CHAPTER 2

LITERATURE REVIEW

2.1 Introduction

This chapter discusses the factors that will contribute to the efficiency of the tax audit performed by tax auditors. The factors that are categorized by the characteristics of tax auditors, attributes of auditees, and organizational management of tax authority and these will be elaborated. Furthermore, this chapter will develop the hypotheses based on the relationships discussed. The relationships will be summarized in the theoretical framework.

2.2 Efficiency in Performing Tax Audit

Work efficiency has been an important study in the past years until now. Efficiency is defined as doing something which take the least amount of time, money, or effort. Work efficiency is vital in tax audit because tax audit is performed by tax authority officers who are government officers, and their ratio to the number of taxpayers and businesses to be audited is lesser (Goldsmith, 2012).

According to Niu (2011), an audit has a positive influence on the compliance of a firm. Since there are a lot of registrants (taxpayers and businesses) under the RMCD, the tax auditors of the RMCD have to be competent in performing tax audit to improve the level of compliance of the registrants. In addition, audit performance can create the reputation of an auditor such as him being reputedly known for effectively preparing reports on time (Nadiah et al., 2017).

There are several factors which could affect the performance efficiency of employees. One of the factors is in the workplace of tax auditors as discussed by Agarwal & Sharma (2010). This means that the organizational management in the workplace plays an important role towards the performance efficiency of employees. Apart from the workplace as a factor contributing towards the performance efficiency, Kont & Jantson (2013) also explained that employees' attitude and motivation could influence their efficiency as well. This study may reflect the tax auditors in RMCD.

There are many studies about auditees such as Gerrard et al. (1994) and Kikhia (2014) which discussed the size and complexity of auditees whereas Sweeney & Pierce (2011) discussed the cooperation of auditees. Hence, combining the results of various past studies and literatures, this study would summarize three factors that could possibly affect the performance efficiency of tax audit by tax auditors in the RMCD. In this study, those factors are categorized in three aspects which are the characteristics of the tax auditors themselves, the attributes of auditees, and the organizational management of the tax authority.

2.3 Characteristic of Tax Auditors

The characteristics of tax auditors themselves may be considered as one of the factors that may affect the performance efficiency of tax auditors in the RMCD. In the RMCD, tax auditors are the ones responsible in conducting tax audit, thus, their efficiency in performing their roles is significant. There are many characteristics of tax auditors, however, the discussion in this study, will be confined to their knowledge and skills, communication ability, and attitudes.

In Malaysia, based on the RMCD's experience from Customs Blue Ocean Strategy (CBOS) operations, there are non-compliance issues detected during operational auditing such as failure to account for tax on non-trade income and fixed asset disposals and wrong treatment of reimbursement/disbursement (Kumar & Thomas, 2017).

2.3.1 Knowledge and Skills of Tax Auditors

Knowledge and skills are important for every employee in performing their duties. To be successful in employment and work performance, employees have to possess knowledge, skills and attitudes to adapt to the changes in nature of work and the workplace (Stasz, 2001).

To conduct tax audits, tax auditors need to possess the knowledge and understanding on tax laws and regulations and skills of tax auditing. In Isa & Pope (2011) study, it is found that there are more than 30% of tax auditors of the IRBM who have given inconsistent explanations and who have not been compliant to tax regulations. In addition to knowledge, another important factor to be a good auditor is having good soft skills which includes strong analytical thinking, innovative skills and negotiation skills (Nadiah et al., 2017).

2.3.2 Communication Ability

Good communication skills are needed by auditors to perform audit tasks. According to Smith (2005), communication skills include listening, written and oral as well as interpersonal all of which are essential for auditors to help them to effectively perform their responsibilities. Communication ability is vital for tax auditors in carrying out audit tasks to successfully achieve the target to generate revenue and add value to the nation.

According to Smith (2005), communication skills support all aspects of auditing. This is also supported by Kehinde et al. (2016) which mentioned the importance of communication skills of speaking, listening, writing and reading for auditors.

2.3.3 Attitude

The attitude of auditor is specified by tasks acceptance even though the task is a heavy workload, working hard and not expecting praises from the leader, having the desire to proactively develop themselves, and is hands-on in solving problems (Becker, 1960). In other words, the attitude of auditors is how they react to and accept the audit tasks given to them.

Efforts to enhance auditors' attitudes and behaviors in conducting audit are one of the problems faced to improve their role. (Hadisantoso et al., 2017). Furthermore, Davis & Welton (1991) stated that, "improving ethical behavior of an organization must coincide with improving the ethical behavior of its employees.".

An auditor should possess the right attitude in providing efficient and effective professional services regardless of the challenges faced. Thus, in this study, attitudes of tax auditors are illustrated by their motivation and commitment in completing audit tasks, as well as their professional ethics as shown by their ethical behaviours.

2.4 Attributes of Auditees

The performance efficiency of tax audit performed by tax auditors is not only affected by the characteristics of the tax auditors themselves but can also be affected by the auditees. The attributes of auditees that can play a part in the performance efficiency of the tax audit by tax auditors in RMCD include the size of the business, complexity of the business, distance of the premises from RMCD's offices, cooperation from the auditees, and record keeping of the business.

2.4.1 Size of Business

According to Kikhia (2014), "company size can be measured by balance sheet items, which give certain dimensions of size, such as, total assets, stocks, debtors, creditors, etc." Kikhia (2014) added that profit and loss account items can also measure the size of business, for example, turnover, profit, and employment cost.

Moreover, according to Gerrard et al. (1994), there are various possible different measure of size. It is also mentioned that the variables used to test the size of businesses are operations revenue, profit, funds from operations, total assets, fixed assets, current assets, inventories, accounts receivables, securities and investments, accounts payables, current liabilities, also long-term liabilities.

2.4.2 Complexity of Business

Similar to the size of business, the complexity of a business can be measured in several ways. It is usually measured by the number of domestic and foreign subsidiaries, the number of states in a country where the company operates, and the number of foreign countries in which the company operates (Gerrard et al., 1994).

According to Kikhia (2014) from his past studies of literature, he found out that there are several measures of complexity which are physical complexity, legal complexity, and reporting complexity. Physical complexity is measured by the number and location of the operating units, and the diversification of product lines. Legal complexity is measured by the number of the company's subsidiaries and affiliates, and the number of countries in which the company operates. Reporting complexity is measured by the number of separate audit reports issued annually for the company such as combining financial statements and separate reports on subsidiaries and affiliates.

2.4.3 Distance of The Premise from The Tax Authority's Office

Geographical proximity is a matter of distance (Sarkar, 2016). In other words, geographical proximity refers to the number of meters or kilometres that separate two entities, be it individuals or organizations. Sarkar (2016) further elaborated that the distance is related to the physical characteristics, for instance, the travelling on a flat road, and climbing a mountain, and related to the transport availability which considered the costs of travelling and the income and time taken on transport.

2.4.4 Cooperation from Auditees

Cooperation from auditee is important because auditor needs the auditee to provide necessary and related information to conduct the audit (Herda & Lavelle, 2013). It also includes the accessibility to the relevant documents and to reach the auditee's person-in-charge.

Most of the Certified Public Accountant (CPA) services depend on the client's cooperation in providing true and accurate representations and information (Gartland, 2015). In addition, auditor and auditee need to have a cooperative relationship, due to the necessity to interact, and the auditor reliance on the provided information by auditees (Fontaine & Pilotti, 2016). This shows how important the cooperation between an auditee and the auditor in completing audit tasks.

2.4.5 Record Keeping of Business

As previously mentioned, the cooperation from auditee includes providing relevant documents to the auditor. Thus, such relevant documents include good record keeping by the auditees. Record keeping of business management includes how to identify, classify, store and protect, receive and transmit, retain and dispose records for the purpose of preparing the financial statements (Abdul-Rahamon & Adejare, 2014). The record keeping of the documents should be easy to obtain and accessible to the auditor. A well-organized record keeping system by an auditee will be helpful for the auditor to conduct audit. Some businesses keeps the records and documentation traditionally (hardcopy) and some have even adopted the electronic approach (softcopy).

Nowadays, e-commerce, electronic data interchange (EDI), and the internet have changed business practices and record keeping where business transactions are conducted in the electronic form. Record keeping in this technological advancement helps produce quick information, as well as reduce and eliminate the time, space and other constraints to obtain information (Rezaee et al., 2002).

2.5 Organizational Management of Tax Authority

The organizational management comprises the policies, practices, strategies, and procedures used by a management. This covers how the management of a tax authority distributes tasks to their tax auditors which sometimes also include the assignment of non-audit tasks. A management's support and encouragement along with the provision of audit resources can facilitate tax audit tasks and also play a significant role for tax auditors to perform efficiently. The following will discuss on the factors under the organizational management of the tax authority.

2.5.1 Non-Audit Tasks

There are circumstances where employees are assigned to take extra tasks or assist in areas outside their traditional roles (Ahmad &Taylor, 2009). There is an example of a study, where respondents who are physical education (PE) teachers in schools felt the difficulty to teach with the extra tasks and other duties such as making posters for schools' teams, doing room supervision during lunch, and others (McCaughtry, 2004). Tax auditors are of no exception.

Apart from audit tasks which are their main duties and responsibilities, tax auditors are also assigned with non-audit tasks which can be described as unrelated, out-of-scope, other duties, or not-in-job-description. In RMCD, these non-audit tasks are usually meant to the assist management or administration.

2.5.2 Management Support and Encouragement

The management is defined as the persons who have the managerial responsibility to conduct the operations of the entity (Kehinde et al., 2016). In this study, the management is referred to the management of tax authority which is the Royal Malaysian Customs Department (RMCD).

Management support includes the encouragement, motivation, and backing provided by the management to auditors through educational and training program, financial incentives such as bonuses, adequate finance, and recommendations on audit reports (Abu-Azza, 2012). This study will look into the perception of the tax auditors on the RMCD's support and encouragement towards the performing of tax audit.

2.5.3 Audit Resources

Different audit tasks require different audit resources used by the auditors. The auditors are allocated with audit resources differently for each case where each case may have different audit costs (Newman et al., 1996). Tax auditors are assigned with various audit tasks that may have differences in the size of auditees, complexity of auditees, distance of premise to go for audit visits, and different levels of cooperation from auditees.

There is a study in which experiments used a model on providing directions on how to allocate limited audit resources properly in audits (Pai et al., 2011). From that study, it can be concluded that each audit task may require a different audit resource. For example, more resources may be required in terms of the transportation and audit assistance to go along with a field audit where auditees' premises are located further. In some cases, tax auditors may require more reference materials on the tax regulations and also an in-depth access to the tax information system to get more detail on the auditees.

2.6 Characteristics of Tax Auditors and Performance Efficiency of Tax Auditors in Tax Audit

The characteristics of tax auditors play a vital role in their performance. In this study, the characteristics include the knowledge and skills possessed, the ability to communicate well, and the attitudes in the sense of feeling motivated and committed and being ethically professional.

These characteristics have been studied by different researchers such as Choong & Lai (2008), Nadiah et al. (2017), Baotham & Ussahawanitchakit (2009), and many more which expressed that there are directly significant relationships between the characteristics of tax auditors and their performance efficiency. Hence, the following hypothesis is developed.

H1: There is a significant relationship between characteristics of tax auditors and performance efficiency of tax auditors.

The detailed description of the relationships of the characteristics of tax auditors such as their knowledge and skills, communication ability, and attitudes with their performance efficiency in tax audit shall be explained in the next sub-sections.

2.6.1 Knowledge and Skills of Tax Auditors and Performance Efficiency of Tax Auditors in Tax Audit

The combination of knowledge and understanding in tax laws and regulations as well as tax auditing skills are needed by tax auditors to perform their tax auditing tasks. In Choong & Lai (2008) study, it is mentioned that knowledge is the main factor which contributes to the long duration taken by the tax auditors to complete audit cases. Moreover, Nadiah et al. (2017) had performed a study towards the tax auditors in the IRBM, and the result shows that there is a positive relationship between knowledge and skills, and the performance of the tax auditors.

Therefore, knowledge and skills of tax auditors are seen to have a significant relationship with the performance efficiency of tax auditors in tax audit. The lack of knowledge and skills possessed by tax auditors will reduce their efficiency to achieve the target of audit tasks that have been set for them. With that, the following hypothesis is developed.

H1a: There is a significant relationship between knowledge and skills of tax auditors and performance efficiency of tax auditors.

2.6.2 Communication Ability of Tax Auditors and Performance Efficiency of Tax Auditors in Tax Audit

One way to gather information in tax auditing is through communication with the auditee. Communication ability is one of the factors that is crucially needed by auditors which would reflect upon the performance of the audit (Nadiah, et al. (2017).

The possibility of miscommunication, difficulty in delivering messages and instructions, getting wrong idea and information, and many other constraints will arise when the auditor is not able to communicate well with the auditee. The study of Choong & Lai (2008) identified that language barrier plays an important part of the performance of tax auditors which may contribute to the long duration of time taken to finalize the audit cases by the tax auditors. Therefore, it is hypothesized that the communication ability of tax auditors has a significant effect on their performance.

H1b: There is a significant relationship between communication ability of tax auditors and performance efficiency of tax auditors.

2.6.3 Attitudes of Tax Auditors and Performance Efficiency of Tax Auditors in Tax Audit

There are several accounting studies that have mentioned the role of auditors. According to Siriwardane et al. (2014), knowledge, skills, and attitude of auditor in a dynamic organizational environment are important. The factors of audit competence include the audit attitude, audit ethics, audit experience, audit changes, as well as the expectations of stakeholders (Hadisantoso et al., 2017).

Another study stated that to shape auditors into becoming professional, elements such as professional ethics, professional value, and attitudes are required (Uachanachit et al., 2012). In addition, there will be a value added to the audit quality if the auditor is independent in his mental attitude (Baotham & Ussahawanitchakit, 2009).

Based on the findings in these previous studies, this research will test if the attitudes of the tax auditors of RMCD will affect their performance. The following hypothesis is proposed based on the above discussion.

H1c: There is a significant relationship between attitudes of tax auditors and performance efficiency of tax auditors.

2.7 Attributes of Auditees and Performance Efficiency of Tax Auditors in Tax Audit

Auditors and auditees are the two main parties involved in an audit. The previous section has discussed that the characteristics of tax auditors may influence their performance efficiency in the tax audit. This section will further discuss that the attributes of auditees may influence the performance efficiency of tax auditors in conducting tax audit. The discussion on auditees includes their business sizes and complexities, the distance of business premises from the tax authority office, cooperation, and record keeping which are believed to affect the performance of tax auditors.

Each of the auditee's attributes has been discussed and touched in different previous studies such as Gerrard et al. (1994), McManus (2006), Meshari (2008), Dong et al. (2017) and Nadiah et al. (2017). These studies have directly and indirectly explained the influences of the attributes of auditees towards the performance efficiency of auditors. Thus, the following hypothesis is developed.

H2: There is a significant relationship between the attributes of auditees and performance efficiency of tax auditors.

2.7.1 Size of Auditees and Performance Efficiency of Tax Auditors in Tax Audit

Auditee size is considered a vital aspect in determining audit fees (Hay et al., 2006). The amount of audit fees for financial audit is mainly determined by the number of hours needed to complete the audit work (Kikhia, 2014).

Additionally, there are several past studies establishing that audit fees are influenced by the size of client such as Goddard & Masters (2000), Hay et al (2008) and Singh et al. (2014). These studies suggested that if the client's size is increased, the audit fee would increase accordingly. The justification is that the auditor must perform more work to confirm adequate compliance and substantive testing as the size of auditee is increased (Gerrard et al., 1994).

Large auditees will have more transactions that would require more attention by auditors where they will have to perform more detailed audit processes and procedures (Meshari, 2008). Generally, the prediction is that the audit process will take longer when the company size is larger. The performance efficiency would directly be affected if longer time is taken to perform the audit process. With the past literature stating that there is a relationship of auditee's size with the time taken to complete the audit, hence, the following hypothesis is developed.

H2a: There is a significant relationship between size of auditees and performance efficiency of tax auditors.

2.7.2 Complexity of Businesses of Auditees and Performance Efficiency of Tax Auditors in Tax Audit

According to Pelham & Neter (1995) there is a prior study that suggests that when the task is less complex, people are more motivated, and they would be less exposed to biases. From that, it is understood that people are more motivated when the complexity of tasks is less which leads to an increase in their performance thus, efficiency can be achieved.

The complexity of business would make the audit tasks more intricate to conduct. There is a result of a study showing that performance drops with an increasing task complexity (Tan et al., 2002). The study also mentioned that the performance of auditors is adversely affected by task complexity.

Moreover, the level of complexity of the auditee will influence the level of audit fee, where if the complexity increases, the audit fee would also increase (Gerrard et al., 1994). There are studies showing that one of the main factors behind the audit fees charged is clients' size and complexity by Hassan & Naser (2013) and Kwon et al., (2014).

The rationale for this is that the auditor must spend more time and effort to plan, coordinate and execute audit functions as the auditee becomes more complex Gerrard et al., (1994). The level of complexity of the business of auditees shows the degree of difficulty in performing audit. This would probably affect the time taken to complete the audit by auditors. From the above discussion, the complexity of business may affect the performance efficiency of tax auditors. Consequently, the following hypothesis is formulated.

H2b: There is a significant relationship between the complexity of auditee business and performance efficiency of tax auditors.

2.7.3 Distance of The Auditees and Performance Efficiency of Tax Auditors in Tax Audit

The offices of RMCD tax auditors are usually located at the main RMCD state offices across Malaysia. Therefore, tax auditors need to go to auditees' premises located all over the state. Thus, no matter how far the geographical distance is to the auditees' premises, the auditors of RMCD have to make the field audit visit. According to Dong et al. (2017) the auditor-auditee's distance or geographic proximity to auditees creates no special advantages associated with audit report delay due to the availability of the technology, the common practice of knowledge sharing within audit firms, and the use of standardized audit programs.

However, another study by Choi et al. (2012) stated that auditors located closer to their auditees are better able to assess the auditees where the geographic distance facilitates information transfer and monitoring. Based on this study, it posits that the distance of the auditees with the tax auditors' offices has a significant relationship with the performance efficiency of tax auditors. The further the distance of the auditees' premises with the tax auditors' offices, the more reduced the performance efficiency of tax auditors in tax audit tasks. The following hypothesis is formulated based on the discussion above.

H2c: There is a significant relationship between the distance of auditees' premises and performance efficiency of tax auditors.

2.7.4 Cooperation from Auditees and Performance Efficiency of Tax Auditors in Tax Audit

It is beneficial for both parties if the cooperation between auditor and auditee exists (Sweeney & Pierce, 2011). Auditor needs auditee's cooperation to obtain information and documents for the purpose of audit. Sweeney & Pierce (2011) further mentioned that audit quality can be enhanced with auditee's good cooperation.

One of the main obstacles faced by tax auditors is the lack of cooperation from taxpayers such as in providing information and documents, therefore, it is very important for the auditors to be competent enough to handle audit cases efficiently (McManus, 2006). Tax auditors need to prepare themselves with ample knowledge and sharp audit skills. It is believed that RMCD tax auditors can be more efficient in performing tax audit with cooperative auditees. Therefore, this study develops the following hypothesis.

H2d: There is a significant relationship between the corporation from auditees and performance efficiency of tax auditors.

2.7.5 Record Keeping of Auditees and Performance Efficiency of Tax Auditors in Tax Audit

If records are kept appropriately, it will facilitate the efficiency in decision making and enhance the performance in the industry (Abdul-Rahamon & Adejare, 2014). Moreover, proper record keeping by business management (auditees) can lead to tax auditors performing tax audit efficiently and within a brief duration of time.

Nadiah et al. (2017) mentioned that audit tasks that are undertaken in an effective manner are when the tax auditors can complete the audit tasks in time and the audited results are accurate with proper documents and sufficient evidences that support and justify the audit findings. Thus, it is important that auditees have a proper way to keep their documents. This is to ease the provision of appropriate supporting documents for auditors so that they can efficiently perform tax audit. With that, this study has developed the following hypothesis.

H2e: There is a significant relationship between the record keeping of auditees and performance efficiency of tax auditors.

2.8 Organizational Management of the Tax Authority and Performance Efficiency of Tax Auditors in Tax Audit

Generally, policies, practices, and strategies of the management may affect employees' performance. As employees, tax auditors are bound with the policies, practices, strategies, procedures and resolutions of the relevant tax authority. The same goes with the RMCD tax auditors. This study will test the management policies and practices of RMCD such as the non-audit tasks assigned (the out-of-scope audit tasks assigned) to tax auditors, the encouragement and support for tax auditors such as rewards, and the audit resources provided to tax auditors to facilitate in the tax audit process.

A number of studies have revealed that the performance of employees may depend on their management. Koch & McGrath (1996) did a research and came to the result that there is a significant effect on labour productivity when organizations utilize more sophisticated selection strategies, human resource planning, and recruitment. It shows that implementation of policies and strategies by the management may affect the employees' performance. For that, the general hypothesis is developed as follows.

H3: There is a significant relationship between the organizational management of tax authority and performance efficiency of tax auditors.

The detailed explanation on the management policies and practices are in the next sub-sections.

2.8.1 Non-Audit Tasks and Performance Efficiency of Tax Auditors in Tax Audit

There are several studies that discussed the provision of non-audit services and tasks to auditors that may affect their objectivity and independence (Joe & Vandervelde, 2007). For processes other than tax audit (e.g financial audit, process audit, etc.), these non-audit services may be the services and tasks that are requested by auditees themselves, such as consultation services, filing management, etc. However, this concept is different from the non-audit tasks assigned to tax auditors in the RMCD as the non-audit tasks do not involve the auditees and they are usually limited to the operations of RMCD. It is rather more on the unrelated or out-of-scope jobs, other duties, or not in the job description assigned for tax auditors.

Performing the tasks not in the job description is one of the factors that could lead to job or occupational stress (Turnage, 1991). Non-audit tasks are considered tasks which are not in the job description of tax auditors which not only lead to job stress but also lead to burnout (Rothmann et al., 2003).

It is known that job stress may affect the performance of the employees and organization. Job stress and job performance have an inverse relationship meaning that job performance is low when the job stress is high. (Kazmi et al., 2008). Based on the above discussion, non-audit tasks assigned to tax auditors might lead to job stress and may affect their performances. Therefore, the following hypothesis is developed.

H3a: There is a significant relationship between non-audit tasks and performance efficiency of tax auditors.

2.8.2 Management's Support and Encouragement and Performance Efficiency of Tax Auditors in Tax Audit

Employees need a good support system from the employer and management to deliver their duties accordingly. Chaiwong (2012) mentioned that one of the critical success factors of internal audit performance is management's policies and encouragement. The major constraint that influences the effective performance of internal audit task is caused by problems such as the lack of management support, insufficient staff, and lack of knowledge and training (Kehinde et al., 2016).

In the aspect of internal audit effectiveness, the effective performance is strongly influenced by management support as deliberated in the results of the studies by Cohen & Sayag (2010) and Alzeban & Gwilliam (2014). Based on the literature mentioned, management's support and encouragement are considered important factors to employees' performance. And for that, the following hypothesis is developed for this study on the management's support and encouragement of RMCD.

H3b: There is a significant relationship between management's support and encouragement of tax authority and performance efficiency of tax auditors.

2.8.3 Audit Resources and Performance Efficiency of Tax Auditors in Tax Audit

Generally, employees expect resources or facilities to be provided by their employer so they can perform their duties. Similar to tax audit tasks, employer (tax authority) which is the government body is expected to provide adequate audit resources to tax auditors to perform the tax audit such as reference materials, transportation and driving assistance, and tax information systems.

Economy cannot grow if there are no adequate resources for infrastructural development and provision of power as well as for public utilities and services (Mebratu, 2016). Similarly, the performance of an organization cannot grow when there are no adequate resources provided for employees to perform their duties. In this case, inadequate audit resources provided by tax authority would disrupt the tax auditor's performance to perform efficiently and effectively.

Moreover, there is a study indicating that tax administration can be more efficient by using government resources (Bright et al., 1988). Additionally, Hassanain (2006) stated in his study that, "interior elements of workplace facilities directly impact workers' comfort and efficiency." It can be concluded that the adequate audit resources provided to tax auditors would improve their performance efficiently. Hence, the following hypothesis is proposed.

H3c: There is a significant relationship between audit resources and performance efficiency of tax auditors.

2.9 Underpinning Theories

This study is performed by underpinning two theories which are the Policeman Theory and Theory of Economic Regulations.

2.9.1 The Policeman Theory

Under this theory, an auditor acts as a policeman focusing on the arithmetical accuracy and on the prevention and detection of fraud (Salehi, 2010). This theory underlies that the main tasks of auditor are to detect and prevent errors and fraud committed auditees.

As this study focuses on the performance efficiency of tax auditors in tax audit, the characteristics of tax auditors which have been discussed earlier are related to this theory where not only tax auditors need to efficiently focus on the accuracy of the tax declared and paid, but they also have to prevent the potential tax avoidance and tax evasion, and detect any fraud by taxpayers or businesses.

2.9.2 Theory of Economic Regulations

Chalu & Mzee (2018) described that this theory assists the influence of regulatory factors on the effectiveness of tax audit, considering the contradictory interests between tax auditors and taxpayers. This study focuses on the attributes of auditees and the organizational management of tax authority related to this theory where the interests of business and taxpayers are opposed to the tax audit tasks, and the role of the tax authority as the regulator of tax legislations.

2.10 Theoretical Framework

The conceptual framework showcases a bird's-eye view of the current issue at hand, and the various inter-relationships it has with the ecosystem for this study. The theoretical framework would assist in the understanding of how the various relationships could be examined and scrutinized.

In developing the framework, two types of variables would first need to be identified. These variables are the dependent variable and independent variables. The dimensions to the independent variables are then identified for the development of the hypotheses of this study.

Figure 2.1 showcases the independent variables, which are the characteristics of tax auditors, attributes of auditees, and organizational management of tax authority, and how they affected the dependent variable which is the performance efficiency of tax auditors. The determinants (referred as dimensions in this study) discussed in this study are categorized by the independent variables.

In identifying the factors, two theories are being considered. The policeman theory is applied to the characteristics of tax auditors as suited with the elaboration made by Salehi (2010) focusing on the role of tax auditors on the accuracy as well as on the prevention and detection of fraud. The theory of economic regulations is applied to the attributes of auditees and the organizational management of tax authority which considers the taxpayers' interests and explains the impact of regulatory factors (Chalu & Mzee, 2018).

The relationships explored should become elements to be considered in the decision making by the RMCD's management to establish the best solutions to improve the performance of the tax auditors and become more efficient.

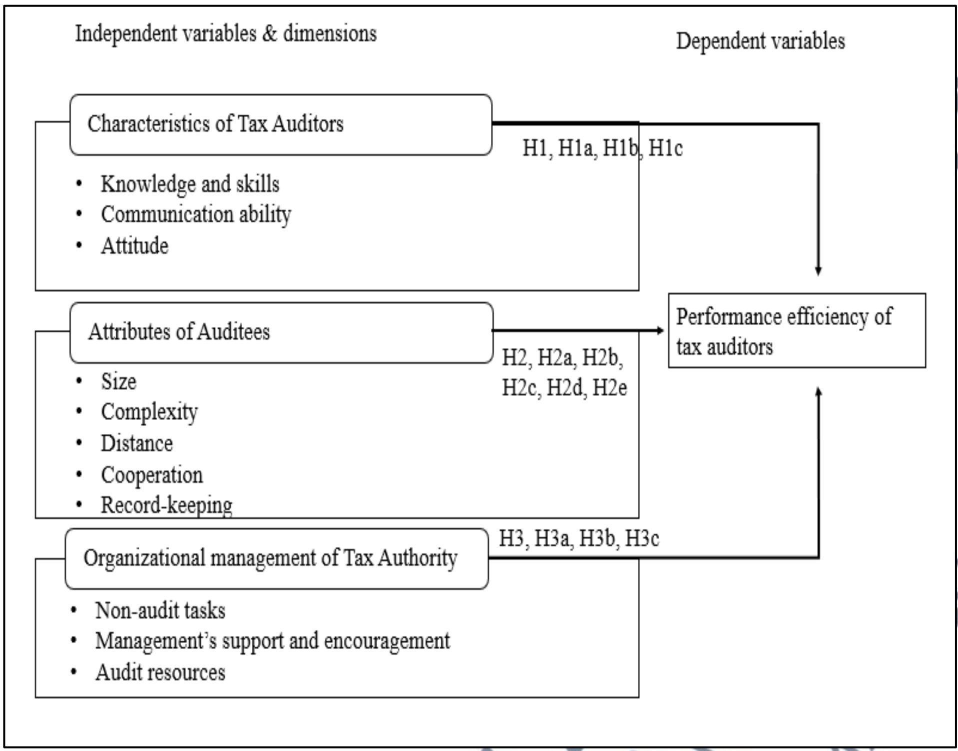

Figure 2.1: Proposed Theoretical Framework

2.11 Chapter Summary

The literature review is rather significant in the sense that it describes how the proposed research is related to prior research, it shows the originality and relevance of the research problems, justifies proposed methodology and demonstrates researcher's preparation to complete the research. Based on the literature reviews of the published journals on the issues researched in this study, the hypotheses of this study are developed.