for international management. If the international director is not familiar with the

cultures of the countries he deals with, this will inevitably affect the performance of the institution.

Therefore, I try to find the extent of the impact of national culture on tax evasion. My examination is considering tax evasion a social situation. I studied the correlation between the national culture the tax evasion and accounting conservatism through the study of the middle variable.

I found that the tax evasion rate is one of the main reasons for evade tax in Hungary with 80.65% “Strongly Agree” of the sample, and there is no agreement that the Tax Awareness, Economic Reasons and Administrative Reasons represent as a main reasons for evade tax. In the Tax Evasion Techniques found that 81.13% and 41.94% respectively in Iraq and Hungary full agreed in “Absence of Documents”, while “Hiding Activity” is “Strongly Agree” with 84.91% and 51.61% respectively in Iraq and Hungary.

The increase in the moral effect of conservative culture in the reduction of tax evasion, when the accounting conservatism is intermediary variable, in the other hand there is a lack of clarity of the impact of the creative culture of tax evasion, when the accounting conservatism is intermediary variable.

In terms of academic achievement 74% of the PhD did not agree with “Notification”, while PhD and MSc was 100% agree with “Data Request”, PhD and MSc were not agree by 82% and 89% respectively for “Exit Conference”, and finally PhD and MSc were agree by 74% and 82% respectively for “Final Report”.

Finally, when comparing these results with the level of national culture of Iraq according to the six indicators of the national culture index the high level of Power Distance Index (PDI) and the unacceptability of the expectations of the less powerful members of the Iraqi organizations. But the Individualism versus Collectivism (IDV) indicator which shows the low integration of individuals with the community, while the Masculinity versus Femininity (MAS) shows a high level, which emphasizes the competition and material in the handling and decision-making, as well as the national culture shown by the Long Term Orientation versus Short Term Normative Orientation (LTO) that there is a lack of focus on the future. Finally the Iraqi national culture shows a significant restriction in the community discourages needs satisfaction as the level of Indulgence versus Restraint (IND) has shown a lower level.

I recommended that the relationship and influence between the organizational (and national) culture with tax evasion and accounting conservatism represent a new trend can be study in many countries. We should focus our future studies on developed countries, especially I had found a lot of results that need to be studied more deeply, and need to diversify the research sample in terms of time and place.

The financial education can play a main role minimizing or eliminating the tax evasion. The education at any level can be also a key factor to eliminate the awareness of financial and taxation systems. This is a long investment for any country.

ANNEXES

Annex 1. BIBLIOGRAPHY

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Annex 2. Questionnaire on the reasons of tax evasion in Iraq and Hungary

First Axis: General Information

1- Sex	Male	Female		
2- Certificate	Secondary	Bsc	Msc	Other
3- Specialist	Accounting	Management	Economic	Other
4- Experience	Less than 5 years	Between 6- 10 years	More than 10 years	

Second Axis: The Reasons of Tax Evasion

#	Details	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
1-	The reason for tax evasion is the high tax rate					
	High Tax Rate: It consider that taxpayer pays to state more than it deserves, in addition to the sense that the amount paid will effect on his business activity.					
2-	The reason for tax evasion is the state policy in expenditure					
	State Policy in Expenditure: Mean state directed tax revenue in the intended destination, and the taxpayer touch it themselves of community, and public services and providing them with security and stability in their lives.					
3-	The reason for tax evasion is the lack of tax awareness					
	Tax Awareness: It's the taxpayer's awareness of the importance to pay the tax and benefits that would accrue to him and to the community.					
4-	The reason is the weakness of tax evasion and tax punishment					
	Criminal Reasons: Tax evasion is a crime punishable by law, if there were a deterrent punishment on the evader paid Him/Her/It to pay the tax on time, and vice versa.					
5-	The reason for tax evasion is the general economic situation					
	Economic Reasons: The evasion rate be lower in times of thrive and prosper than times of economic crisis.					
6-	The reason for tax evasion is poor procedures in the tax department (regulatory)					
	Administrative and Organizational Reasons: This is reflected in the complexity of administrative procedures for assessing and collecting tax					

Third Axis: Tax Evasion Techniques

#	Details	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
1	One of techniques of tax evasion is to offer the taxpayer's annual tax declaration based on unreal records or documents.					
2	One of techniques of tax evasion is to offer the taxpayer's annual tax declaration on the basis of the absence of records or documents					
3	One of techniques of tax evasion is the distribution of dividends to the partner or partners ghost with the intention of reducing the share of his profits					
4	One of techniques of tax evasion is to change the purchase or sale invoices with the intention of reduce the profit or increase losses					
5	One of techniques of tax evasion is hiding Activity or more of the activities subject to tax					

Annex 3. Questionnaire on the External Audit Procedures in Reducing Tax Evasion Empirical Study: Iraq

First Axis: General Information

Gender	Male	Female		
Age	Less than 30	30 - 40	41 - 50	More than 50
Qualification	Bsc	Msc	Phd	
Experience	Less than 10	10 - 20	More than 20	

Second Axis: Planning

#	Details	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
1	Notification reducing tax evasion					
2	Authorization reducing tax evasion					
3	Entrance conference reducing tax evasion					
4	Datarequest reducing tax evasion					

Third Axis: Fieldwork

#	Details	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
5	Auditfieldwork reducing tax evasion					
6	Exit conference reducing tax evasion					

Fourth Axis: Reporting

#	Details	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
7	Draft report reducing tax evasion					
8	Response reducing tax evasion					
9	Final report reducing tax evasion					
10	Follow-Up & monitoring reducing tax evasion					

Third Axis: Innovative Culture

#	Details	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
9	Our bank creates a climate conducive to creativity and innovation					
10	Our bank is keen to be the best					
11	Our bank encourages creative thinking in the face of our problems					
12	Our bank relies on innovation to develop banking services					
13	We have the enthusiasm and motivation to accomplish the required level					
14	There is a belief in the importance of non-official in our bank					
15	Our bank is keen to create an atmosphere of trust and friendship					
16	Our bank relies on the creativity of its workers					

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