



Abstract

RESEARCH BACKGROUND

- Tax revenue collection is essential since it contributes to the development of a country (Hyman, 2011).
- Tax revenue significantly contributes to government spending (Accountant General's Department of Malaysia, 2021).
- Malaysia's Federal Government Financial Statement 2021 stated tax revenue contributes 74.31% of the total government's revenue for 2021, an increase of 12.5% from the year ended 2020.
- Malaysia has moved to the self-assessment system (SAS) since 2001 thus tax evasion and avoidance detection are carried out to prevent any potential loss of tax revenue through tax audits in to order verify the accuracy and compliance of taxpayers' tax returns. In addition, research has shown that if an audit detects taxpayer-undisclosed income, it will increase taxpayer compliance (Umar et al., 2019; Kasper & Alm, 2021).
- Most of prior studies has been done outside Malaysia determined that certain factors such as adequacy of the tax audit unit, taxpayers' attitude, taxpayers' awareness, tax auditors' recommendations by management, organizational independence, and information technologies adoption will lead to the effectiveness of the tax audit (Nurebo et al., 2019; Zewdu, 2021; Elias Ayalew, 2014; Workneh and Bhupendra; Erlane et al., 2021).
- Prior studies have found that tax audit works as an effective tool for monitoring the self-assessment system (Wahyudin et al., 2022) even though tax administration policies vary from one country to another with every country especially in tax audit framework and Income Tax Act which act as a guideline for the tax auditor and taxpayers on their rights.

Therefore, to determine Tax Audit effectiveness in Malaysia from the perspective of Salary Worker Group (SG), the research applied quantitative method within four (4) variables such as (i) Tax Auditor Recommendation, (ii) Tax Audit Adequacy, (iii) Taxpayers' Attitude and (iv) Integrated Information System.

Problem Statement

- There has been an increase of tax audit cases settlement in numbers, but the amount of additional tax varies (Tax Operations Departments, IRBM).
- In 2018, 9,460,639 out of 15,998,589 taxpayers in Malaysia are SG taxpayers and represent 59.13% of total registered taxpayers.
- These interpret that SG taxpayers are the main component of taxpayer population in Malaysia but there are only 1,339,427 cases of settlements which represents 14.16% of the taxpayers' number.
- Study on tax audit settlements for five (5) year of assessment as follows:

Year of Assessment	Number of Settlement	Total Additional Tax (RM)
2018	1,339,427	1,874,642,462
2019	1,334,680	2,152,215,990
2020	1,346,364	2,038,722,646
2021	1,454,091	2,285,168,002
2022	1,590,313	1,562,023,137

- Tax audits are crucial for identifying taxpayers who avoid or evade taxes and inconsistent statistics between numbers of case settlement and additional tax would reflects on audit ineffectiveness.

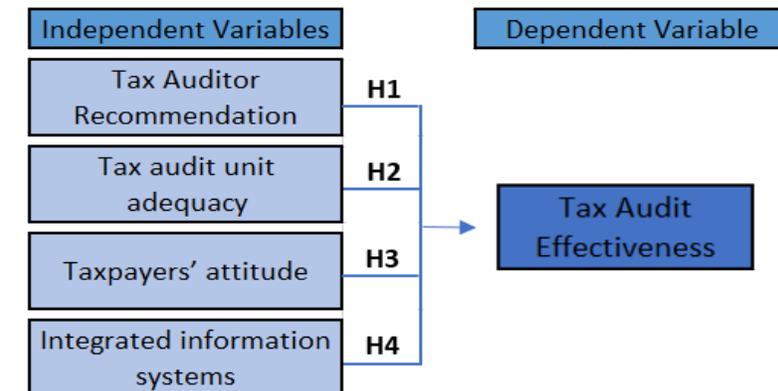
Research Questions

RQ ₁	Do tax auditor recommendations positively influences the tax audit effectiveness in Malaysia?
RQ ₂	Does the tax audit unit adequacy positively influences the tax audit effectiveness in Malaysia?
RQ ₃	Does taxpayers' attitude positively influences the tax audit effectiveness in Malaysia?
RQ ₄	Do integrated information systems positively influences the tax audit effectiveness in Malaysia?

Objectives

RO ₁	To determine the relationship between tax auditor recommendations towards tax audit effectiveness in Malaysia
RO ₂	To identify the relationship between tax audit unit adequacy towards tax audit effectiveness in Malaysia
RO ₃	To investigate the taxpayers' attitude relationship towards tax audit effectiveness in Malaysia
RO ₄	To investigate the integrated information systems relationship towards tax audit effectiveness in Malaysia

Framework



Methodology

QUANTITATIVE RESEARCH

- Principal instrument for establishing empirical correlations - Stockemer, Stockemer & Glaeser (2019)
- In line with any other research being done in this area - Ayalew (2014), Drogalas et al. (2015), Promtong, Phornlaphatrachakorn & Raksong (2018) and Nurebo et al. (2019)

QUESTIONNAIRE

- 7 sections consisting of 31 questions with Five-Point Likert Scale to measure perceptions through a self-administered:

1 Strongly Disagree **2** Disagree **3** Neutral **4** Agree **5** Strongly Agree

- Dual-language (English and Malay)

DATA ANALYSIS

- Evaluate the hypothesis using SPSS 23 which is a descriptive, reliability and multiple regression analysis.

Findings

- The research have a 49.68 percent response rate.
- Four (4) research hypothesis were established from four (4) variables to determine Tax Audit Effectiveness reflected the results as below :

H₁ Not supported because this factor did not influence the tax audit effectiveness in Malaysia.

H₂ Supported because the result indicated that this factor positively influences the tax audit effectiveness in Malaysia.

H₃ Not supported because the result indicated that this factor did not influence tax audit effectiveness in Malaysia.

H₄ Supported because the result indicated that this factor positively influences tax audit effectiveness in Malaysia.

The Tax Auditor Recommendations by Management, Tax Audit Units Adequacy, Taxpayers' Attitudes, and Integrated Information System significantly impact the variance of tax audit effectiveness. However, only the tax audit unit adequacy and integrated information system positively influence the tax audit effectiveness individually.

1 Tax audit recommendations have no influence on the tax audit effectiveness in Malaysia. This is in line with prior studies that concluded as an individual predictor, top management support does not exhibit significant influence in diminishing the effectiveness of tax audits (Ayalew, 2014; Chale & Mzee, 2018).

2 Adequacy of the tax audit unit influence tax audit effectiveness in Malaysia. This result supported prior research by Chalu & Mzee (2018), which indicated that the tax audit unit's adequacy positively influences the tax audit effectiveness under the tax auditor's category.

3 Taxpayers' attitudes has not been found to influence tax audit effectiveness in Malaysia. As most previous study determine taxpayers' attitudes influence tax audit effectiveness through deterrence theory. But individually, it has not influence positively as mentioned in this study.

4 Integrated information system has a positive influence on tax audit effectiveness in Malaysia. This result supported the research done by Alao (2021), which indicated that the integrated information system adoption in the Kwara State Audit unit had influenced their tax audit effectiveness.

Conclusion

- In short, tax audit units and integrated information system implementation influence tax audit effectiveness in Malaysia. Thus, the IRBM should consider these two factors to improve its audit program.
- The number of tax auditors assigned in each unit should match appropriately with the number of cases to ensure that tax audit activities can be carried out effectively.
- An integrated information system must be put in place in order to make the task of tax auditors easier, thus using audit software is equally important.
- Audit software can help reduce human mistake and shorten the time it takes to resolve an audit. Therefore IRBM is recommended to equip its tax auditor with sufficient trainings on how to use the program effectively.

Research Gap

The following may be considered for future research:

- To include taxpayer's viewpoint on the efficacy of tax audits in future study.
- To increase sample size for a dependable research result.
- To include additional independent factors, such as the business sector, the length of time it takes to resolve a case, the amount derived from audit results, and the degree of taxpayer satisfaction with case settlement.