

Influence of the Tax Auditor on the Quality of the Financial Statements Submitted to the Income and Sales Tax Department

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Abstract

The tax assessor's efficiency is considered one of the most important elements of the tax audit in the Income and Sales Tax Department in Jordan. It is important to submit fair and true financial statements along with the tax declaration and other required elements because the tax auditor is the one who performs the examination and audit of the accounts submitted to the Income and Sales Tax Department in order to ensure the accuracy of financial statements. The transactions, financial facts, details of real income and tax payable by the taxpayer are assessed by the tax auditor. Hence, the efficiency of the tax auditor is considered in terms of expertise and qualification of the tax auditor. Based on the Generally Accepted Auditing Standards, the basis for determining the accuracy of financial data and information and to ensure that these accounts are accurately reflected on the real income of the establishment is to be done by the tax auditor. The objective of this study was to identify and measure the effect of the tax audit as one of the elements of the tax audit on enhancing the quality of the financial statements submitted to the Income and Sales Tax Department in Jordan. This was done through the audit and financial analysis performed by the tax auditor on the applicable regulations and related amendments. These amendments will be tested if they have a positive or negative impact on the quality of the financial statements presented to the department in following years, through the tools and analytical methods that the researcher will use in his study to answer the research problem and examine the hypotheses. The study found that there was a clear effect on the efficiency of the tax auditor and the amendments made to these lists in enhancing the quality of the financial statements submitted to the Income and Sales Tax Department in Jordan by following these amendments and the report of the tax auditor to achieve the integrity, accuracy and credibility of these financial statements submitted in the upcoming years.

KEYWORDS – Tax, Tax audit, Tax payer and Financial Statements.

Introduction

The researcher desired to understand the tax audit process through practical experience that it is a procedural process based on the level of competence and skill of the tax auditor who seeks to verify the accuracy and fairness of the financial statements submitted to the Income and Sales Tax Department in terms of real income of the entity following the rules of International Auditing Standards. This study was considered

significant as the quality of financial statements was expected to be enhanced in the coming years. The efficiency of the tax auditor while reviewing and analyzing the quality of financial statements with an aim to achieve substantial amendments to the items of these lists to ascertain the real income of the entity and payment of fair tax ensures the quality of these lists in the future.

The Accountant's Guide to Ethical Rules defines tax examination as “a type of opinion assignment that gives the highest degree of reasonable assurance of the financial statements relating to the determination of tax income. (Accountant's Guide to Ethical Rules)

In addition to the fiscal objective of providing the state treasury with revenues, it has other objectives, such as various political, economic and social goals. It is necessary to pay attention to how these objectives are achieved, including tax mechanisms and the practice of tax auditors for tax audits. (Farajat, 2009)

To achieve the goal of taxing scientific assets in a manner that respects justice, reduces taxation issues between taxpayers and tax administration, and promotes the voluntary response of taxpayers in providing accurate tax returns, the taxpayer's taxable income must be determined and measured accordingly. The Generally Accepted Accounting Principles and the ascertainment of taxable income in compliance with tax legislation must be conducted by persons with required qualifications in Accounting or Finance or Law, with their training and skill in adequate audit work as there is a persistent development in modern audit methods. (Othman, 2008, p. 44)

The tax assessors are appointed by the Income and Sales Tax Department and attention in terms of appointing them on the basis of academic qualifications in Accounting or Finance or Law and other qualifications in the field of financial analysis and auditing to raise the efficiency of the tax auditor because he is the one who performs the audit and tax assessment. The tax legislation that regulates the tax audit process is Article 21(1) of the Income and Sales Tax Law No. (34) which has been in force since 1st January 2015 states that the tax assessment and assessment of any other amounts by the taxpayer to perform any other duties assigned to him in compliance with the provisions of this law, provided that the provisions of this authorization makes it necessary to grant such authorization as determined by instructions issued by the Director for this purpose.

A tax audit is a type of audit appointment that gives the highest reasonable degree of certainty to the financial statements relating to the determination of tax income (Arab Society of Certified Public Accountants, Advanced Auditing Concepts, Amman, 2001, p. 34), a process consisting of a series of successive works. Any work is a result of his previous work and a legal introduction to the work that follows. Therefore, the tax assessor verifies the fairness and credibility of the financial statements submitted along with a tax declaration by means of tax audit methods and according to the accepted auditing standards.

Review of Literature

Some of the previous studies that examined this topic can be summarized as the following:

Study by **Munther Yahya Al Daya (2009)** in article entitled “The Effect of Using Accounting Information Systems on the Quality of Financial Data in the Services Sector in Gaza” aimed to evaluate the effect of the use of accounting information systems on the quality of the financial data of the service sector companies in the Gaza Strip. The study reached a number of results, such that the size of the company in terms of number of employees and capital size has the greatest impact on the company's use of accounting information systems. The information led to the qualitative characteristics of the financial statements and to increase the quality, suitability, reliability and timely access of the data. The most important recommendations were that the service companies in the Gaza Strip with capital, number of workers and large revenues prefer to use M advanced information systems so as to get the biggest benefit of those systems.

Mu'azu Saidu Badara (2012) in the article “The Effect of Tax Audit on Tax Compliance in Nigeria (A Study of Bauchi State Board of Internal Revenue)” assessed the effect of Tax audit on tax compliance in Nigeria. The main finding of the study included among other; the Relevant Tax Authority (RTA) employed tax audit towards achieving target revenue, tax audit reduced the problems of tax evasion, tax payers do not usually cooperated with tax audit personnel during the exercise, etc. The paper recommended that the RTA at all levels had to improve the standard of tax audit employed for effectiveness and efficiency. Tax audit should aim at reducing the level of tax evasion and RTA should provide a policy that would allow the tax payers to cooperate during the period of tax audit.

Adediran, S.A., et al. (2013) in the article entitled “The Impact of Tax Audit and Investigation on Revenue Generation in Nigeria” examined the impact of tax audit and investigations on revenue generation in Nigeria. The aim was to determine if tax audit and investigations could actually increase the revenue base of the government and if it could also stamp out the incidence of tax evasion. Data was collected through the primary sources from four hundred and ten respondents who were staff of the Federal Inland Revenue Service and Edo State Board of Internal Revenue. Hypotheses formulated were tested with Pearson Correlation Coefficient using SPSS output data. The findings were that Tax audit and investigations could increase the revenue base of the government and could also stamp out the incidents of tax evasion in the country. It was suggested that Tax audit and investigations were to be carried out more often and accomplish its task of increasing the revenue base and stamping out tax evasion in the country.

George Drogalas, et al. (2015) in the article entitled “Tax audit effectiveness in Greek firms: Tax auditors’ perceptions” examined the relationship between tax audit effectiveness, tax legislation and the use of specialized information system tools. The researchers deployed the ability of public tax auditors to track tax infringements as a measure of tax audit effectiveness. Over two hundred structured questionnaires were prepared and distributed to tax auditors, who worked in Greek public taxation agencies.

Factor Analysis and multiple regression analysis were employed in order to examine the hypotheses. The results showed that the use of information system tools could enable tax auditors to track tax infringements effectively, thereby contributing to enhanced effectiveness of tax audit. It was also recommended that constant changes in tax legislation inhibited tax auditors from being effective in their work. The results of the study called for direct policy intervention, including simplification of tax legislation and better training of tax auditors in the use of information systems.

Objectives of the Study

1. To determine the factors that impacts the quality of financial statements of industrial companies in Jordan.
2. To determine and analyze the Efficiency of tax auditor on the quality of financial statements of industrial companies listed on Amman Stock Exchange.

Hypothesis of the Study

H₀: There was no statistically significant effect at the level of ($\alpha \geq 0.05$) for the Efficiency of tax auditor on the quality of financial statements of industrial companies listed on Amman Stock Exchange.

H₁: There was a statistically significant effect at the level of ($\alpha \geq 0.05$) for the Efficiency of tax auditor on the quality of financial statements of industrial companies listed on Amman Stock Exchange.

Research methodology

Study sample

The study sample was chosen absolutely from the population study; among whom, there were 179 tax auditors, 47 supervisory location experts of tax audit acts which comprised industrial, commercial and services sectors. The questionnaire was prepared and distributed in the senior and intermediate directorate's taxpayers from commercial, industrial and service sectors with a focus on the industrial sector.

Small taxpayers were excluded from the study sample because they did not handle assets bookkeeper and the study sample (226) included tax auditor, the head of section, manager and supervisor tax auditor.

Table 1: Community and study sample as per the Directorate & Designation.

Directorate	Total number of employees in the Directorate	Director	Head of Department	Head of Division	Checker	Number of study sample	Percentage of study sample
Senior taxpayers	66	1	4	6	48	59	89%

Commercial 1	58	1	4	4	38	47	81%
Commercial 2	54	1	4	4	30	39	72%
Industrial	53	1	4	4	23	32	60%
Service	64	1	4	4	40	49	76%
Total	295	5	20	22	179	226	226/295=76.6%

Source: Compiled by Scholar

*Note that the number of auditors is 179, which constitutes 79.2% of the total sample of 226 employees. This indicates the accuracy and validity of the study sample and its relevance to the subject of the study, which is the effect of the tax auditor on the quality of the financial statements presented to the Income and Sales Tax Department in Jordan.

Variables of the Study:

- Independent variable and the efficiency of the tax auditor
- Continued variable and financial statements.

Tools used for the Study:

The study aimed at measuring the effect of the tax assessor on the quality of the financial statements submitted to the Income and Sales Tax Department in Jordan. The study was conducted on a study sample of Income and Sales Tax Departments and its staff. A questionnaire was drafted to measure auditor's efficiency on the quality of financial Statements. The focus was on the senior directorates, middle taxpayers. Data was analyzed using SPSS.

The research method used in this study is the questionnaire survey. It was selected in order to receive as many responses as possible from qualified respondents. The questionnaire asked about the actual performance of audit committees in Jordanian public listed companies. The respondents were told to answer the questions based on their own experience in practice, and not necessarily what is required by laws or governance codes. The questionnaire used a five choices Likert-scale, with value 1 being assigned for strong disagreement, and value 5 for strong agreement. In addition to personal background questions, the questionnaire consisted of five groups of questions. These groups included the characteristics of audit committees, audit committee responsibilities regarding financial statements, general supervision, internal auditing, and external auditing.

Measuring auditor's efficiency on quality of financial statements

Table 2: Measuring auditor's efficiency on quality of financial statements

Sl. No.	Statement	Mean	Std. Deviation
S19	Tax auditor has enough knowledge of Tax legislations	4.03	.607
S20	Tax auditor has enough knowledge of other related tax laws	3.61	.862
S21	Tax auditor has knowledge of international accounting standards	3.30	.890

S22	Tax auditor has adequate training of skills related to financial analysis	3.27	.943
S23	Tax auditor is qualified to use technology in audit process of financial statements	3.69	.774
S24	Tax auditor has the skills to contact the parties related to tax audit	3.82	.619
S25	The tax auditor has the ability to manage time in order to improve his performance	3.74	.739
S26	Tax auditor realizes tasks and responsibilities during auditing financial statements in department	3.98	.559
S27	The tax auditor is committed to objectivity during the audit of financial statements in department.	3.89	.609
	Average mean of all statements	3.70	

In Table 2, the mean and standard deviation of responses to the statement “auditor’s efficiency on quality of financial statements” is discussed in detail. It is opined that Tax auditors in Jordan are perceived to generally possess the necessary qualities to perform their work effectively, but that the level of such possession is not very high indicating that the degree of agreement with the statements was moderate, rather than high. It is notable that audit committee members were seen as knowing about the general business of their companies, but less knowledgeable about the related accounting issues, causing caution since audit committees have significant oversight of the financial reporting function. The least supported statement by respondents was S22 regarding tax auditors having adequate training of skills related to financial analysis. The highest supported statement however was S19 which stated that the tax auditor had enough knowledge of tax legislations which means that though auditors had knowledge of the legislations, adequate training and support mechanism was not present in Jordan. This likely limited the effectiveness of Jordanian tax auditors, especially with levels of their performance, tasks and responsibilities.

Testing of Hypothesis:

H₀: There is no effect of the efficiency of the tax auditor on the quality of the financial statements of selected public companies in Jordan.

Table 3(a): Descriptive statistics for Tax Auditors Efficiency

Variable	N	Mean	Std. Deviation	Std. Error Mean
Tax Auditors Efficiency	215	33.3302	4.76041	0.32466

Table 3(b): Results of one-sample ‘t’ test for mean Tax Auditors Efficiency

Variable	Test Value = 36			
Tax Auditors	t	df	P value	Mean Difference

Efficiency	-8.223	214	.000	-2.66977
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When one sample t test was performed to verify the impact of Tax Auditors Efficiency on quality of financial statements, taking 36 as standard, it was found that Tax Auditors Efficiency was lesser than the expected. The observed mean for Tax Auditors Efficiency was 33.3302 as against expected 36.0 scores. 't' value of -8.223 was found to be significant at .000 level. The efficiency of the tax auditor was measured through various factors such as knowledge, experience, qualification, etc. It was observed that auditors were not very efficient though they realized their responsibilities. Auditors did not keep themselves updated with the ongoing changes and amendments in the law. Some of the auditors had less knowledge of the tax legislations and related laws.

The statistical results in the same table showed that the independent variable (the efficiency of the tax auditor) accounts for 24.8% of the variance in the dependent variable (the quality of the financial statements of industrial joint stock companies listed on the Amman Stock Exchange). This is an explanatory force that reflects an acceptable degree of strength and stability Study model. Hence, the null hypothesis of the study is rejected and alternative hypothesis is accepted.

Conclusion:

It was found from the study that there was a statistically significant effect at the level of ($\alpha \geq 0.05$) for the efficiency of tax auditor on the quality of financial statements of industrial companies listed in the Amman Stock Exchange. Efficiency of tax auditor played a major role in quality of financial statements. Hence, there was a need for tax auditors to be efficient and capable. The researcher suggested Income and Sales tax inspectors to be provided with more courses and training on tax audits and internationally recognized auditing standards. The tax assessor should be impartial and prudent while conducting a tax audit. Stability of tax legislation was suggested to be brought in by the authorities that would regulate the process of tax audit and reduce the ongoing amendments in tax legislation.

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