

**THE ROLE OF CORPORATE GOVERNANCE IN REDUCING TAX RISKS AND  
ACHIEVING SUSTAINABLE DEVELOPMENT-AN APPLIED STUDY IN THE GENERAL  
TAX AUTHORITY - DIWANIYAH BRANCH**

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**ABSTRACT**

The research aims to address the theoretical framework of corporate governance in terms of its concept, importance, internal and external mechanisms, as well as clarifying its role in reducing tax risks and working to achieve sustainable development. The research was applied in the Iraqi General Tax Authority / Al-Diwaniyah branch for the data for the fiscal year ending on 12/31/2021. In order to achieve the objectives of the research, a questionnaire was designed in addition to the use of a set of appropriate statistical methods. The study produced a number of findings, the most significant of which were that tax risks—tax evasion being the primary one—can be mitigated by corporate governance, and that corporate governance facilitates sustainable development in a way that complies with business environment standards.

**Keywords:** Corporate Governance, Tax Risks, Sustainable Development

**INTRODUCTION**

The financial collapses that hit the world's largest economies demonstrated the inadequacy of traditional approaches and strategies to stop the causes of these collapses, whose appearance had far-reaching consequences. This led the relevant authorities, both domestically and internationally, to carry out exhaustive investigations and studies to determine the primary causes of these crises and collapses, which were connected to accounting and auditing work. Corporate governance was the result of these studies and research to prevent or reduce such crises at the very least, as well as to reduce negative practices for profit management through a set of internal and external mechanisms, and corporate governance in government economic units is of particular importance, because it still plays an influential role in economic activity in many countries, and represents an important part of GDP and job creation, as well as it is often dominant in beneficial industries. Hence, the idea of the current research came in finding the relationship between corporate governance and both tax risks and sustainable development.

**The first topic: research methodology****11 Search problem:**

The research problem can be articulated through the following intellectual question: The economies of many countries face great challenges represented by increasing opportunities to practice financial and administrative corruption, as well as the incomplete construction of national economic units and laws, which provided a suitable environment for the corrupt, taking advantage of the frailty of the judicial and regulatory bodies in the face of this immediate danger. Does corporate governance contribute to achieving sustainable development and lowering tax risks in a way that complies with the demands of the contemporary business environment?

**12 The importance of research:**

The significance of corporate governance and its function in lowering tax risks and attaining sustainable development are the main reasons for the importance of this research, as corporate governance is one of the modern concepts on the business environment, and that awareness of these concepts and their applications correctly leads to achieving the greatest degree of justice and transparency and granting the right to accountability of the economic unit, which helps protect the rights of all stakeholders related to the economic unit, as this has a role in reducing tax risks and helping to achieve sustainable development.

**13 Research Objectives:**

The research aims to address the theoretical framework of corporate governance in terms of its concept, importance and internal and external mechanisms, as well as to clarify its role in reducing tax risks and working to achieve sustainable development in line with various environmental requirements.

**14 Research hypothesis:**

The study's two main hypotheses are that: (1) corporate governance lowers tax risks; and (2) it promotes sustainable development that complies with the demands of the contemporary business environment.

**15 Research Methodology:**

Both the deductive and the inductive approaches were used to help the research reach its goals. The deductive approach was used in the theoretical side of the study, relying on Arab and foreign sources that could be found in libraries, while the inductive approach was used in the applied side.

**16 Society and sample research:**

A group of people employed by the Iraqi General Tax Authority / Diwaniyah Branch serve as the study sample for the fiscal year that ends on December 31, 2021.

## **The second topic: the theoretical aspect of the research**

### **21 Concept of Corporate Governance:**

Corporate governance is seen as a general framework for relationships, processes, regulations and rules between the parties contributing to the economic unit, and corporate governance refers to the structures, processes and relationships between different areas and parties between management, the board of directors, shareholders and other stakeholders (Sarbah, 2015:41).)

Corporate governance is a framework that is used to manage and direct a company's operations, foster corporate prosperity and accountability, and ultimately lead to the achievement of the company's mission. It is thus the system by which the company is directed and controlled, in accordance with particular mechanisms based on the distribution of responsibilities and powers among the shareholders in its management (Zabria, et.al., 2016:288).)

Another definition of corporate governance is a collection of policies, practices, and frameworks that direct the administration of the business unit with an eye toward the long term, in order to fulfill the needs of creditors, consumers, shareholders, and stakeholders (Wirtz, 2019:3)).

The researchers view corporate governance as a set of laws, regulations and decisions that regulate the relationship between all parties to the company, which aims to protect its stakeholders, that is, they are control tools that ensure the good management of economic units and ensure the rights of shareholders, leading to the disclosure of information of those units in a transparent and clear manner.

### **22 The importance of corporate governance:**

Corporate governance has a role in responding to the objectives of the company, shareholders and other stakeholders (Surya, 2018:33), and the importance of corporate governance for all parties can be summarized as follows:

**First: The importance for the company:** It is summarized as follows: (Pourali, et.al., 2019: 3)

1. Provide a regulatory framework to build long-term trust through which the objectives of the company and shareholders are identified and achieved and alignment is achieved in these goals.
2. Assist in making the company's movement logical through management and systematic supervision in the face of potential risks.
3. Contribute to the decrease in full dependence on senior executives by dividing the decision-making process and reducing the responsibilities of senior managers.
4. Contribute to improving business standards and the reputation of companies in the markets and encourage and attract foreign investments.

**Second: The importance for shareholders and stakeholders :** It is summarized as follows: (Katwesigye,2013:31)

- 1.Strive to defend the interests of owners, shareholders, and other relevant parties, including workers, lenders, creditors, and clients.

2. Encourage the prompt and correct disclosure of all pertinent information about the economic unit, such as its performance, finances, and property rights.
3. Strive to uphold the legal rights of all parties involved and promote proactive collaboration between businesses and stakeholders to generate income, jobs, and sustainably run financially healthy projects throughout the accounting period.

### **23 Internal and external mechanisms of corporate governance:**

Corporate governance mechanisms must cover the interests of both management and shareholders, and therefore these mechanisms are divided into internal mechanisms and external mechanisms, and these mechanisms can be clarified through the following: (Chenchene, 2019:16)

#### **First: Internal Mechanisms of Corporate Governance:**

The internal mechanisms of corporate governance depend largely on the structure of an effective board of directors in order to facilitate effective and efficient control, and the internal mechanisms of corporate governance can be clarified through the following: (Constantatos, 2018: 6)

1. **The mechanism of the Board of Directors and its committees:** Companies are allowed to form a board of directors, provided that this board undertakes the tasks of decision-making and effective supervision of management, and the board must provide space for fruitful discussions and appropriate, quick and wise decisions under different environmental conditions (Al-Zahim, 2013: 37).
2. **Ownership concentration mechanism:** The ownership structure of any company consists of shareholders, as this structure can affect corporate governance practices positively or negatively, and is therefore key to good corporate governance (Iswaissi & Falahati, 2017:35) .
3. **Director ownership mechanism:** The director's ownership is an effective internal control mechanism in solving agency problems, if the members of the board of directors own large ownership rights in their companies, this gives them an incentive and therefore their behavior is in the interest of shareholders, and it is also said that the director's ownership mechanism increases the understanding of board members (Miglania, et.al., 2014: 9) .
4. **Disclosure and Transparency Mechanism:** One of the responsibilities of the Board of Directors is to ensure that shareholders and other stakeholders are provided with high-quality disclosures of the financial results of the company that the Board of Directors has been assigned to manage, as shareholders and stakeholders are interested in information that will help them determine that management manages the company with the best interests of all parties in mind (Kawira, 2012:14). .

#### **Second: External Mechanisms of Corporate Governance:**

External mechanisms are a set of external factors that have an impact on the performance of the company, and these mechanisms can be clarified through the following: (Mulyadi & Martin, 2018:57) .

1. **Competition of the product market and the administrative labor market:** This mechanism is adopted in the event of the failure of internal mechanisms and concerns individuals and companies with financial capacity (Abadi, 2007: 98).
2. **Mergers and acquisitions:** This mechanism is one of the traditional tools around the world because of its contribution to restructuring in the corporate sector and proves the importance of this mechanism clearly by supporting corporate governance, without which it is not possible to control the effectiveness of management and its behavior effectively (Odeh, 2016: 501).
3. **External Audit:** The external auditor works to provide assurance to investors regarding the management of the company's resources, so auditing large companies requires full disclosure from their clients in order to maintain the quality and reputation of the audit (Chenchene, 2019: 17).
4. **Legislation and laws:** Some legislations and laws have affected the main actors in the governance process, not in terms of their role and function in this process, but rather on how they interact with each other, for example when the Sarbanes-Oxley Act was issued in 2002 known as the Corporate Accounting Reform and Investor Protection Act, increasing the number of independent board members, strengthening the audit committee's supervision of the financial reporting process, and asking the CEO to certify Validity of financial reports and on the internal control system (Thabet and Ibrahim, 2016: 34).

The researchers believe that the internal mechanisms of corporate governance work to enhance the ability of companies to achieve goals and obtain and maintain shareholder confidence, and shareholders use internal governance mechanisms to ensure that their objectives are compatible with the objectives of the economic unit management. As for external mechanisms, it is a set of external factors that have an impact on the company's performance, and this mechanism is adopted in the event that all internal mechanisms fail to achieve their goals.

#### **24 The relationship between corporate governance and tax risks:**

Tax risks are of great importance in the financial management system because tax relations are an important factor that determines their outcome, so tax risks must be avoided or reduced at the very least, and the tax risk management system must be an independent system in the financial activities of the economic unit (Jassim, 2015: 12).

Tax risks include several types of financial risks represented by elements of the financial activities and other activities of the economic unit, if this unit is engaged in any type of activity, there are always risks associated with its activities. Tax risk is seen as an objective opportunity for a taxpayer or taxpayer to incur financial losses associated with the procedures for calculating, improving and paying taxes and other non-tax payments (Hajjaj, 2016: 67).

Harmful economic consequences also appear on both society and the state as a result of tax risks, and with the help of conscious economic behavior these risks can be reduced, as the taxpayer tries to compare anything so that the planned results of his activities correspond to those already obtained, and there is a set of characteristics of tax risks, which are as follows: (Khalil, 2005: 45)

1. They are an integral part of financial risk.
2. They are related to the inaccuracy of financial, economic and legal information.

3. It covers all participants (taxpayers) in legal tax relations.
4. They are negative for all participants in tax legal relations .

Based on the principles taken into account by the economic unit, a policy is established for the management of financial risks in accordance with corporate governance, with the help of which neutralization measures are developed to eliminate the threat of risks and its negative consequences associated with the implementation of various points of economic activity, and tax risks include the following: (Miglania, et.al., 2014: 3)

1. Risks of tax control.
2. Risks of increasing the tax burden.
3. Risks of criminal prosecution.
4. Risks of tax evasion.
5. The risks of misleading the information provided to the tax administration.
6. Risks of making decisions.

Based on the above, it can be said that corporate governance can help reduce tax risks by working to reduce regulatory risks, risks of increasing the tax burden, risks of criminal prosecution, risks of tax evasion, risks of misleading information provided to the tax administration and risks of decision-making by providing information that avoids all problems and works to reduce or reduce tax risks.

## **25 The relationship between corporate governance and sustainable development:**

Accordingly, sustainable development is understood as the process that acknowledges the need to achieve economic growth commensurate with the capabilities of the environment, based on the idea that environmental preservation and economic development are intertwined processes. Sustainable development aims to meet present needs without compromising the ability of future generations to meet their needs (Mulyadi & Martin, 2018:57).

In general, sustainable development refers to the process of rationally using natural resources so that their use does not exceed the rates at which they are renewed by nature, particularly in the case of non-renewable resources. This exploitation must be done in a way that prevents the production of waste in amounts that the environment is unable to absorb, transform, or represent. Sustainable development aims to improve human life, but not at the expense of the environment (Pourali, et.al.,2019:3) .

The question that arises here is: Does corporate governance help meet the requirements of sustainable development and how?, and to answer this question, it must be recognized that sustainable development has revealed a major defect in the development strategies and policies applied in economic units, and environmental problems have become a major cause of poverty and inequality, and therefore the issue is not just the existence of environmental problems facing the world as much as it is an issue related to the existing economic, social and cultural conditions, as talking about stopping environmental degradation and reducing attrition Natural resources by exploiting them rationally, so it requires new and appropriate methods and mechanisms, the most important of which is corporate governance (Constantatos, 2018: 6). .

Therefore, corporate governance can help raise the effectiveness and efficiency of planning systems followed in the world's economic units, and regardless of the characteristics of the

business environment, which leads to negative environmental effects and problems of different types and degrees of severity, as corporate governance helps in the rational exploitation of resources depends mainly not only on the distinctive characteristics of the business environment and the surrounding conditions, and in order to achieve sustainable development of corporate governance and mechanisms, it is necessary to take into account a set of things that It can be clarified through the following points: (Abadi, 2007: 98)

1. The current economic situation.
2. The prevailing technological level.
3. Structure and organization of society.
4. Prevailing values, customs and traditions.
5. Intellectual energy in society.
6. The political environment.

### **The third topic: the applied side of the research**

#### **31 Study population, sample, and statistical techniques applied:**

The study population comprises administrative personnel, accountants, auditors, financial analysts, and tax appraisers employed by the Iraqi General Tax Authority. Either way, a sample of these professionals was chosen for the research, as fifty questionnaires were distributed and collected. The questions on the questionnaire were created with the intention of converting responses into numerical values within the range of (1) to (5) on a five-point Likert scale. The Cronbach Alpha Test was also used to confirm the tool's apparent validity and internal consistency, If a set of statistical techniques indicated by the arithmetic mean was employed, and the value of the Krombach alpha coefficient for the study variables (0.824) indicates that there is a high degree of credibility in the responses of the sample members. (Arithmetic Mean) assigned to percentages, standard deviation, and the maximum value on the Likert five-point scale; also, one sample T-test is used. To demonstrate that there is a meaningful relationship between the study's variables and that chance plays no role in them.

#### **32 The outcomes of distributing the questionnaire and examining the research sample's members' demographic data:**

A total of fifty questionnaires were distributed to the research sample members; all fifty questionnaires were recovered, meaning that 100% of the forms were retrieved. It is evident that thirty percent of the sample members are between the ages of thirty and forty, and sixty percent of them are between the ages of forty and fifty. The remaining members are either older than fifty, or they are males (75%), females (25%), or neither. The proportion of individuals with a bachelor's degree (85%), master's degree (10%), and doctorate degree (5%), indicating their level of subject matter understanding. Regarding the years of experience of the research sample, the group with more than fifteen years of experience had the largest percentage at 70%.

### 33 Testing research hypotheses and analyzing the results:

During this paragraph, the research hypotheses will be tested and the results related to the relationship between corporate governance and both tax risks and sustainable development will be analyzed, as shown below:

**First: The results of the first hypothesis test:** This hypothesis states the following: The first research hypothesis (Corporate governance reduces tax risks) was tested by extracting the arithmetic averages and standard deviations for each of the paragraphs or variables, as indicated in the following table:

Table (1) The search sample's responses' arithmetic averages and standard deviations for the first hypothesis's paragraphs

No.	Paragraphs	Arithmetic mean	Standard deviation
1	Corporate governance can reduce regulatory risks by improving and developing the work of regulatory bodies and working to provide the best services in a manner consistent with the objectives of the economic unit.	4.346	0.586
2	Corporate governance helps reduce the risk of increasing the tax burden by following a rational method of calculating tax and the method of collecting it from taxpayers	3.645	0.415
3	Corporate governance works to reduce the risk of criminal prosecution by working on disciplined strategies and procedures that are consistent with the laws and instructions in force.	3.677	0.458
4	Corporate governance can reduce the risk of tax evasion by narrowing the scope for taxpayers who do not comply with applicable tax laws and instructions	4.812	0.571
5	Corporate governance helps reduce the risk of misleading information provided to the tax administration by improving the effectiveness and efficiency of management and accounting information systems	4.417	0.634
6	Corporate governance reduces the risk of decision-making by providing appropriate, accurate and detailed information to management in a timely manner.	4.287	0.598
Overall average		4.197	0.544

Source: Prepared by the researcher

The above table clearly shows that the paragraph that states that "Corporate governance can reduce control risks by improving and developing the work of regulatory bodies and working to provide the best services in a manner consistent with the objectives of the economic unit" has an arithmetic mean of 4.346 and a standard deviation of 0.586. Alternatively, the paragraph that states "Corporate governance helps reduce the risk of increasing the tax burden by following a rational method in calculating tax and the method of collecting it from taxpayers] has an arithmetic mean of 3.645 and a standard deviation of 0.415, While the following paragraphs have arithmetic means of 3.677 and 0.458, respectively, regarding the risk of criminal prosecution (Corporate Governance works to reduce the risk of criminal prosecution by working on disciplined strategies and procedures consistent with the laws and instructions in force) and tax evasion (Corporate Governance can reduce the risk of tax evasion by narrowing the scope to taxpayers who do not comply with applicable tax laws and

instructions).a) acquired a standard deviation of 0.571 and an arithmetic mean of 4.812, Lastly, the general mean of all the variables for the first hypothesis was (4.197) with a standard deviation of (0.544). The paragraph that discussed how corporate governance helps reduce the risk of misleading information provided to the tax administration by improving the effectiveness and efficiency of management and accounting information systems obtained an arithmetic mean (4.417) and a standard deviation (0.634). The paragraph that discussed how corporate governance works to reduce the risk of decision-making by providing appropriate, accurate, and detailed information to management in a timely manner received an arithmetic mean (4.287) and a standard deviation (0.598). The T test was applied to one sample in order to evaluate this hypothesis, and the outcomes are displayed in Table (2).

Table (2) The findings of the search sample's responses for the first hypothesis's paragraphs using the (One Sample T-test)

Average Arithmetic	Deviation Normative	T value Calculated	degree Freedom	level Significance	Difference in Arithmetic mean	95% confidence interval for teams In the arithmetic mean	
						Lower	Upper
4.197	0.544	5.266	49	0.000	1.287	1.228	1.346

**Source:** Prepared by the researcher.

Based on the computed value of (T) (5.266), which is a statistically significant value at the significance level ( $\alpha < 0.001$ ), it is evident from the above table that there is statistical significance between the variables of the first hypothesis, and this indicates the acceptance of this hypothesis and indicates corporate governance helps reduce tax risks by reducing regulatory risks through Improving and developing the work of regulatory bodies and working to provide the best services in a manner consistent with the objectives of the economic unit and reducing the risks of increasing the tax burden by following a rational method in calculating the tax and the method of collecting it from taxpayers, reducing the risks of criminal prosecution by working on disciplined strategies and procedures consistent with the laws and instructions in force, and reducing the risks of tax evasion through Narrowing the scope for taxpayers who are not compliant with the applicable tax laws and instructions, and reducing the risks of misleading information provided to the tax administration by improving the effectiveness and efficiency of management and accounting information systems and working to provide the best processing of data in order to convert it into information that is more appropriate for users, as well as reducing the risks of decision-making by providing appropriate, accurate and detailed information to the administration in a timely manner.

**Second: The results of the second hypothesis test:** This hypothesis states the following: (Corporate governance helps in achieving sustainable development in a manner consistent with the requirements of the modern business environment), and the arithmetic averages and standard deviations have been extracted, as shown in the following table:

Table (3) The search sample's responses' arithmetic averages and standard deviations for the second hypothesis' paragraphs

No.	Paragraphs	Arithmetic mean	Standard deviation
7	Corporate governance helps achieve human development through work human resources development, training and qualifying them in line with the requirements of the modern business environment	4.218	0.525
8	Corporate governance helps in achieving economic development by working to make the best use of available resources and raise the value of the economic unit to the highest possible	3.887	0.413
9	Social welfare can be achieved by providing the best services to the community and working to provide suitable job opportunities as well as meeting various other social requirements	4.116	0.554
10	Corporate governance works to achieve the environmental dimension and meet its requirements by making the best use of available resources without depleting the share of future generations while preserving the environment	3.529	0.438
11	Corporate governance and internal and external mechanisms are consistent with the requirements of the political environment, as well as the absence of any conflict with the applicable legal instructions and texts	4.644	0.548
12	Corporate governance is consistent with technological developments and the development of information and communication systems and work on the best use of them in order to achieve the requirements of sustainable development.	4.326	0.603
Overall average		4.120	0.514

Source: Prepared by the researcher.

The arithmetic mean (4.218) and standard deviation (0.525) of the paragraph "Corporate governance helps in achieving economic development by working to exploit the available resources best and raise the value of the economic unit to the highest possible" and the paragraph "Corporate governance helps in achieving human development through work developing, training, and qualifying human resources in a manner commensurate with the requirements of the modern business environment" respectively are clearly visible in the above table. It arrived at a standard deviation of 0.413 and an arithmetic mean of 3.887, The paragraph that discusses social welfare can be achieved by offering the best services to society, creating job opportunities that are suitable, and meeting other social requirements. On the other hand, the paragraph that discusses corporate governance's efforts to achieve the environmental dimension and meet its requirements by conserving resources without compromising the share that future generations will have in environmental conservation has an arithmetic mean of 3.529 and a standard deviation of 0.438, Additionally, the paragraph

that discusses how corporate governance and internal and external mechanisms are compliant with political environment requirements and do not conflict with existing legal texts or instructions has an arithmetic mean of 4.644 and a standard deviation of 0.548; the paragraph that discusses how corporate governance is compliant with technological advancements and the development of information and communication systems and works to maximize their use in order to meet Sustainable Development Requirements has an arithmetic mean of 4.326 and a standard deviation of 0.603; finally, the general mean of all variables of the second hypothesis was (4.120) with a standard deviation of 0.514. In order to verify that the association between these variables is actual and does not revert to chance, the T test was used to one sample in order to test this hypothesis. Table (4) shows this.

Table (4) The results of (One Sample T-test) for the answers of the search sample for the paragraphs of the second hypothesis

Average Arithmetic	Deviation Normative	T value Calculated	degree Freedom	level Significance	Difference in Arithmetic mean	95% confidence interval for teams In the arithmetic mean	
						Lower	Upper
4.120	0.5135	4.762	49	0.000	1.110	1.004	1.216

Source: Prepared by the researcher.

It is clear from the above table that there is statistical significance between the variables of the first hypothesis based on the computed value of (T) (4.762), which is statistically significant at the significance level ( $\alpha < 0.001$ ). This shows that the theory is correct and that, by focusing on the development of human resources, corporate governance may support sustainable development in a way that satisfies the requirements of the contemporary business environment, train them, and qualify them in accordance with those requirements, and helping to achieve economic development by working to exploit the available resources best and raise the value of the economic unit to the highest possible, and social welfare can be achieved by providing the best services to the community and Work to provide suitable job opportunities as well as meet various other social requirements, as corporate governance works to achieve the environmental dimension and meet its requirements by exploiting the available resources best without depleting the share of future generations while preserving the environment, as corporate governance and its internal and external mechanisms are consistent with the requirements of the political environment, corporate governance is compatible with technological advancements and the development of information and communication systems, as well as the lack of any conflicts with the regulations and laws currently in effect. It also works to maximize their use in order to meet the needs of sustainable development.

#### Fourth Theme: Conclusions and Recommendations

##### 41 Conclusions:

The conclusions of the theoretical side of the research can be shown through the following:

1. Company governance is a system and a set of mechanisms that seek to achieve long-term goals that satisfy shareholders and other stakeholders.
2. The mechanisms of corporate governance must cover the interests of the company's management and shareholders, and therefore the mechanisms of corporate governance are divided into internal and external mechanisms.
3. The manipulation of financial reports has many risks to the economic unit and stakeholders, and also affects the public and its confidence in this unit.
4. The good application of corporate governance needs to continue with good and continuous follow-up of the application process and work to provide solutions to existing problems and address them.
5. Corporate governance helps reduce tax risks and achieve sustainable development in line with the requirements of the modern business environment.

#### **42 Recommendations:**

The recommendations of this research can be clarified through the following:

1. Applying corporate governance as one of the ways that lead to improving financial performance, which would make economic units strive through their managers to achieve profits.
2. The need to describe corporate governance as a process of change, taking into account the establishment of financial advisory offices, and offices of financial analysts who review and analyze the reality and prospects of economic units and market conditions.
3. Maintaining the independence of the financial market by ensuring that its decisions are not influenced contributes to enhancing confidence in it and thus providing information in a fair and equal manner for all, as well as working to exert more efforts, follow-up and developments related to the application of corporate governance in order to develop awareness and the investment role in society.
4. Work to find a unified indicator to measure the application of corporate governance in similar sectors, taking into account when applying the principles of corporate governance the impact of environmental variables that are witnessing rapid and continuous changes in all environmental aspects.
5. Raising the level of disclosure and transparency in financial statements and reports because it is one of the most principles of corporate governance that has an impact on financial performance, which investors aim to maximize.

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