Effects of Risk Management Efficiency and Good Tax Auditing Practice on Tax Performance: Evidence from Tax Departments in Thailand[1]

ผลกระทบของประสิทธิภาพการบริหารความเสี่ยงและแนวปฏิบัติในการตรวจสอบภาษีที่ดีที่มีต่อผลการจัดเก็บภาษี: หลักฐานจากหน่วยงานจัดเก็บภาษีในประเทศไทย[1]

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บทคัดย่อ

บทความวิจัยนี้มีวัตถุประสงค์ เพื่อตรวจสอบผลกระทบของประสิทธิภาพการบริหารความเสี่ยงและแนวปฏิบัติในการตรวจสอบภาษีที่ดีที่มีต่อผลการจัดเก็บภาษีของหน่วยงานจัดเก็บภาษีในประเทศไทย ซึ่งในการวิจัยนี้ ใช้ทฤษฎีตามสถานการณ์เพื่ออธิบายความสัมพันธ์ของตัวแปรในการวิจัย โดยใช้แบบสอบถามเป็นเครื่องมือในการจัดเก็บรวบรวมข้อมูลจากหน่วยงานจัดเก็บภาษีในประเทศไทย ประกอบด้วย กรมสรรพสามิต กรมสรรพากร และกรมศุลกากร จำนวน 255 พื้นที่สาขา และการวิเคราะห์ข้อมูลใช้การวิเคราะห์สมการถดถอยพหุคูณด้วยวิธีกำลังสองน้อยที่สุด ในผลลัพธ์ของการวิจัยพบว่า 1) ประสิทธิภาพการบริหารความเสี่ยงมีผลกระทบเชิงบวกอย่างมีสาระสำคัญต่อผลการจัดเก็บภาษี และ 2) แนวปฏิบัติในการตรวจสอบภาษีที่ดีมีผลกระทบเชิงบวกต่อผลการจัดเก็บภาษี ดังนั้น สามารถสรุปผลการวิจัยได้ว่า ประสิทธิภาพการบริหารความเสี่ยงและแนวปฏิบัติในการตรวจสอบภาษีที่ดี มีบทบาทสำคัญในการกำหนดความยั่งยืนของผลการจัดเก็บภาษีในอนาคต

คำสำคัญ: แนวปฏิบัติในการตรวจสอบภาษีที่ดี ประสิทธิภาพการบริหารความเสี่ยง ผลการจัดเก็บภาษี

Abstract

The objective of this research article was to investigate the effects of risk management efficiency and good tax auditing practice on tax performance of tax departments in Thailand. In this research, the contingency theory was used to explain the relationship of the variables. A questionnaire by mail survey was used as an instrument for collecting data. The list of 255 tax audit branches was provided by the Department of Excise, Revenue, and Customs in Thailand. The multiple regression analysis was used to test all postulated hypotheses by the ordinary least squares method (OLS). The results of this research revealed that 1) risk management efficiency had positive and statistically significant effects on tax performance, and 2) good tax auditing practice had positive and statistically significant effects on tax performance. In summary, risk management efficiency and good tax auditing practice played a significant role in determining sustainable tax performance in future perspective.

Keywords: Good Tax Auditing Practice, Risk Management Efficiency, Tax Performance

Introduction

Tax revenue has been accepted as the source of income for the government [1]. Interestingly, It is recognized as an essential tool for national development. However, most developing countries face difficulties in creating tax revenue because tax administrations may suffer from tax evasion [2]. Moreover, the problems facing Thai tax departments concerning tax collection and tax auditing are similar to those faced in other countries. For instance, James, Svetalekth, & Wright [3] found that some tax audit officers in the Thai Excise Department have insufficient tax auditing knowledge. Likewise, Svetalekth [4] suggests that tax audit

officers of Thailand attempt to decreasing problems of tax avoidance. Hence, tax departments continue to look for tax audit achievement to increase their revenue.

To achieve tax administration, tax departments have been trying to implement and establish dynamic tax systems that will not only ensure the tax revenues but also enhance citizens' trust towards governments in terms of fairness in the distribution of tax burdens [5]. In terms of tax administration, Thai tax departments attempt to follow a principle of tax administration as the Organization for Economic Cooperation and Development (OECD) suggested. Moreover, Thai tax departments are implementing digital transformation initiatives, enabling changes that will have far-reaching effects on every tax function [4]. Hence, a dynamic tax system such as risk management efficiency and good tax auditing practice are an important part of creating good tax administration.

In tax performance, tax auditing is an influential and important activity that can assist in analyzing and evaluating the tax process with the objective of ascertaining the system's weaknesses and to suggest strategies for improvement [6]. Tax audit officers' role involves risk management efficiency, management controls, and governance processes within the organization [7]. They have unique insight on which risks might lead to calamity: how to improve processes, audit practices, risk management, and performance [8]. Therefore, effective tax auditing is one that identify the necessary tax input, assess an efficiency of the tax process, and improve the tax administration outcome for achieving tax performance [9].

As aforementioned earlier, this research can expand and add a contribution plays to tax audit literature, especially in tax audit officers. The research objective is to examine the effects of risk management efficiency and good tax auditing practice on tax performance in Thai tax departments. In terms of achieving this research objective, the following key research questions are the following: How do risk management efficiency and good tax auditing parctice affect tax performance?

The remainder of this research is organized as follows. The next section describes prior research of risk management efficiency, good tax auditing practice, and tax performance and their relationships and the hypotheses development of this research. After that, the research design is presented, followed by the results and discussion from the empirical test, and the conclusions of this research.

Relevant Literature Review and Hypotheses Development

Here, this research uses the contingency theory to explain how risk management efficiency and good tax auditing practice enhance tax performance. This theory operates the hypothesis of a conditional relationships between independent variables with the dependent

variable and subjects it to the empirical test [10]. Following the contingency approach, this research address theoretically how the tax performance is contingent upon the contingency variables of, risk management efficiency and good tax auditing practice as hypothesized. In tax administration, the modern tax audit is imperative because it assists the organization in improving the degree of voluntary compliance by taxpayers and organizing the degree of tax avoidance [1]. A conceptual model presents the relationships, as shown in Figure 1.

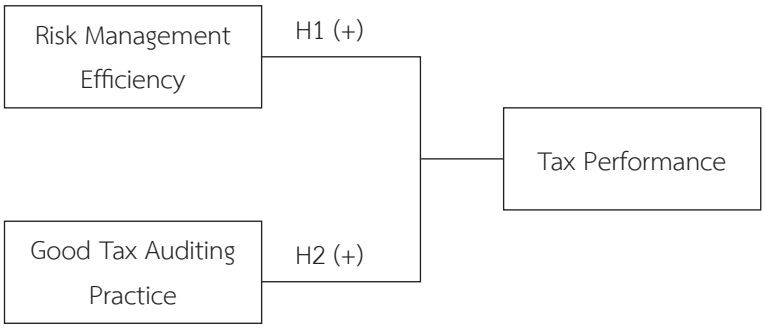

Figure 1 The Relationships among Risk Management Efficiency, Good Tax Auditing Practice, and Tax Performance

The Relationships between Risk Management Efficiency and Tax Performance

The most publication regarding internal control systems is the concept of enterprise risk management. Enterprise risk management defined as a process affected by an organization's board of directors and other personnel, applied in strategy setting the organization, designed to identify potential events that may affect the organization, and managed risks to be within its risk appetite, to provide reasonable assurance regarding the achievement of the organizational objectives [11]. It is a good practice standard for the organization to manage risks [12]. Also, this research takes the position that risk management efficiency is enterprise risk management. It refers to the organizational capabilities to criteria for auditing taxpayers by grouping taxpayers at the risk-based audit levels. It will make the tax administration more effective.

Risk management efficiency is a comprehensive determination, identification, assessment, management, and detection of organizational risks to achieve the audit objective [13]. Based on the empirical literature, risk management efficiency shows significant effects on corporate governance compliance and protecting positive organizational performance [14], [15]. Equally, the finding is consistent with Hoyt & Liebenberg [16] researched on the implementation of risk management efficiency by insurance firms in the United States. They found statistically significant positive relationships between organizational value and integration of risk management procedures.

Likewise, Badara & Saidin [17] found that risk management efficiency can influence internal audit effectiveness. It can improve internal audit effectiveness and enables the achievement of organizational performance. Similarly, Beasley et al. [18] found that enterprise risk management has the positive association with tax audit activities in the organization. Meanwhile, [19] confirmed that the audit plan focuses on risk management by using the Committee of Sponsoring Organizations of the Treadway Commission (COSO) framework can improve organizational performance. Moreover, Shin & Park [20] found that enterprise risk management and management control systems influence organizational performance. Thus, risk management efficiency is the identification and analysis of relevant risks associated with achieving the organizational objective [21].

In the context of contingency theory, the role played by risk management efficiency is well acknowledged in the existing literature (e.g., Kulchmanov, Hassan, & Rashid [22]). The finding confirmed that the contingency theory via the contingency effect of tax performance on risk management efficiency. Similarly, Gordon, Loeb, & Tseng [23] confirmed the relationship between risk management efficiency and organizational performance that significantly contingent upon five variables: environmental uncertainty, competition in the industry, organizational complexity, organizational size, and monitoring by board of directors. Based on the literature above, risk management efficiency is a potential possibility that affects tax performance. Therefore, the hypotheses are proposed as follows:

Hypothesis 1: Risk management efficiency has a positive relationship on tax performance.

Good Tax Auditing Practice

Good tax auditing practice refers to the methodology, techniques, methods, and processes combined into practice and improving the organizational results [24]. Likewise, Francis [25] defines a good tax auditing practice as a method and technique leading to tax audit achievement that is in accordance with tax audit professional standards through knowledge and expertise to collect enough evidence to achieve audit objectives. Based on the literature, good tax auditing practice has become a tax audit management tool for tax audit officers who can lead to a decision among alternative good actions [26]. It is necessary to evaluate the efficiency of audit methodology which can improve tax audit process development [27].

Meanwhile, Montabon, Sroufe, & Narasimhan [28] identify various drivers that pressure organizations to adopt good tax auditing practices such as governmental regulation, ethical motivations, and organizational performance. The determining of the process of good tax auditing practices through expertise and independence collects enough evidence to clearly show audit opinion in offering confidence to the financial statements which are reliable and

accurate in the audit practice [25]. Moreover, Udeh & Clement [29] confirmed that compliance with audit practice could enhance organizational performance and increase accountability among the public sector organization. Thus, tax audit officers carefully analyze the organization's task environment, considering the characteristics of the organization and adapt good tax auditing practice accordingly.

The successful good practice of tax auditing includes project management techniques to ensure that audit plans are achieved management techniques to facilitate change. Good tax auditing practice has become a tax audit management tool for tax audit officers who can lead to a decision among alternative good actions [26]. However, good tax auditing practice is necessary to evaluate the efficiency of methodology which can improve tax audit process development [30]. Thus, tax audit officers carefully analyze the organizational task environment.

According to the contingency theory, this theory suggesting that globalization will affect the organization's resource-allocation strategies [31-32]. Organizations are more likely to invest in good tax auditing practices that could produce positive superior organizational performance [33]. This theory assumes that good tax auditing practice is impacted by the framework in which they are applied to an idea of how the framework affects operations in organizational performance [34]. Based on the literature review above, good tax auditing practice has the potential possibility to affect tax performance. Hence, the hypothesis is proposed as follows:

Hypothesis 2: Good tax auditing practice has a positive relationship on tax performance.

Research Methodology

Sample Selection and Data Collection Procedures

In this research, Thailand's tax department is the appropriate population and sample of the research. The Revenue Department, The Excise Department, and The Customs Departments, under the Ministry of Finance in Thailand, is the database for the population. The key informant who is appointed is the chief of the area office (e.g., director, (revenue/excise/customs) technical officer, revenue/excise/customs) officer, tax audit officer) of each tax audit branch, as they have the best knowledge of the nature of tax audit information and tax performance.

To provide data collection by using the mail survey procedure via questionnaire, this research collects data from 404 tax audit branches in Thailand. Regarding the questionnaire mailing, 1 survey was undeliverable because the organization had moved to unknown locations. Deducting the undeliverable, the validity of the mail survey was 403 surveys, from 276 responses were acquired. Of the surveys accomplished and returned, 255 were usable.

The effective response rate was 63.28%). If the response rate for the mail survey is greater than 60%, it is considered a good level for analysis and reporting according to Groves [35]. The data were collected in two phases: 1) Data were collected from questionnaires that return to the researcher in two weeks. And 2) In order to increase the response rate, data were collected from a follow-up mail questionnaire after two weeks by phone to ask the respondent to return the questionnaire. The coded numbers in the top left corner of mail questionnaires were assigned for the usefulness of the follow-up questionnaire mailing.

The design of the questionnaire for this research covers major areas within the conceptual model and hypotheses. Reliability and validity of the self-administered questionnaire comprised five sections. The first section is related to the respondent's personal information, including gender, age, educational level, working experience, and working position. The second section is related to organizational characteristics, including organizational type, forms of organization, location of the organization, number of employees, the average revenue of tax collection per year, and the average revenue of tax collection per year compared to the target. The third section consists of a set of questions relating to risk management efficiency and good tax auditing practice. The fourth section is related to tax performance. Lastly, the fifth section provides an open-ended question to gather key respondent's suggestions.

Test of Non-Response Bias

To prove potential non-response bias and to detect possible response bias problems with non-response errors, a comparison of answers received between early and late responses as suggested by Armstrong & Overton [36] is considered. In this regard, non-response bias showed no statistically significant differences between early and late groups at a 95% confidence level as the number of employees ($t = -0.03$, $p > 0.05$) and average revenue of tax collection per year ($t = -0.58$, $p > 0.05$).

Measurements

All constructs were measured using a five-point Likert scale (1 = strongly disagree to 5 = strongly agree), except for tax performance (1 = never to 5 = always). Measurements of these constructs in the conceptual model are self-developed from existing literature through interpreting the definitions of the variables. In furtherance to this, measurements of risk management efficiency, good tax auditing practice, and tax performance are empirically developed. Firstly, risk management efficiency refers to the ability of the organization to determining, identification, and assessment of risks for the achievement of auditing objectives across the organization, and criteria for auditing taxpayers by grouping taxpayers at the risk-based

audit levels. It will make the tax administration more effective. Four-item scale was developed to measure how organizations determining risks, identification of risks, assessment of risks, and detecting tax evasion for the achievement of audit objectives, which adapts from the instrument of Koutoupis & Pappa [15].

Secondly, good tax auditing practice is defined as the ability of the organization to integrate methods and various techniques that appropriate, cover and accordance with tax policy, align analytics with organizational strategy, and relate to tax audit procedures accurately and transparently. Three-item scale was established to assess how organizations have proved to be successful in audit practices that appropriateness, accordance, and accuracy, which adapts from the instrument of Francis [25].

Lastly, tax performance refers to the ability of the organization to collect tax revenues to achieve the goals set or more effectively than the previous fiscal year, prides itself on receiving awards for performance according to standards or criteria for the development of public sector management quality award, innovations for tax administration to convenient and efficient, as well as the transparent and fair administration for sustainable organizational development. Four-item scale was developed to measure how organizations have gained an outcome of effectiveness, quality of services, efficiency, and organizational development, which adapts from the instrument of James, Svetalekth, & Wright [3].

Test of Research Instrument

Here, five academic experts, a confirmatory factor analysis (CFA), item-total correlation, and the Cronbach's alpha coefficient are utilized to verify the validity and reliability of this research. Firstly, the questionnaire in this research was improved by confirming the content validity. It was sent to five professionals in academic research to review and revise the questionnaire in order that the respondents could understand it correctly. Secondly, the confirmatory factor analysis is used to determine the construct validity of the survey item. The factor loading of the items is significantly correlated to the specified construct that will contribute to the construct validity comprehension. Therefore, all factor loadings as range values of 0.63 – 0.92 are greater than the 0.40 cut-off and are statistically significant [37]. Thirdly, item-total correlation is the approach assesses the consistency between multi-item measurements in the same construct, where its high value points out a more reliable scale. Thus, Item-total correlations as range values of 0.416 – 0.83 are greater than 0.30 [38]. Lastly, the Cronbach's alpha coefficient is used as the measure of the internal consistency or reliability of constructs. In the reliability, the Cronbach's alpha coefficient as range values of 0.73 – 0.83 are greater than 0.70 [37], [39]. As shown in Table 1, the scales of all measures demonstrate an acceptable validity and reliability in this research.

Table 1 Results of Validity and Reliability Testing

Variables	Factor Loadings	Item total correlation	Cronbach's Alpha
Risk Management Efficiency (RM)	0.72 – 0.88	0.55 – 0.81	0.83
Good Tax Auditing Practice (GA)	0.63 – 0.91	0.41 – 0.73	0.73
Tax Performance (TP)	0.63 – 0.92	0.47 – 0.83	0.82

Statistical Technique

To investigate the associations among risk management efficiency, good tax auditing practice, and tax performance, this research applies the multiple regression analysis to test the hypotheses by the ordinary least squares method (OLS). It is appropriate for investigating the relationships among the dependent variable and independent variables using data qualified as interval scales [39]. To avoid error in the result of regression analysis, the basic assumptions are employed to verify, such as multicollinearity, normality, heteroscedasticity, and autocorrelation as shown in Table 2-5.

Test of Multicollinearity

Table 2 shows the statistical value of VIF for the multicollinearity test. If value less than 10 suggest that the multicollinearity problem is not concerned.

Table 2 The results of multicollinearity testing

Independent Variables	Dependent Variable: Tax Performance	
	Tolerance	VIF
Risk Management Efficiency	0.59	1.70
Good Tax Auditing Practice	0.59	1.70

Normality of The Error Term Distribution

Table 3 presents the results from tests of normality. The Kolmogorov-Smirnov test is more appropriate for large sizes (>50 samples). If the Sig. value greater than 0.05 suggests that the data is normality. Hence, normality of the error term is not the serious problem of this research.

Table 3 The results of normality testing

Kolmogorov-Smirnov			Shapiro-Wilk		
Statistic	df	Sig.	Statistic	df	Sig.
0.50	255	0.20	0.98	255	0.00

Test of Constant Variance of the Error Terms (Homoscedasticity)

Table 4 shows the examinations of the Breusch-Pagan test for heteroscedasticity problem. The result indicates that the Breusch-Pagan is not encounter non-constancy variance of the error terms. Hence, heteroscedasticity problem is not the serious problem of this research.

Table 4 The results of heteroscedasticity testing

Breusch-Pagan	
Breusch-Pagan test [X^2_{BP} = (SSR*/2)/(SSE/n)^2]	Critical Value [($X^2_{(.05,\ 1)}$= 3.84)]
= (.000*/2)/(0.771/255)2	Value of Breusch-Pagan test
= 0.00	does not exceed critical value

Test Independence of the Error Terms (Test of Autocorrelation)

Table 5 shows the method of test for autocorrelation is the Durbin-Watson test. If values close to 2 suggest less autocorrelation. The result indicates that the value close to 2. Hence, the test of autocorrelation does not create the serious problem in this research.

Table 5 The results of independence of error terms (test of autocorrelation) assumption testing

R	R Square	Adjusted R Square	Durbin-Watson
0.58	0.38	0.33	1.91

In this research, the equation is presented as follow:

Equation 1: $TP = \alpha_{01} + \beta_1 RM + \beta_2 GA + \varepsilon$

Above equation shows: TP shows tax performance as a dependent variable and *"α"* is constant with variables, β_1 shows risk management efficiency, β_2 shows good tax auditing practice, and **ε** shows error term.

Result and Discussion

Table 6 shows the descriptive statistics and correlation analysis for all variables. The results indicated that risk management efficiency and good tax auditing practice have the positive significant correlation with tax performance ($r = 0.51$, $p < 0.01$; $r = 0.52$, $p < 0.01$, respectively). The problem of multicollinearity might occur when the intercorrelation matrix in each explanatory variable is more than 0.80, which is a high relationship [39]. Hence, the multicollinearity problem is not concerned in this research.

Table 6 Descriptive Statistics and Correlation Matrix of all Constructs

Variables	RM	GA	TP
Mean	4.19	4.45	4.39
Standard deviation	0.56	0.55	0.56
Risk Management Efficiency (RM)	1.00		
Good Tax Auditing Practice (GA)	0.66***	1.00	
Tax Performance (TP)	0.51***	0.52***	1.00

Symbols *** Correlation is significant at the 0.01 level (2-tailed test).

In this research, Table 7 presents the empirical evidence on the relationship between risk management efficiency and tax performance, the regression analysis reveals the significance of hypothesis 1 that risk management efficiency has positively and significantly affect tax performance in Thailand ($\beta 1 = 0.27$, $p < 0.01$). The finding demonstrates that higher risk management efficiency helps the organization to gain greater tax performance. It helps to achieve organizational objectives by assessing and detecting organizational risks [13], [21].

Consistent with previous research, Beasley et al. [18] found that ERM has the positive impact on tax audit activities in the organization. Meanwhile, Drogalas et al. [14]and Kendrick [40] confirm the positive relationship between risk management efficiency and organizational performance. Similarly, Hoyt & Liebenberg [16] found that a statistically significant positive relationship between the integration of risk management procedures in mainstream organizational performance. Moreover, Shin & Park [20] and Wonglimpiyarat [19] found that the relationship between enterprise risk management and management control systems in important to the increase of organizational performance.

According to contingency theory, the finding confirms that the contingency theory via the contingency effect of tax performance on risk management efficiency. Equally, the finding is consistent with Badara & Saidin [17] found that risk management efficiency influences the effectiveness of tax audits. It improves tax audit effectiveness and organizational performance [23]. Thus, risk management efficiency can thus be regarded as achieving the organizational objectives for tax performance. Therefore, Hypothesis 1 is supported.

In addition, the finding indicates that the relationship between good tax auditing practice and tax performance has shown the significant positive relationship ($\beta 2 = 0.37$, $p < 0.01$). The result implies that the organization's ability to operate successfully that have been planned to achieve its objectives can help organizations to increase organizational performance. Consistent with prior, good tax auditing practice is the method combined into practice and improving organizational performance [24], [28]. Udeh & Clement [29] confirmed that

compliance with good tax auditing practice could enhance effective organizational performance. Good tax auditing practice may increasingly integrate operations and enhance performance [25].

Organizations are likely to invest in good tax auditing practices that could produce positive superior organizational performance [33]. The good tax auditing practice is necessary to evaluate the efficiency of audit practice which can improve tax audit process development [27]. Meanwhile, it has become a tax audit management tool for tax audit officers who have implemented judgment accuracy and performance [26]. According to the contingency theory, this theory indicates that good tax auditing practice affects organizational performance [34]. Therefore, Hypothesis 2 is supported.

Table 7 Result of Regression Analysis for the Effects among Risk Management Efficiency and Good Tax Auditing Practice on Tax performance

Independent Variables	Dependent Variables: Tax Performance				
	Unstandardized Coefficients		Standardized Coefficients	t-stat	p-value
	B	Std. Error	Beta		
(Constant)	0.30	0.04		7.20	0.00
Risk Management Efficiency (H1)	0.26	0.06	0.27	4.10	0.00***
Good Tax Auditing Practice (H2)	0.35	0.07	0.37	5.46	0.00***
Adj. R^2 = 0.33, F-test = 64.04, Prob. = 0.00, Maximum VIF = 1.70					

Symbols *** $p < 0.01$, ** $p < 0.05$ (2-tailed test), respectively.

Conclusions

The main objective of this research is to examine the effects of risk management efficiency and good tax auditing practice on tax performance. The conceptual framework of this research was supported by the contingency theory. This theory is used to describe relationships among risk management efficiency, good tax auditing practice, and tax performance. For research investigation, tax departments in Thailand were selected as the research population. The population of this investigation was selected from the database of the Department of Excise, Revenue, and Customs under the Ministry of Finance in Thailand. Data were collected from 255 chiefs of the area office of each tax audit branch as the key informant. Approximately, the mail survey resulted in 63.28% response rate. The multiple regression analysis by the ordinary least squares method (OLS) and specific correlation analysis was used to test the hypotheses developed in this research, as well as to investigate the

relationships among the variables. The results revealed that risk management efficiency and good tax auditing practice have a strong positive impact on tax performance.

Contributions and Further Research

This research makes a theoretical contribution by using the contingency theory to be understanding the process of creating value from risk management efficiency and good tax auditing practice. The finding generates insights into the concept of risk management efficiency and good tax auditing practice in relation to tax performance. While the positive significant relationship was found, it is important for executives to be aware of risk management efficiency and good tax auditing practice. Therefore, risk management efficiency and good tax auditing practice might contribute to organizational ability to find the right balance between exploiting existing resources and exploring new opportunities, to eventually achieve enhance organizational performance.

From a managerial perspective, this research has provided some interesting insights. Moreover, the support for the positive relationship among risk management efficiency, good tax auditing practice, and tax performance could be the relevant finding for executives involved in risk management efficiency and good tax auditing practice-related achievement capabilities. Thus, executives of tax departments would benefit from investing time and resources in creating such capability.

In addition, another suggestion would involve ascertaining the generalizability of the findings of our research to different institutions. Our findings reflect the current situation in Thailand's tax departments; it could, therefore, be interesting to determine whether our hypotheses would be confirmed or rejected in different institutional contexts. Hence, future research needs to integrate institutions-based view with the contingency theory such as the comptroller general's department and the state audit office of the Kingdom of Thailand.

Because of its quantitative research design, this research did not explore the phenomenon in-depth. To expand the current study, future research could explore the given context in more detail through a qualitative mode of inquiry to determine how risk management efficiency and good tax auditing practice challenge enhance tax performance.

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