

FINANCIAL LOSSES CAUSED BY TAX AUDIT QUALITY, A DEEP QUALITATIVE FINDINGS

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Abstract : *One of the whacking concerns experienced by taxpayers in Indonesia is tax audit quality. During the year of 2021, statistical data on tax dispute decisions consisted of 11% not being accepted, 25% rejected, 20% partially accepted, fully accepted 41%, and the other 12%. This statistics figures needs to be studied carefully since it implies several serious issues, one of which is the quality of tax audit. To do so, this research was design to analyze qualitatively using an in-depth interview approach, a piece of the exploration of empirical evidence on tax audit quality in the field of a certain property business experienced by the taxpayer. Using related factors of quality audit, such as input, output and context factors proposed by previous researchers, compared to the previous works, this research offers novelty by combining these factors, with the Indonesian provision of tax audit procedure regulated by Peraturan Menteri Keuangan (PMK) 17/03/2013 (M. K. Republik Indonesia 2013) in conjunction with Peraturan Menteri Keuangan (PMK) 184/03/2015 (M. K. Republik Indonesia 2015) (which was broken down into 10 component and 45 details questions) and Surat Edaran Direktur Jenderal Pajak (SE) 15/PJ/2018 (D. J. P. Republik Indonesia 2018) . There are a number of activities in the process of tax audit works that may affect the quality of tax audit. Some of the features are within the control of the tax auditor such as competencies, knowledge, experiences, but at the same time are out of taxpayer control, such as the audit time limit. The research was carried out by using a deep interview with persons in charge combined with a list answered questionnaire of the taxpayer. Based on the qualitative analysis the results indicate that a poor activities of tax audit quality in term of communication have posed a serious potential financial consequences for the taxpayer in the form of the tax assessment letter for underpayment and the collection letter. The implications of these findings for tax authorities are the urgency in developing tax audit procedure that can improve tax audit quality as mandated by tax provisions, avoiding taxpayers as object of state revenues ambitions.*

Key words: *Financial Losses, Tax Audit Quality, Audit Quality Factors, Tax Audit Procedures*

1. Introduction

Recently, the government issued a comprehensive administrative policy towards taxpayers in Indonesia. The policy mentioned is the issuance of a Letter of Request for Explanation of Data and/or Information (Surat Permintaan Penjelasan atas Data dan/atau Keterangan, SP2DK). The SP2DK will be followed by a report on the results of the request for an explanation of the data and/or information (Laporan Hasil Permintaan Penjelasan atas Data dan/atau Keterangan, LHP2DK). SP2DK is a letter issued by the Head of the Tax Service Office (Kantor Pelayanan Pajak, PKP) to request an explanation of the data and/or information to the

WP regarding the alleged non-fulfillment of tax obligations in accordance with the provisions of the legislation in the field of taxation (Kemenkeu 2022). It can be easily understood that the competence of taxpayers in Indonesia in understanding accounting or financial income, as the raw material for fiscal statements, which is the basis for filling in the Annual Tax Return (Surat Pemberitahuan, SPT), is considered to be low. After the government carried out the first wave of tax reforms, in 1983-1984, until the recent Tax Law No.7, popularly labeled as Harmonization of Tax Regulations, HTR (2021), there were obstacles that seemed to have not been fundamentally resolved. There are minimally, two things must be addressed carefully.

First, Indonesia does not have a Bookkeeping or Accounting Law even though the government had initiated Tax Reform in 1983-1984, which has been almost 40 years. Referring to the essence of the income tax provisions, the tax is only imposed on net income or more precisely imposed on taxable income. The absence of a Bookkeeping Law causes the implementation of tax rights and obligations become uncertain. To bridge this, the government issued the Net Income Calculation Norm (Per DJP 17 2015) or Director General of Tax Regulation- DGT No. 17/2015). It is commonly called as net income calculation norm-NICN (Norma Penghitungan Penghasilan Neto, NPPN) which is breakdown into 1435 business group (KLU). By studying KLU carefully, it will be seen that the percentage (%) of net income is too large, and does not reflect the actual condition. Even though this KLU is more intended for individual taxpayers, still, this norm is unrealistic. Besides that, there was never any statement that the KLU was based on adequate data researched. For example, the net income on service for repairing consumer electronic equipment (KLU 95210) is set at 50%. Do individuals taxpayers really earn 50% in net?

Based on the Law of Tax Regulations No 7, 2021-HTR (UU Perpajakan Nomor 7 Tahun 2021), specifically the law of general provisions and taxation procedures article 28 paragraphs 1 and 2 states that individual taxpayers who carry out business activities or work independently and Corporate taxpayers in Indonesia are required to keep books of account. On the contrary, taxpayers who are exempted from the obligation to keep books but required to make a record, are: (1) individual taxpayers who carry out business activities or independent work that are allowed to calculate net income using the Net Income Calculation Norm and (2) Individual Taxpayers who do not carry out business activities or independent work, for example employees both permanent or temporary who earn income solely from the employment relationship between the employer and the recipient of the job.

Second, the existence of the NPPN does not provide guarantees for individual taxpayers to prevent an underpayment tax assessment letter from being issued. Every taxpayer has the same opportunity to be audited by the tax auditor or tax officials. Due to financial risk, both corporate taxpayers and individual taxpayers have the same risk they face from tax auditors. Thus, this is in line with what a work described (Dabla-Norris et al. 2017) that compliance costs tend to be disproportionately higher for small and young businesses is common phenomenon that occurs to individual and corporate taxpayers in Indonesia, some with certainty and equality become scare practices. With regard to compliance costs and avoiding taxpayer financial sacrifices, the DGP has to provide tax audit guidelines that meet the quality of tax audit. The absence of a bookkeeping law and the existence of an NPPN implies inadequate quality of tax audit, which in fact varies in the field. The rise of SP2DK (reaching 2.3 million SP2DK in 2021) and intensive tax audits becomes a driving phenomenon for the issue of tax audit quality in Indonesian perspective.

Numerous previous research found there are various variable that may impact the quality of audit, such as the competence of the auditors (Indradewa, Supriyatin, and Ali Iqbal 2019), auditor specialization (Soliman 2014), input, process, output, interactions, and contextual

factors (Mersha, Belaye, and Gobena 2022) , task complexity and time pressure (Adnyana and Mimba 2019), and time pressure in completing the audit (Al-Qatamin, Salleh, and Ali 2021). Indradewa et.al (2019) agreed that the influence of competence, knowledge, skills and experience on audit quality sounds positive if supported by job satisfaction in the implementation of the audit as there are two factors that cannot be separated from the self-checker. Research by Soliman in Egypt (2014) found audit quality is characterized by audit firm size, auditor specialization (competence), and audit tenure. The works made by Indradewa et.al (2019), Mersha et.al (2022), Al-Qatamin (2021), Soliman (2014) consistent with similar researchs conducted by Arson et.al (2019), Sulaiman (2018), and Kadri (2020).

The quality of audit can be influenced by internal factors such as competence, independence, work experience and internal control systems (Arson Welay, Rosidi, and Nurkholis 2019). They emphasized that a good internal control system in an inspectorate (note: or entity) will improve the quality of (internal) audits supported by auditor's competence, independence and work experience. According to their work audit experience can be seen from the length of time in undergoing the profession and the number of audit engagements that have been completed, so that more auditor experience will result in quality audits. Analysis by (Sulaiman 2018) reveals that the majority of academic research applies the notions of the competence and independence of the auditors as the key concepts to measure audit quality. Research by (Lee and Stone 1995) shared similarly, that competence in term of skills, knowledge, and experience must be owned by auditor, so that she/he could completed the audit task and achieved the objectives of the audit. A report (report II) from Institute of Internal Auditor (Bailey 2010), provides 3 dimensions for internal auditor competencies, namely: 1) Dimension of Knowledge (consisting of 4 indicators: *auditing knowledge, internal audit knowledge, standard ethic knowledge, and knowledge about fraud awareness*); 2) Dimension of the behavioral skills and technical skills (consisting of 6 indicators: confidentiality, communication, understanding of business, risk analysis and control assessment techniques, identification of control types, data collection, and analysis tools and techniques; 3) Dimension of ability or general competencies (consisting of 2 indicators: communication skills and the ability to identify problems and the solution (Kadri, Natsir, and Wahyuni 2020).

In term of of time pressure, they found that although the tax auditors are confronted with the rules regarding the timing of the assignment of audit, it turns out that time pressure does not affect the tax auditors in producing a high quality tax audit (Indradewa et.al (2019). This is in line with research made by Adnyana and Mimba (2019) and Lautania (2011) that time pressure has a negative effect on audit performance. Further they stated indication that auditor feels pressured by the time pressure, which can lead to stress on the auditor and will eventually encourage the auditor to violate audit standards or dysfunctional audits that will result in poor auditor performance thus sacrificing clients.

Different work results found in research made by Oktavianto and Suryandari. Their works found partially that auditor's experience does not affect audit quality and audit complexity have a negative effect on audit quality. (Dwi Oktavianto and Suryandari 2018). While, another study reveals that auditor competence is not a factor that can improve audit quality, if the competencies do not meet standards required (Arson Welay, Rosidi, and Nurkholis 2019), and understanding information systems cannot moderate the influence of auditor experience on audit quality (Dwi Oktavianto and Suryandari 2018), contrary with conclusion study which states a good internal control system in an inspectorate (note: a taxpayer) will improve the quality of internal audits supported by auditor's competence, independence and work experience (Arson Welay, Rosidi, and Nurkholis 2019).

The inconsistency of various previous studies on elements such as competence, experience, length of time working, on audit quality has created a research gap. Therefore this study aims to search the cause of the inconsistency by conducting research from the main and first source, which underwent a tax audit of 2017 fiscal year. The research question in this work is whether from a direct source the audited taxpayer we can be given evidence that a tax audit meets adequate standards. Thus, the formulation of this study is whether in-depth research on direct sources can explore inconsistencies so that the quality of tax audits can be elaborated. This paper examines how the quality of tax administration affects firm accounting figure for a small firm which was unfortunately audited by tax auditor with certain quality that may reflects the real situation among the condition of tax audit in Indonesia atmosphere, thus reflecting occurrence in developing economy. This study construct a novel of a piece of national practices, using related audit tax procedure regulated by minister of finance along with its tax provisions. The study show that a poor of audit quality will pose gap disappointment among taxpayers which in turn becomes unproductive compliance in the future. From a policy perspective, the study provide evidence that uncommunicative audit treatment on sensitive issue as stated by (Joanna Nasr 2019) in World Bank Report (Doing Business in 2019) and neglect of the trust mandate and instead seem to pursue the tax revenue target per region, will be very risky for the taxpayer's perspective. Compared to previous studies, the novelty of this research is that it uses several elements of audit quality, including tax provision such as PMK 17/03/2013 in conjunction with PMK 184/03/2015 (which was broken down into 10 components and 45 details questions) and SE 15/ PJ/2018, as the Indonesian context.

This study makes several contributions to the body of knowledge. First, the findings enhance the current literature on tax audit quality with regards to qualitative findings. Second, the research uses a combination of questionnaire and deep interview as instrument to gather deep and wide information needed. Third, practically, the findings arising from this study provide valuable information for policy makers in Indonesian DGT, as well as to the taxation profession and the management of companies. The findings of this study have contributed to the body of knowledge on tax audit quality as qualitative issues in the context of property companies.

This study consists of 5 sections. The first section discuss the introduction that describe the phenomena, problems, research objectives, and differences and uniqueness from previous studies and beneficial aspects obtained. Section 2 describes literature review. Section 3, discusses research methods. Section 4 describes research findings, discussions and opportunities for next research. Section 5 concludes the paper.

2. Literature Review

2a. Tax, Tax Audit and Tax Audit Quality

With its broadest definition, the tax law defines tax is a mandatory contribution to the state that is owed by an individual or coercive bodies under the law, without getting a direct reward and use it for the needs of the state for the greatest prosperity of the people (HPP Article 1). The word without getting a direct reward means that benefits from government received by the taxpayer is not in direct time and not proportional. As a state with self assessment system, taxpayers are required to calculate, pay, and file tax return on monthly and annual basis independently. Thus the tax authority will be focusing to deal with monitoring, guidance, audit, and law enforcement to make sure that the self assessment system works effectively, and the taxpayers fulfill their obligation in line with all tax provisions. .

Regarding audit quality, (De Angelo 1981) and (Issa 2008) describes it into two main characteristics, namely the possibility of the auditor detecting misstatements, and the auditor

acting appropriately to report any misstatements that have been found, with addition (Issa, 2008) the reduction of information asymmetry between management and shareholders. As for general perspective in Indonesian tax system, management and shareholders are concerned highly with tax audit, since many have sounded issues on justices, fairness, and equality during the tax audit.

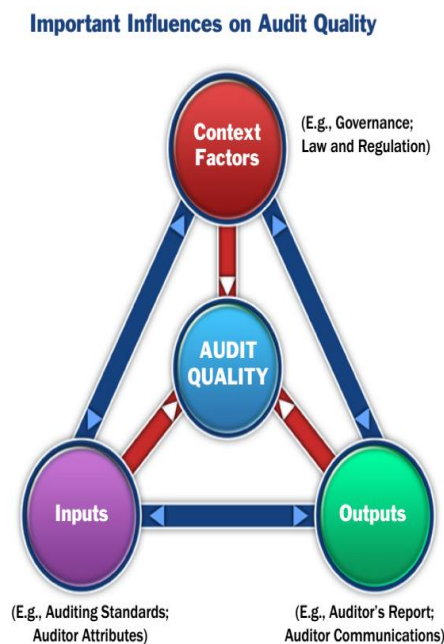
OECD (2006) defined tax audit as an examination of whether a taxpayer has correctly assessed and reported their tax liability and fulfilled other obligations. Further, it stated that tax audits are often more detailed and extensive than other types of examination, such as general desk checks, compliance visits/ reviews or document matching programs. According to Nasr (2019), a tax audit is one of the most sensitive interactions between a taxpayer and a tax authority. It is essential that the right legal framework is in place to ensure integrity in the way tax authorities carry out audits. An audit must have defined start and end points. The definition of a tax audit in *Doing Business (16th edition)* includes any interactions between the taxpayer and the tax authority post filing of the tax return and payment of the tax liability due, including informal inquiries, formal inquiries and formal tax audits.

According to a study of Bauchi State Board of Internal Revenue (Badara 2012) on James's priority list of tax audit mission (1993), The goals of a tax audit include creating a workable and efficient tax administration to deal with an economy that is constantly changing, putting strategies in place to resolve tax disputes between the tax authority and the responsible tax payers, maintaining a robust mechanism to deal with tax avoidance strategies that are available to various organizations but are vulnerable to tax abuse, bringing defaulting tax payers into the tax authorities' sights, and demonstrating compliance with tax laws.

In Indonesian context, tax audit has been regulated through Law No 7 concerning Harmonization of Tax Regulations Article 29 (broadest), PMK 17-03-2013 and PMK 184-03-2015 (tax audit procedures) and has been formulated by the Indonesian tax authorities through the policy in SE-15/PJ/2018 concerning Tax Audit Policy. The Article 29 says, The Director General of Taxes (DGT) is authorized to conduct audits to test compliance fulfillment of the Taxpayer's tax obligations and for other purposes. Other purposes includes (a) granting of ex-official Taxpayer Identification Number; (b) deletion of Taxpayer Identification Number; (c) the confirmation or revocation of the confirmation of the Taxable Entrepreneur; (d) Taxpayers file objections; (e) collection of consideration for the preparation of Net Income Calculation Norms; (f) matching data and/or information tools; (g) determination of Taxpayers located in remote areas; (h) determination of one or more places where Value Added Tax is payable; (i) audit for tax collection; (j) determination of when to start production in relation with tax facilities; (k) fulfillment of requests for information from partner countries (treaties) of the Tax Avoidance Agreement.

Compliance of the Taxpayer's tax obligations as the main purpose in Indonesian atmosphere is actually related with (Francis 2011) general remark that the high quality of an audit is met when the auditor can determine the the auditee's compliance with regulations (Alhadi and Nugrahanto 2021). Many more Indonesian taxpayers complain that testing compliance with tax obligations is not the main goal of tax audits. The main goal is to continue to explore tax potential. The phrase "hunting animals in the zoo" has been used since the 1990s. This is not excessive when viewed from the conception of the quality of tax audits that the Directorate General of Taxes has formulated through SE-15/PJ/2018. As a provision concerning Tax Audit Policy, SE-15/PJ/2018 explain the quality of tax audit into effective audit implementation in achieving organizational goals (DJP as state agent). According to the provision, the criteria for the quality of tax audit include (1) tax audits completion on time and optimal tax payments, (2) minimum legal effort/tax disputes filled by taxpayers, (3) controlled restitution raised by taxpayers, and (4) creating of sustainable compliance.

In the message through IAASB CAG PAPER, (Schilder 2011) noted that audit quality can be viewed in term of three fundamental aspects: inputs, outputs, and context factors, as reflected in the figure of Important Influences on Quality Audit below (IAASB CAG Agenda. Agenda Item F1, March 2011).



Picture 1. Important Influences on Audit Quality. Source IAASB CAG PAPER, 2011.

Important input factors includes the auditor's personal attributes such as auditor skill and experience, ethical values and mindset. Another important input is the audit process. The audit process concerns such matters as the soundness of the audit methodology, the effectiveness of the audit tools used, and the availability of adequate technical support, all geared toward supporting execution of a quality audit. Meanwhile, stakeholders in their assessments of audit quality, uses output of audit as indicator quality. Audit report that clearly conveys the outcome of the audit will be viewed as qualified audit. Similarly, auditor communications to those charged with governance (TCWG) on matters such as qualitative aspects of the entity's financial reporting practices and deficiencies in internal control can positively influence audit quality (Schilder 2011).

Schilder (2011), noted further, there are context factors that also influence audit quality. For instance, good corporate governance supports audit quality, particularly if it fosters an environment of openness and moral conduct within the company. Law and regulation can also have a positive impact on audit quality if they, among other things, provide a framework within which the audit can be carried out successfully. Regulatory oversight can also have a positive impact if it establishes a reliable system for assessing the caliber of auditors' work and fosters a productive relationship between auditors and regulators (Schilder 2011).

Using perspective on indicator of audit quality component from (Knechel et al. 2012) and Schilder (2011) which are input, process, outcome, and context, the linkage to the tax audit quality in Indonesian context can be bridged. Input (individual characteristics), process (analytical procedures, workpaper, etc), outcomes (tax audit report and its related items), and context (audit period, tax objects examined) are actually in line with tax audit procedure of PMK No. 17/PMK.03/2013, and its changes of PMK No. 184/PMK.03/2015 and SE-15/PJ/2018 .

2b. Knowledge, Expertise and Competence

According to Knechel et.al (2021) auditor knowledge and expertise has a direct bearing on the quality of the audit. AL-Qatamin et.al (2021) stated that specialization and experience play a vital role in making many fields effective and efficient including the audit field. Auditors' industry specialization and auditors experience year in auditing field are the two of the factors affecting the audit quality. The more auditors have industry specialization and experiences, the more the audit quality is. Auditors' industry specialization, which refers to industry- specific knowledge gathered from providing services to clients of the same industry (Al-Qatamin, Salleh, and Ali 2021) indicates the expertise of an auditor.

AL-Qatamin et.al (2021) found that an industry knowledge, skills and training associated with the nature of the client's business allow the auditor to conduct the audit in a more efficient and effective manner. Naturally, as an auditor gains experience auditing clients in a certain business over time, the audit becomes more effective in terms of both time and resources. AL-Qatami et.al (2021) work concluded Auditors with high knowledge in the client industries are more likely to have direct influence on the audit quality. Their work showed that the high level of auditor industry knowledge and auditor experience leads to decrease the probability of auditors to engage in premature sign-offs, therefore, it leads to increase the quality of audit performed by them.

Competence according to (International Federation of Accountants (IFAC) 2006), de Angelo (1981), (Qi, Li, and Tian 2015), (Houghton and Jubb 1998), (Harding and Trotman 2009), and (Hermanson, Roger H., Stephen Loeb E. 1993) refers to numerous words such as characteristics and capabilities, knowledge, individual auditor, audit team, public accounting firm, personal aspect (one's nature, motives, value system, attitude, skills, behavior, due professional care, adequate training, experience, pass the CPA examination, stay abreast of current developments in accounting, auditing and tax matters. Based on PMK 17/PMK.03/2013 (changed by PMK 184/PMK.03/2015), tax audit standard includes general audit standard (related strongly with auditor characteristics), audit process (implementation) standard and audit reporting standard. Auditor characteristics specifically include the requirements that must be met by auditors such as: (a) has received adequate technical education and training and have the skills as a Tax Auditor; (b) use their skills carefully and thoroughly; (c) honest and clean from disgraceful actions and always put the interests of country; and (d) comply with various provisions of laws and regulations in the field of taxation, consistent with input component remarks by previous work. In the Indonesian atmosphere, the audit, if needed can be executed by experts from outside the Directorate General of Taxes (DGT) appointed by the Director General of Taxes. The word expert means the expertise the DJP lacks of.

Audit implementation and process coverage consists of following criteria: (1) audit must be initiated with audit plan and audit program, (2) using proper methods and technique, (3) findings have to be based on competence evidence, (4) conducted by a solid audit team, (5) audit team assisted by expertise such as in technology and legal, (6) can be conducted by other auditor from related institution, (7) audit process can be completed in DGT office or taxpayers office, (8) the works will be documented within working paper (PMK 17/PMK.03/2013)

3. Research Method

This study concentrates on determining how a poor or proper tax audit quality made by tax auditor impacts potential financial consequence (losses) for small property companies operating in the regencies of Boyolali, Karanganyar and Solo, located in Central Java as one of most populated islands in Indonesia. For this reason, this research was designed using a unique case study approach (Christians 2012), (Sage Publication 2018), because it was carried out on a

case that occurred to a property business that had been audited without following the full regulated procedures mandated. Another objective is to find out whether the procedures of tax audited mandated by the tax provisions was met. In order to determine the effects on financial company, the cases study approach was adopted. According to (K. Yin 1994) case study is an approach of an empirical investigation that allows examining a transient phenomenon in its real environment. K. Yin (1994) state further that the case study is useful to investigate on a phenomenon that is not completely studied. It is particularly useful when the relationships between a phenomenon and its circumstances are not clear. Although the approach does not justify deriving generalizations from the findings, it seems to be the most suitable tool for explaining the questions raised in this study (Zarzycka Ewelina 2012). For Indonesian context the phenomenon relates closely to the process of a tax audit and its circumstances like human resources competency. A questionnaire survey of tax audit was made containing 10 components and its details (45 items). The questionnaire are chosen as critical process made during tax audit. The questionnaire were based on three fundamental aspects stated by Arnold Schilder (2011), integrated with PMK 17/PMK.03/2013 and PMK 184/PMK.03/2015) and SE-15/PJ/2018 viewed as tax audit guidance. The usage of questionnaire and deep interview conducted in this research give interesting challenges in of the current study in the following findings section.

In the current study, a single case study involving two taxpayers, one individual taxpayer (namely A-located and domiciled in Karanganyar), and the other corporate taxpayer (namely PT. XYZ-located and domiciled in Boyolali) is appropriate to analyze the issues highlighted in the previous section. The study scrutinize why such a proper or poor of a tax audit can be executed by tax auditors. The archival primary data are collected during June-August and updated in early September 2022 from documents produced by both taxpayers and tax auditor along the audit time. Taxpayer A was listed in the tax office in the regency of Karanganyar, while PT.XYZ was listed in the tax office in the regency of Boyolali. Both tax offices are under Surakarta Regional Tax Office.

The object of the audit was Tax Year 2017, consisting annual tax return year 2017 and its monthly tax return (January to December 2017) covering all types of taxes. The unit of analysis studied includes all audit files covering the beginning step when the tax audit letter is submitted until the issuance of a tax assessment letter and a tax collection letter VAT and Tax Article 4 (2) (as primary data) was given to tax payer PT. XYZ. Primary data documents were obtained from both taxpayers and from records/bookkeeping, for the 2017 financial year and were further explored through in-depth interviews. To simplify and maintaining its main problem, the current study convey value added tax (VAT) and income tax article 4 (2) as locus of research, even though both taxpayers are subject to income tax article 21, 23, 4 (2) and article 25/29 (monthly installment and end year) and VAT.

As a short description, in running their business, both taxpayers buy land from residents or farmers. In this purchase, there has not been a transfer of ownership from residents/farmers to taxpayers. Therefore, this is not a transfer of right of a land from the farmer to the taxpayer, even though the taxpayer is given a deed of power to sell. Not a deed of binding sale and purchase. After the house is under construction 30% or more, the sale (through home ownership credit-Kredit Kepemilikan rumah-KPR) of land and building is carried out using a mechanism of KPR through a bank.

In processing the data, this study integrates the perspectives offered by Knechel et.al (2012) and Schilder (2011), and to add novelty within Indonesian context, it combined the provisions in PMK No. 17/PMK.03/2013, and its changes of PMK No. 184/PMK.03/2015 and SE-15/PJ/2018. The essence of audit steps mandated in the tax provisions were translated into the questions (as attached) and categorized as input, output and context factors.

4. Results and Discussion

4.1 Results

In this study, the list of questionnaire survey (10 component and 45 details) and audit result (calculation) notification letter were classified into three dimension of audit quality as factors of input, output and context (attachment). The list does not include 11 (eleven) vat underpayment assessment letter, 1 nill (zero) vat assessment letter, 11 underpayment of income tax article 4 (2) assessment letter, 1 nill (zero) of income tax article 4 (2) assessment letter and 11 VAT collection letter, all are output factors in nature. On the other hand, exploration on data related with accounting and tax record were conducted through 4 (four) times visited taxpayers office, 4 (four time) deep interviews and discussions, and 18 contacts via SMS and phone conversations.

Both A as individual taxpayer and PT. XYZ as corporate make business on property (small houses) with separate concentration. A as a taxpayer of small business sells houses with quite law prices (less than Rp 500 million IDR (around or under US\$34,500), while the company sells the higher price (over US 34,500). According to the vat **provisions** (RI 2022) , both taxpayers would be automatically treated as taxable entrepreneurs (Pengusaha Kena Pajak, PKP) if the sale of the properties reach the limit of Rp 4.800.000.000 (around US\$331,000) per year. As a result of being treated as PKP, the taxpayers have to collect vat (10%) in every delivery (sale) of a property. It was by design that A is majority of shareholders in PT.XYZ. To minimize numerous expenses, both taxpayers direct the same employees to handle affairs of both taxpayers, such as accounting report, petty cash, and tax administration. The effort to save the expense includes using the same office, this specifically made after employing to use a professional marketing staff found to be unsuccessful. Both taxpayers also uses the same office, office equipment and office supplies, since the sale of properties made, was relatively small. This is actually common figure activity for small and medium business in Indonesia.

On July 29, 2020, the tax audit letter was issued to PT XYZ by the DGT, with a changes in the audit team informed by a letter of replacement on January 13, 2021. On September 24, 2021, notification of the results of the audit was delivered to the company. Notification step is very critical for Indonesian context since in this step there is opportunity for taxpayers to respond the findings using formal letter. Included in the notification is a summary of the tax base that can be used to calculate VAT including sanctions and tax article 4 (2) sanctions. Table 1 shows summary detail of tax audit results. Regarding the accusations in the SPHP database, Corporate taxpayer responded two important points: (a1) Taxpayer PT. XYZ's tax reporting is separate from Taxpayer A; (a2) VAT is not paid by A, because A as taxpayer has not been categorized as PKP; (b1) the certificates of the transaction were using the names of Taxpayer A, not PT. XYZ; (b2) this is proven by validation at the Tax Office and Regional Financial **Agency** (Badan Keuangan Daerah, BKD).

Further, it turns out that the tax base used by the tax auditor is the basis on which Taxpayer A has paid taxes. Most of the tax bases as illustrated in Table 1 (January, February, March, September, November and December 2017-not bold print) are the basis for taxing transactions carried out by Taxpayer A, which incidentally the taxes has been paid to the State, including the Article 4 (2) tax.

This actually does not need to happen, if a good communication between tax auditors and taxpayers can be conducted properly. The sensitive interactions between taxpayer and tax authority as mentioned by Nasr (2019) were not maintained properly. The absence of good communication was supported by the answer to point 5c and 5d in the questionnaire. In an in-

depth interview, it was found that the taxpayer asked for a postponement of the final discussion because there were other interests that could not be postponed and the COVID-19 outbreak was still spreading. However, according to the Taxpayer, the request was not agreed by the final discussion team or the closing conference team. This shows that points 5c and 5d as context factors are ignored by tax auditors, which can lead to serious financial consequences for taxpayers. These two context factors have led to a poor tax audit quality, that may cause the financial burden for tax payer and hurt the business atmosphere in the regencies. Meanwhile, for the months of May, June, July, August and October (bold print) in 2017-after double-checking and in-depth interviews, the database is partly a database of Taxpayer A whose taxes have been paid, and data that is not actually available in the database of taxpayers PT. XYZ. If this is true, it will be a double taxation imposition effort made by the state, which is interesting for future research on double taxation. As an additional note, Taxpayer A is registered as a Karanganyar taxpayer, while PT.XYZ as Taxpayer is registered as a Boyolali taxpayer.

Table 1. Summary of tax audit report as basis for Tax Underpayment Assessment Letter And Tax Collection Letter

COMP NAME		PT. XZY	In US dollar					
NPWP		XXXXX	Basis data for TUPAL and TCL (Before and After Closing Conference)					
No	Month	TUPAL	Tax Base	VAT	Fines	VAT + FINE	VCL	ART 4 CL
A	B	C	D	E	F	G (E+F)	H	I
1	Jan	1	8.857	886	387	1.273	89	318
2	Feb	2	29.525	2.952	1.290	4.242	295	1.061
3	March	3	14.762	1.476	645	2.121	148	862
4	May	4	33.215	3.322	1.451	4.772	332	875
5	June	5	62.592	6.259	7.145	13.404	714	2.566
6	July	6	52.406	5.241	2.289	7.530	524	2.214
7	August	7	11.810		1.181	1.181	118	663
8	Sept	8	55.359	5.536	2.418	7.954	554	1.988
9	October	9	73.812	7.381	4.576	11.957	458	1.352
10	Nov	10	123.634	12.363	5.400	17.764	1.236	4.441
11	Dec	11	69.014	6.901	3.014	9.916	690	2.479
	Total		534.987	52.318	29.796	82.114	5.158	18.819

Source: Notification of Audit Results, processed further and discussed with the taxpayer.

TUPAL: tax underpayment assessment letter, VAT= value-added assessment letter, ART 4 CL : Article 4 collection letter, VCL = valued added collection letter

4.2 Discussion

This actually does not need to happen, if a good communication between tax auditors and taxpayers can be conducted properly. The sensitive interactions between taxpayer and tax authority as mentioned by Nasr (2019) were not maintained properly. The absence of good communication was supported by the answer to point 5c and 5d in the questionnaire. In an in-depth interview, it was found that the taxpayer asked for a postponement of the final discussion because there were other interests that could not be postponed and the COVID-19 outbreak was still spreading. However, according to the Taxpayer, the request was not agreed by the final discussion team or the closing conference team. This shows that points 5c and 5d as context factors are ignored by tax auditors, which can lead to serious financial consequences for taxpayers. These two context factors have lead to a poor tax audit quality, that may cause the financial burden for tax payer and hurt the business atmosphere in the regencies. Meanwhile, for the months of May, June, July, August and October (bold print) in 2017-after double-checking and in-depth interviews, the database is partly a database of Taxpayer A whose taxes have been paid, and data that is not actually available in the database of taxpayers PT. XYZ. If this is true, it will be a double taxation imposition effort made by the state, which is interesting for future research on double taxation. As an additional note, Taxpayer A is registered as a Karanganyar taxpayer, while PT.XYZ as Taxpayer is registered as a Boyolali taxpayer.

In addition, from the 3c and 3d questionnaires, and in-depth interviews, it was found that there were two important things that were neglected by the tax auditor, namely (1) not being given a questionnaire as feedback from the Taxpayer PT. XYZ, and (2), there is actually no impression of any guidance for the Taxpayer concerned. This shows that the context factor is not fulfilled as part of the quality of tax audits.

4.3. Underpayment tax assessment letter as potential financial losses

Notification of tax audit results submitted to taxpayers provides space for taxpayers to provide responses. However, this is not done by the taxpayer, this is because as a small taxpayer, the understanding on tax dispute is very possible to be inadequate. As a result of non-fulfillment of several important contextual factors, it can cause potential financial losses for taxpayers, as described in the Tax Assessment Letter for Underpayment of VAT, VAT Sanctions and Tax Assessment Letter Article 4 (2) and can be seen in table 2, which figured out into dollars. After thoroughly study the case and interviewed the employee deeply, it was found that the liabilities that must be held by PT. XYZ becomes two objects: VAT related and Art 4 (2). January as example, the liabilities tax payable will be the sum of VAT, Fines, VAT collection letter, and art 4 (2) amounting to US\$ 1,680 equivalent to IDR 22.760.640 (using year end 2017 BI (Indonesian Bank) middle rate. This amount must be paid lately one month after the issuance of the tax assessment letter for underpayment and or tax collection letter. If calculated for a year, then the total amount reaches US\$ 106,091 equivalent to IDR 1.437.320.868. The source of the tax assessment letter and tax collection letter is the result of the tax audit, which in this case the closing conference was not attended by the taxpayer, because the request to postpone the discussion was rejected by the examiner, due to targeted time.

This is consistent with IMF (2017) description and Nasr (2019) statement on compliance cost and sensitive issue regarding tax audit. IMF (2017) found that compliance costs tend to be disproportionately higher for small and young businesses is proven evidence

faced in this case, which is caused by uncommunicative audit treatment on sensitive issue. The closing conference as a sensitive issue is always a critical step in every tax audit process that must be attended by both tax payer and tax auditor. The unwillingness behavior to accept the request postpone of closing conference from tax payer is due to the tight tax audit time schedule. Tax auditor is limited by the targeted time procedure (as mandated by PMK 17/2013), while at the same time, the condition in the field is still overshadowed by the danger of Covid-19, which was tax payer out of control.

Table 2. VAT and Art 4 (2) for Tax Underpayment Assesment Letter and Tax Collection Letter.

COM+A22:I37 P NAME		PT. XZY	In US dollar					
NPWP		XXXX X	Already become tax asseement & tax collection letter					
No	Month	TUPL	Tax Base	VAT	Fines	VAT + FINE G (E+F)	VCL	ART 4 CL
A	B	C	D	E	F	G (E+F)	H	I
1	Jan	1	8.857	886	387	1.273	89	318
2	Feb	2	29.525	2.952	1.290	4.242	295	1.061
3	March	3	14.762	1.476	645	2.121	148	862
4	May	4	33.215	3.322	1.451	4.772	332	875
5	June	5	62.592	6.259	7.145	13.404	714	2.566
6	July	6	52.406	5.241	2.289	7.530	524	2.214
7	August	7	11.810		1.181	1.181	118	663
8	Sept	8	55.359	5.536	2.418	7.954	554	1.988
9	Octobe r	9	73.812	7.381	4.576	11.957	458	1.352
10	Nov	10	123.634	12.36 3	5.400	17.764	1.236	4.441
11	Dec	11	69.014	6.901	3.014	9.916	690	2.479
	Total		534.987	52.31 8	29.79 6	82.114	5.158	18.819

Source: Notification of Audit Results, processed further and discussed with the taxpayer

5. Conclusions

This study provides qualitative analysis on tax audit quality finding, faced by small property company in Central Java, reasons for engaging internal tax preparers and suggestions in increasing the understanding tax audit procedures for companies. Fulfillment of input, output and context factors as a buffer for audit quality, including tax audits is a must as stated by Knechel et.al (2012) and Schilder (2011). But it should not be forgotten at what has been expressed by Nasr (World Bank Group, 2019) that tax audit is one of the most sensitive interactions between a taxpayer and a tax authority was proven in this study, that even the single aspect of context factor have led to a poor quality of tax audit.

This study makes several contributions to the body of knowledge. First, the findings enhance the current literature on tax audit quality with regards to qualitative findings. Second, the research uses a combination of questionnaire and deep interview as instrument to gather deep and wide information needed. Third, practically, the findings arising from this study provide valuable information for policy makers in Indonesian DGT, as well as to the taxation profession and the management of companies. The findings of this study have contributed to the body of knowledge on tax audit quality as qualitative issues in the context of property companies. However, this study is not without its limitations and may represent opportunities for future research. First, the questionnaire of the research was only distributed to three persons in charge. The point of views collected during the process of interview are limited to one-sided source, which may become subjective. Second, there is no opportunity to get the opposite information from the tax auditor, avoiding legal consequences they may face for leaking the secret information concerning taxpayers data as regulated by article 41 on General Procedure of Taxation (UU HPP). In the absence of interview to the tax auditor, the researcher relied on the analysis of the results of the tax audit, which was decided without the presence of the tax payer at the closing conference, since the request to postpone it was ignored by the tax auditor. Third, within the limited time, the researcher has tried all possibilities to increase the number of interviews and the length of time, but due to its limitations as officers on doing various things, made the efforts have not produced the results of interview optimally. As the number of responses arises from one employee who manage sort of administrative affair, the truth of information can not be guaranteed. Thus, the findings of these internal person of the company are considered as tentative. However, the qualitative responses received from this person of respondent are considerable and very informative.

The implications of these findings for tax authorities are the urgency in improving quality of tax audit as mandated by regulation without sacrificing taxpayer's right, including the quality communication during the tax audit process .

In the process factor as an input factor, researcher cannot be directly involved, even taxpayers cannot be freely involved in the tax audit. As stipulated in the tax provisions, taxpayer is required to encourage the smooth activity of tax audits, but not to involve, let alone supervise. An important closing question in this conclusion in connection with further research, may relates to the two main obstacles mentioned in the beginning of this paper. The phenomenon of tax revenue exceeding the target in 2021, according to the author's prediction, is due to the government's SP2DK policy. There may be an exploitation of the inability of taxpayers to read financial/bookkeeping reports that have been used disproportionately. Indonesian taxpayers need the government to immediately issue a bookkeeping law, so that they can keep arguing tax matters against tax officials for their rights and obligations.

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Attachment Questions List

		Questions	Yes or No	CLASSIFICATION	
1		Tax Audit Notice			
	a	Has the Field Audit Notification Letter been submitted to the Taxpayer?	Yes	INPUT FACTOR	I-1
	b	Has a letter of request to come to tax office been submitted for office audit	Yes	INPUT FACTOR	I-2
	c	The audit classified as types (a) or (b)	Yes	INPUT FACTOR	I-3
2		Has a meeting been held with the Taxpayer in order to provide an explanation regarding:	Yes		
	a	Reason and purpose of examination	Yes	INPUT FACTOR	I-4
	b	Rights and obligations of the Taxpayer during and after the Audit	Yes	INPUT FACTOR	I-5
	C	Taxpayer's right to apply for discussion with the Audit Quality Assurance Team	Yes	INPUT FACTOR	I-6
	d	Taxpayer's obligation to fulfill requests for books, records, funds or documents that form the basis for bookkeeping/recording	Yes	INPUT FACTOR	I-7
3		Notification of Examination Results (Surat Pemberitahuan Hasil Pemriksaan)	Yes		
	a	Does the Tax Auditor submit SPHP	Yes	OUTPUT FACTOR	O-1
	b	Does the Tax Auditor give the right to be present to the Taxpayer in the context of the Final Discussion of the Audit Results?	Yes	CONTEXT FACTOR	C-1
	C	Does the Tax Auditor submit a questionnaire to the taxpayer?	No	CONTEXT FACTOR	C-2
	d	Does the Tax Auditor provide guidance to taxpayers in order to fulfill their tax obligations?	No	CONTEXT FACTOR	C-3
	e	Does the Tax Auditor return records, books, and documents that are the basis for bookkeeping/recording	Yes	CONTEXT FACTOR	C-4
4		Authority of Field Auditor			

	a	Does the Tax Auditor ask the taxpayer to come to the DGT office with official letter?	Yes	INPUT FACTOR	I-8
	B	Does the Tax Auditor access/download data electronically at the taxpayer's place?	No	CONTEXT FACTOR	C-5
	c	Does the Tax Auditor ask for information orally to the taxpayer during the audit process?	Yes	INPUT FACTOR	I-9
	d	Is it informed to the taxpayer through a letter containing changes in the tax audit team has occurred due to a change in the membership composition of the tax audit team?	Yes	CONTEXT FACTOR	C-6
5		Taxpayer's Rights			
	a	Does the taxpayer ask the tax auditor to be given an explanation of the reasons and objectives of the audit?	Yes	CONTEXT FACTOR	C-7
	b	Does the Taxpayer receive the Notification of Audit Results?	Yes	OUTPUT FACTOR	O-2
	c	Does the taxpayer attend the Audit Results Final Discussion at the scheduled time?	No	OUTPUT FACTOR	O-3
	d	If the answer to point 5c is no, please provide an explanation here in writing	Can't attend because there are other interests that can't be postponed.	OUTPUT FACTOR	O-4
	e	Whether the Taxpayer submits an application for discussion with the Audit Quality Assurance Team, since there are audit results that have not been agreed upon between the Tax Auditor and the Taxpayer at the time of the Final Discussion of Results.	No	CONTEXT FACTOR	C-8
	f	Taxpayer provides opinion/assessment on the implementation of the audit by the Tax Auditor through filling out the Audit Questionnaire	No	CONTEXT FACTOR	C-9
6		Taxpayer Obligations			

	a	Taxpayer provides all data, books/records and or documents requested to be borrowed by the Tax Auditor	No	INPUT FACTOR	I-10
	b	Taxpayer gives permission to the Tax Auditor to access or download data electronically	No	INPUT FACTOR	I-11
	c	Taxpayer fulfills the request to come to attend the examination according to the specified time	Yes	INPUT FACTOR	I-12
	d	Taxpayer provides assistance for smooth Tax Audit	Yes	INPUT FACTOR	I-13
	e	Taxpayer submits a written response to the Notification of Audit Results	Yes	INPUT FACTOR	I-14
7		Audit Period			
	a	Taxpayer understands that audit period includes a testing period (6 months) for Field Audit and 4 months for Office Audit, and the Audit Result Final Discussion period (2 months), which is calculated from the date of the Notification of Audit Results (NAR) is submitted by the Tax Auditor	No	INPUT FACTOR	I-15
	b	Taxpayer is given an explanation that audit period covers a testing period (6 months- Field Audit and 4 months- Office Audit), and the period of Audit Results Final Discussion (2 months), which is calculated from the date of NAR is submitted by Tax Auditors.	No	INPUT FACTOR	I-16
	c	Is during the audit period the taxpayer given the opportunity to provide a view of the taxation aspect in relation with the object of the audit?	No	INPUT FACTOR	I-17
	d	On the other hand, during the audit period, the taxpayer is looking for opportunities or ways to provide views/information on taxation aspects according to the object of the audit	Yes	INPUT FACTOR	I-18
	e	State whether the relationship between the taxpayer and the tax	Normal		

		examiner as long as the JWP is categorized as good, normal or not good			
8		Notification of Audit Results and Final Discussion of Audit Results			
	a	NAR is submitted to taxpayer attached with a list of audit findings either by fax or directly	Yes	OUTPUT FACTOR	O-5
	b	Taxpayer refuses to accept the NAR and signs the NAR rejection letter.	No	OUPUT FACTOR	O-6
	c	Taxpayer refuses to accept the NAR and refuses to sign the NAR rejection letter.	Yes	OUPUT FACTOR	O-7
	d	Taxpayer receives the NAR and signs the NAR letter.	No	OUPUT FACTOR	O-8
9		Written Responses and Disclaimers			
	a	Taxpayer understands that a written response can be submitted no later than 7 working days from the date the NAR is received by the Taxpayer and can be extended 3 working days	Yes	INPUT FACTOR	C-19
	b	Taxpayer is given a notification by the Tax Auditor that the written response can be submitted no later than 7 working days from the date the NAR is received by the WP and can be extended 3 working days/	Yes	OUPUT FACTOR	O-9
	c	Taxpayers want to take benefits of points a and b but are not emphasized by the Tax Auditor	Yes	INPUT FACTOR	I-20
	d	WP wants to take benefits of points a and b but doesn't know how	No	CONTEXT FACTOR	C-10
10		Final Discussion of Audits Results			
	a	Taxpayer is invited to attend the Closing Conference	Yes	CONTEXT FACTOR	C-11
	b	Taxpayer is present according to the invitation in point 10 a	No	CONTEXT FACTOR	C-12

	c	Taxpayer does not attend the invitation as mentioned in point 10 a	Yes	CONTEXT FACTOR	C-13
	d	Taxpayer attends according to the invitation in point 10 a and signs the approval of the Tax Audit Results	No	CONTEXT FACTOR	C-14
	e	WP is present according to the invitation in point 10 a and refuses to sign the Tax Audit Result approval	No	CONTEXT FACTOR	C-15