

## CHAPTER 5

### DISCUSSION, IMPLICATIONS AND CONCLUSIONS

#### 5.1 Introduction

This research has managed to explore a number of important issues with regard to the performance efficiency of tax auditors in the context of RMCD. Through a thorough examination of previous research, it has been found that there are several research works that have attempted to examine on the effectiveness of tax audit and efficiency of internal and financial audit, and a study on the performance of tax auditors in IRBM which is the main tax authority in Malaysia.

In this regard, the main objective of this research has been to fill this gap and help identify the main determinants that contribute to the performance efficiency of tax auditors of RMCD which is one of the tax authorities in Malaysia. In doing so, this chapter would suggest recommendations to the current practice in RMCD that would efficiently improve the performance of tax auditors in RMCD.

#### 5.2 Recapitulation of Study

From the outset, this research aims at examining the factors that influence the performance efficiency of tax auditors in RMCD and the factors include the tax auditors themselves, the auditees, and the management of the tax authority. Three broad research questions are posed below:

RQ1: What are the factors influencing tax auditors' characteristics that affect the performance efficiency of tax audit?

RQ2: What are the factors of the auditees' attributes that affect the performance efficiency of tax audit in RMCD?

RQ3: What are the factors of the organizational management of RMCD that affect the performance efficiency of tax audit by tax audit?

The first part of the research has identified several previous findings that contribute to the performance efficiency of employees in general or in the context of auditing. However, no similar research has been carried out to examine the tie-up from the perspective of tax auditors in RMCD. As such, the intention of this research is to enhance the study on the performance efficiency of employees, specifically on tax auditors of RMCD.

This study employs a structured survey questionnaire in the data collection and the sample population was the tax auditors in RMCD. SPSS is used to test the developed hypotheses using the data collected. The discussion of findings of this study will be elaborated in section 5.3.

### **5.3 Discussion of Findings**

The aim of this study is to identify and examine the determinants affecting the performance efficiency of tax audit by tax auditors in RMCD. The determinants are categorized or grouped in three independent variables which are the characteristics of tax auditors, the attributes of auditees, and the organizational management of tax authority. The determinants of this study are the dimensions of the independent variables. Hypotheses are developed based on the relationships between the independent variables and dimensions of the dependent variable. In short, this can refer to the theoretical framework in Figure 2.1.

This section discusses the finding of the accepted (significant) hypotheses in this study. The hypotheses are significant when the p-value is below 0.05 ( $<0.05$ ) and t stat is above 2.0 ( $>2.0$ ). Only two independent variables have a significant relationship with the dependent variable where one dimension for each significant independent variable is significant.

### **5.3.1 Summary of Findings**

This study indicates three main objectives and 14 hypotheses related to the factors affecting the performance efficiency of RMCD's tax auditors in tax audit. The summary of findings based on the research objectives of this study is shown in Table 5.1. Attributes of auditees are not significant to the performance efficiency of the RMCD's tax auditors. Characteristics of tax auditors and organizational management of tax authority are significant to this study where the organizational management of tax authority has the strongest influencing factor based on the highest coefficient value in the multiple regression analysis. The results can be viewed in Table 4.11.

**Table 5.1:** Summary of Findings based on Research Objectives

No.	Research Objectives	Outcome
1	To find out the factors of tax auditors' characteristics that affect the performance efficiency of tax audit by tax auditors in the RMCD.	Attitudes of tax auditors (Based on hypotheses H1 and H1c)
2	To discover factors of auditees' attributes that affect the performance efficiency of tax audit by tax auditors in the RMCD.	None, since the attributes of auditee do not have any significant relationship with the efficiency performance of RMCD's tax auditors in tax audit (Based on hypotheses of H2)
3	To determine factors of the organizational management of tax authority (RMCD) that affect the performance efficiency of tax audit by tax auditors in the RMCD.	Audit resources provided to tax auditors (Based on hypotheses H3 and H3c)

However, this study generates a different result from a similar study by Nadiah et al. (2017) on the performance IRMB tax auditors. The study reports that the respondents agree on the good performance of tax auditors in IRMB based on the mean values in the descriptive statistics analysis. This contradicts this study which illustrates that most of the respondents disagree with the performance efficiency of tax auditors in RMCD and the statements in the questionnaire.

The results of Nadiah et al., (2017) study show that the knowledge and skills affect the performance of the tax auditors in IRBM, whereas the results of this study confirm that the attitude of tax auditors and the provision of audit resources by the management of tax authority contribute to the significant relationships on the performance efficiency of RMCD's tax auditors in tax audit. The following sections will discuss the significant factors in this study.

### **5.3.2 Relationship of Characteristics of Tax Auditor on Performance Efficiency of Tax Auditor**

According to the analysis result in Chapter 4, there is a significant relationship between the characteristics of tax auditors and performance efficiency of tax auditor. This is supported by the p-value of 0.0007 (must be below 0.05) and t Stat of 3.4641 (must be above 2.0). This relationship has a positive connection which means that when the characteristics of tax auditors improve, their performance efficiency will also improve. The positive relationship is determined by the value of coefficient (r) which is 0.2999.

This shows that the tax auditors themselves play an important role on their performance efficiency. If the tax auditors are determined to complete their audit tasks as per target set by management (RMCD) or in a shorter period of time, then it can be said that they can accomplish the target and complete the audit tasks efficiently.

Based on the literature and observations, there are three determinants (dimensions) under the characteristics of tax auditor that would impact their performance efficiency which are their knowledge and skills, communication ability, and attitudes. From the result of analysis, knowledge and skills as well as communication ability of the tax auditors in RMCD are not significant to their performance efficiency. These results are opposed to the similar study of Nadiah et al., (2017) where the result shows that knowledge and skills of tax auditors in IRMB have a significant effect on their performance.

#### **5.3.2.1 Relationship of Attitude of Auditor on Performance Efficiency of Tax Auditor**

As knowledge and skills and communication ability of tax auditors are not significant to their performance efficiency in performing tax audit, the only factor

(dimension) under the characteristics of tax auditors that has a significant effect is the attitude of the tax auditors based on the respondents' (tax auditors of RMCD's) answers. The elements of attitude include motivation, commitment, and professional ethics of the tax auditors.

This relationship has a significant effect based on the p-value of 0.0341 and t Stat of 2.1354. The effect is positive based on the positive value of coefficient (r) which is 0.2010 meaning that when the attitudes of tax auditors are well developed, then, their performance efficiency will increase. Auditor's attitude has the most effect compared with other dimensions in the characteristics of tax auditor towards their performance efficiency based on the highest coefficient (r) value compared to the other two dimensions. This is in line with the explanation from previous studies of Baotham & Ussahawanitchakit (2009) and Hadisantoso et al., (2017) which describes the attitude of auditor as a factor for his performance in auditing.

Thus, regardless on whether the tax auditors have limited knowledge and skills or poor communication ability, as long as they have the good and right attitudes which would reflect their motivation, commitment, and high professional ethics, they can perform their audit tasks efficiently.

### **5.3.3 Relationship of Organizational Management of Tax Authority on Performance Efficiency of Tax Auditor**

Since the second independent variable (attributes of auditees) is not significant in this study, the discussion jumps to the third independent variable which was tested to be significant to this study. The organizational management of tax authority is confirmed to have a significant relationship on the performance efficiency of tax

auditors based on the responses by the sample of tax auditors in RMCD. The p-value of 0.00003 and t Stat of 4.3120 verified the significant relationship.

Furthermore, the relationship has a positive effect as the value of coefficient ( $r$ ) is positive which is 0.3717. This means that the relationship between the organizational management of tax authority and the performance efficiency of tax auditors is parallel in nature whereby if the organizational management of tax authority enhances, the performance efficiency of tax auditors would increase.

It reflects the importance of organizational management of the tax authority towards the performance of the tax auditors. This covers the policy and procedures, support and encouragement, and facilities provided for the employees to perform their tasks.

This study came up with three factors (dimensions) under the organizational management of tax authority that would influence the performance efficiency of tax auditors which are non-audit tasks assigned for the tax auditors, management support and encouragement, and the provision of audit resources to tax auditors. However, the analysis shows that the non-audit tasks and management support and encouragement do not have any significant relationship towards the tax auditors' performance efficiency.

#### **5.3.3.1 Relationship of Audit Resources on The Performance Efficiency of Tax Auditor**

Audit resources provided by management is the only factor (dimension) under independent variable of organizational management of tax authority that has a significant relationship with the performance efficiency of tax auditors. This is based on the analysis from respondents' answers in the questionnaires distributed. The

elements of the audit resources include the reference materials provided on tax legislation (such as acts, regulations, etc.) and audit manuals (such as audit guidelines, Standard Operating Procedures, etc.), transportation and driving assistance to go for audit visits, and also an organized and user- friendly tax information system.

This relationship is proven to be significant based on the p-value of 0.0001 and t Stat of 3.9583. The positive value of coefficient (r) of 0.3281 represents the positive effect of the relationship. It also represents the strongest influencing factor for the performance efficiency of tax audit by the RMCD's tax auditors based on the highest (r) value generated in the regression analysis. The performance efficiency of tax auditors is increased when sufficient or detailed audit resources are provided by the management of tax authority. This is consistent with the descriptions in the previous research such as Bright et al. (1988) and Hassanain (2006) which designate the resources and facilities provided to employees that lead to performance efficiency.

Regardless of the policies, practices, strategies, and procedures used by the management when giving out extra non-audit tasks or in terms of how much is the encouragement or supports from management to tax auditors, this study shows that the performance of tax auditors only depends on the facility provided by the management of the tax authority such as audit resources for them. The justification might be because the audit resources serve as hands-on facilities and sources of convenience to the tax auditors as to what they need directly in order to perform their tasks efficiently. When tax auditors have sufficient facilities, they can just perform more efficiently.

## **5.4 Implications of Findings / Recommendations**

### **5.4.1 Theoretical Implications**

As mentioned in Chapter 2, this study is underpinned by the Policeman Theory, and Theory of Economic Regulations. Based on the results of this study, it can be sure that both theories impacted the discussion in this study. The attitude is one of the characteristics of tax auditor as reflected by the Policeman Theory where tax auditors' concerns are on the accuracy of tax audit as well as on the prevention and detection of fraud (Salehi, 2010).

The provision of audit resources to tax auditors by the management of tax authority is reflected by the Theory of Economic Regulations as described by Chalu & Mzee (2018). This is described by the efficiency of tax audit influenced by the regulatory factor.

### **5.4.2 Practical Implications**

From the descriptive statistics of performance efficiency of RMCD's tax auditors, the mean value shows that the respondents disagree that tax auditors are efficient. In addition, this study suggests that attitude which is one of the characteristics of tax auditor and audit resources provided by the management of tax authority has a significant relationship with the performance efficiency of tax auditors in RMCD. Based on the outcome, it is suggested that the RMCD pay more attention to the important factors that lead to the performance efficiency of their tax auditors.

The first determinants are the characteristic of the tax auditors themselves which is their attitude. To enhance the tax auditors' attitude, the management of RMCD can focus more on providing motivational talks and training from time to time to increase their motivation and commitment throughout their career. It is common for employees

who are performing daily routine for a long period of time to feel demotivated and less committed to perform better.

The second determinants to the focus by management of RMCD is the audit resources provided to the tax auditors. The availability of audit resources should always be ready for tax auditors. The most essential and required audit resources to perform tax audit include the reference materials such as the tax regulations, transportation and driving assistance, and an accessible tax information system.

The tax regulations may have changes from time to time depending on the cases, Ministry decisions and orders, etc. The changes might not be realised by all of the tax auditors in RMCD across Malaysia (state level). Thus, RMCD should take into consideration the effective mode of information delivery to the tax auditors on the changes as reference materials for tax auditors to perform tax audit.

Another audit resource to take into consideration is the sufficient transportations and driving assistance provided for tax auditors. Tax auditors often go out to field audits and physical inspection to a lot of premises of the auditees. Thus, the time and energy consumed are crucial where this would affect the performance efficiency of the tax auditors.

Additionally, accessible tax information system also serves as the crucial audit resources for tax auditors to perform tax audit. The system helps tax auditors to gather information as much as possible and faster about the tax and payment history of auditees and other pieces of information. Hence, a convenient system can help and increase the performance of tax auditors in tax auditing.

Effective tax risk management is crucial in modern customs operations and makes it possible to achieve an appropriate balance between business facilitation and regulatory control. A clear understanding of tax auditors' characteristics and the

organizational management of the tax authority would provide mitigating those risks from this research. The finding could help RMCD optimize its resources, whether in the physical inspection or selectivity programs in its auditing routine.

## **5.5 Tax Risk Management**

Tax risk management plays a vital role in the audit task. If tax risk management is implemented, the audit officer's efficiency can be increased, and business costs can be reduced. Audit officers will not waste time and energy to examine low-risk auditees and businesses can reduce the cost of penalties and fines for tax non-compliance. Tax risk needs to be given serious attention by all parties due to the numerous accounting transactions errors during the auditing.

Tax risk definition is the uncertainty about future tax outcomes generated by current actions or activities, or the failure to take actions or pursue activities (Neuman et al., 2020). Tax risk can be concluded as possibility and uncertainty of tax erosion that may emerge because of the taxpayer, social-economic environment, tax policy, tax regulation, and tax administration, thus leading to the deviation between the actual result and ideal result (Duan & Pan, 2018). For tax cases, payable taxes and fines can cause cash flow, focus on business, and hinder efforts to make a profit. Therefore, all parties need to play an essential role in this issue. Among the items related to tax risk are tax audits, lack of disclosure related to taxation, insufficient documents, or tax legislation compliance. Methods need to be taken to manage tax risk. Among the proactive methods are;

1. Increase knowledge of taxation

Companies need to take the initiative to increase their knowledge related to tax law, such as attending tax courses or seminars. On-going attention to staff development, not just in their knowledge of the law but in their understanding of taxpayer behavior, their understanding of running a business, and the issues faced by business people such as cash flow management, cannot be overemphasized. There must be confidence that staff have the necessary compliance capabilities to permit them to identify non-compliance where it occurs. (OECD, 2004).

2. Strict law enforcement

Strict law enforcement against tax non-compliance will result in more compliant businesses. The imposition of penalties and high fines on businesses that hide their income hoping that the tax authorities cannot detect it shows that the existing system can detect the non-compliance. Therefore, it will increase the costs and penalties and fines will be imposed. Alm & Shimshack, (2014) mentioned that enforcement actions generate significant deterrence effects. Credible enforcement means that the taxpayer will be in a worse position after the enforcement action than they would have been if they had complied in the first instance. (OECD, 2004)

3. Tax risk management framework

Taxpayers need to develop a more comprehensive tax management framework to avoid more significant losses due to the non-compliance with tax laws. Keeping business records is also very important for future company reference. It will facilitate matters if the document is required for audit purposes. The management should get involved in tax risk management. Čokelc & Oplotnik (2013) stated that the board has

an important obligation to participate in tax-risk management to create the right balance between risk and opportunity in the firm. Therefore, tax represents an essential component of the risk management system and internal controls.

## **5.6 Limitations of Study**

There were a number of identified limitations in this research. Firstly, this study made an assumption that the performance efficiency of tax auditors is based on whether they can hit their target set by the management of tax authority office (RMCD) or they can finish specific audit tasks on time given regardless of the quality of the audit performed. Hence, the study stresses on achieving the target (quantity) within the time frame and ignoring the quality aspect of the tax audit.

The second limitation is that the data on the performance efficiency of tax auditors is based on the perceptions of respondents (tax auditors) not the actual (previous) data. Thirdly, there is a difficulty in obtaining data from all state level officers due to the constraints in functions as well as geography. Therefore, the percentage of respondents from RMCD states varies from one another.

Lastly, this study focuses only on one tax authority in Malaysia which is RMCD which administers and collects indirect taxes in Malaysia. It may not reflect the same results for the whole tax officers and other tax authorities. For example, the study on the performance of tax auditors in other tax authority offices such as Inland Revenue Board Malaysia (IRBM) who administer and collect direct taxes in Malaysia generated different result from this study due to different factors (Nadiyah et al., 2017).

## **5.7 Suggestions for Future Research**

Since this study is based on the perception of tax auditors as respondents on the overall and general performance efficiency of tax auditors in RMCD, future research can carry out the performance using the real data (secondary data) on the performance of the tax auditors. For example, the number of audit cases completed in specific amount of time can be investigated. Since the time is limited to complete such study with the kind of data, the data for this study are based on the primary data which is the response and perception of the respondents.

Secondly, future research could focus on one significant independent variable in this study and identify, elaborate, and test more factors that are associated with the performance efficiency of tax auditors in RMCD to perform tax audit. For example, one study should be carried out only to focus on the characteristics of tax auditors in depth and another study can pay attention to the organizational management of tax authority

## **5.8 Conclusions**

This chapter has comprehensively discussed the finding of the study. This chapter also reviews on the implications of this study theoretically and practically, the limitation faced and offers feasible suggestions future research.

As a conclusion, the performance efficiency of tax audit by tax auditor in RMCD cannot be measured by a single measure and cannot be on one aspect only. However, it requires numerous indicators to combine all inputs and factors to establish the results and outcomes.

In a nutshell, this study has examined the influences of characteristics of tax auditors, attributes of auditees, and organizational management of tax authority on the performance efficiency of tax audit by tax auditors in RMCD. This study revealed that the attitude of tax auditors which includes their motivation and commitment (characteristics of tax auditor) and audit resources (provided by the management of tax authority) have significant relationships with positive influences with the performance efficiency of tax audit by tax auditors in RMCD.

As auditing requires excellent human resources (tax auditors), it is crucial for RMCD as tax authority to invest and create the potential in the tax auditors. Therefore, it is important for RMCD to give serious attention and focus on the factors and improve them which would help organization's tax auditors achieve performance efficiency and effectiveness in the tax audit.