Increasing the Level of Agreement of Taxpayers on Tax Audit Conclusions-Recommendations to Vietnamese Tax Authorities

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Abstract
A person's agreement on a decision usually attaches to their own benefits. However, in most situations, a single decision will impact on different people with different benefits, therefore, a person's judgment regarding fairness will decide their agreement. Basing on the fact that tax audit conclusions usually impact on economic benefits of taxpayers and a theory of "awareness of fairness", we would like to apply the quantitative method to identify and verify different drivers of taxpayer's agreement on tax audit conclusions by assessing reliability and suitability of different scales; verifying research model and research hypothesis, and determining drivers' impact through questionnaires given to 256 firms. As a result, we propose recommendations to Vietnamese tax authorities in terms of restructuring procedures, completing auditing method and enhancing tax supervising activities in order to increase the level of agreement of taxpayers on tax audit conclusions, improving Vietnamese tax audit effectiveness.
Keywords: Tax audit, taxpayers' agreement, tax audit conclusions, drivers.

1. Introduction
Regarding tax audit, in order to fulfil requirements on preventing tax fraud and enhancing tax compliance, one of the main challenges for tax authorities is to reach taxpayers' agreement on tax audit conclusions. Agreement on tax audit conclusions will facilitate strong post-audit actions such as strict compliance with conclusions and recommendations, positively change taxpayers' awareness, and behavior as well as boosting tax authorities' prestige and image. Moreover, following guidelines of "the government's determination to shift from instructing to satisfying demands" and "the satisfaction of citizens and firms decides the effectiveness of administrative agencies", Vietnamese tax authorities have been trying to introduce solutions for increasing the level of satisfaction and agreement of taxpayers on tax audit conclusions so as to increase the effectiveness of tax management in general and tax audit in particular; reduce the number of complaints and litigations against tax audit conclusions.

Tax audit team and tax auditors often assume that their audit procedures are conducted in an objective and fair manner, but taxpayers' judgement and agreement on these audit conclusions highly depend on their awareness of different drivers related to tax audit activities. With the quantitative method in which a great number of specific and objective data are collected, research results on driving factors of taxpayers' agreement on tax audit conclusions can clearly show the impact of each driver on taxpayers' agreement regarding tax audit conclusions in Vietnam. These results shall lay a concrete foundation for Vietnamese tax authorities to consider the decisions made in order to reach taxpayers' highest agreement on audit conclusions despite the fact that measures impacting all drivers are hard to be implemented due to insufficient resources.

For these reasons, the research is carried out with two questions: (i) What are the drivers of taxpayers' agreement on tax audit conclusions? and (ii) How does taxpayers' agreement impact on tax authorities and taxpayers themselves?

The researchers hope that the research will be a useful source of reference which opens a new approach for further researches. Recommendations are also provided to aid decision making process so as to enhance the effectiveness of Vietnamese audit activities.

2. Literature Review
Taxpayers' awareness
According to the theory of the awareness of fairness and T&C Consulting's research results (2008), on both auditors' and social perspectives, tax audit conclusion is not merely "a conclusion and judgement over right people for their false actions". Instead, it should be rephrased as a question of "can benefits derived from such audits be traded off by opportunity costs incurred by Tax audit team and the society?". If the answer is "no",

then the society in general and taxpayers in particular may deem it unfair, or even conclude that tax audit is a barrier for firms' development and a social burden. Hence, it is vital to ensure that audit benefits (i.e. prevent, identify and resolve wrongdoings) are greater than audit costs (including opportunity costs and audit duration). In other words, the fairness in audit conclusions is not limited within just "right conclusion, right resolution" but also extended to the regulation of "added benefits" for tax audit and the society.

Considering cause and effect, OECD (2004) assessed that the awareness of taxpayers on tax policies and regulations on their rights and responsibilities regarding tax audit activities shall determine the level of agreement on tax audit conclusions. In other words, the right awareness of fairness depends heavily on taxpayers themselves; the more they are aware of legal regulations, the more agreeable they become regarding tax audit conclusions, provided that such conclusions are correct and compliant with the applicable laws.

Legal regulations and audit process, procedures
Researchers have identified two main drivers determining the importance of legal regulations related to tax audit activities and process. First is the driver of material benefits: Everybody in general and auditors in particular tend to believe it is a prerequisite that legal regulations must be transparent and appropriate enough; effective, proper and fair audit procedures shall bring about fair benefits (in terms of results). Second is the psychological driver: transparent and appropriate legal regulations facilitate people's and taxpayers' agreement, also, help audit team in supervising, identifying wrongdoings and contributing ideas (in other words, satisfy audit team's psychology regarding showing themselves off and being treated equally).

There are many researches on fairness in procedures in certain public sectors. Research results of other countries show that people's trust on public management procedures of the Government tremendously influences their satisfaction, even of much larger scale than the results received (Angelis and Kupchik, 2007). According to Kerstetter et al. (1996), Niu (2010), the theory on fairness in tax process can be applied to increase people's satisfaction with complaining process and handling results. Kerstetter et al. (1996) suggested that in the complaining process, the complainer should be given an opportunity to freely present information which they consider necessary and suitable. Another critically important thing is the complainer should be convinced that complaint handlers are reliable and capable of understanding their positions and situations.

According to T & C Consulting (2008), audit process – procedure shall include principles, policies, orders and measures to carry out the work and ensure certain standards such as objectivity, non-bias, consistency, transparency and suitability for social ethical standards (standardized audit process and procedures). These will have a positive impact on taxpayers' agreement on tax audit conclusions. By applying and verifying the theory of "awareness of fairness", T & C Consulting identified that standard audit process and procedures which proactively open up to related competent regulatory agencies (opening up sources of information to achieve collective power) may have a dramatic impact on the level of agreement on tax audit conclusions and increase the prestige of tax audit agency.

Capability and quality of tax auditor
According to the theory of awareness of fairness, capability and attitude of taxpayers are the third driver of awareness of fairness of taxpayers and related competent regulatory agencies. Regarding tax audit activities, from taxpayers' perspective, the capability and quality of tax auditors who directly get involved in discussing and interacting with taxpayers will impact considerably on the awareness of fairness and taxpayers' agreement on tax audit conclusions. Some researches even point out that good qualities in terms of professionalism, morality, skills, etc. of tax auditors will establish the trust of taxpayers over tax audit process and conclusions, as a result, taxpayers will easily accept tax audit conclusions (Allingham & Sandmo, 1972).

When expanding research on audit activities, T & C Consulting (2008) pointed out: fairness in attitude is fully attached to working style and servicing culture – a "customer centric" culture, in audit activities. In order to reach such requirement, it is necessary to have at least two conditions: (i) auditors should consider their job's objectives as not to "identify wrongdoings" alone, but also to aid and obtain people's agreement to help taxpayers improve their business performance; (ii) auditors should be competent enough, possess sufficient qualities and an excellent communication skill to fulfil their tasks in a professional manner.

According to T&C Consulting and OECD (2004), the enhancement of auditors' capability (mainly knowledge on legal regulations, auditing skills, expertise; possession of "social" soft skills and standardized attitude and behavior for tax auditors) will surely increase the effectiveness of tax audit activities and generate agreement of taxpayers.

3. Research Methodology
3.1. Research Model
Combining the research results obtained through quantitative method on tax audit activities in Vietnam in general and on taxpayers' agreement on tax audit conclusions in particular, a research model over 5 drivers of taxpayers' agreement on Vietnamese tax audit conclusions is developed as per Figure 1, including:
(i) Driver "Legal regulations": law provisions acting as a foundation to implement tax audit activities which

consist of law provisions on determining tax obligations, law provisions for tax authorities when conducting audit; law provisions for taxpayers when being audited and law provisions on handling tax-related violations and misconducts.

(ii) Driver "Audit process and method": different steps and procedures carried out by Tax audit team when auditing at taxpayers' offices, from the time of announcing the auditing decision to the time of terminating the audit (guideline on reaching audit conclusions and urging the execution of audit conclusions).

(iii) Driver "Tax audit supervision procedures": tax audit managers apply procedures to track the progress of audit activities, be aware of any arising problem during the audit; give instructions for handling during the audit and form a supervising mechanism to prevent auditors' misconducts and wrongdoings.

(iv) Driver "Capability – quality of auditors": factors reflecting ability and quality of tax auditors, namely awareness of taxpayers' business; knowledge; skills; impacts of material aspects and social relationship on professional decision.

(v) Driver "Taxpayers' legal awareness on tax": taxpayer's ability to comprehend legal regulations related to tax audit activities such as general law provisions on taxation; law provisions on tax audit and law provisions on handling tax-related violations and misconducts.
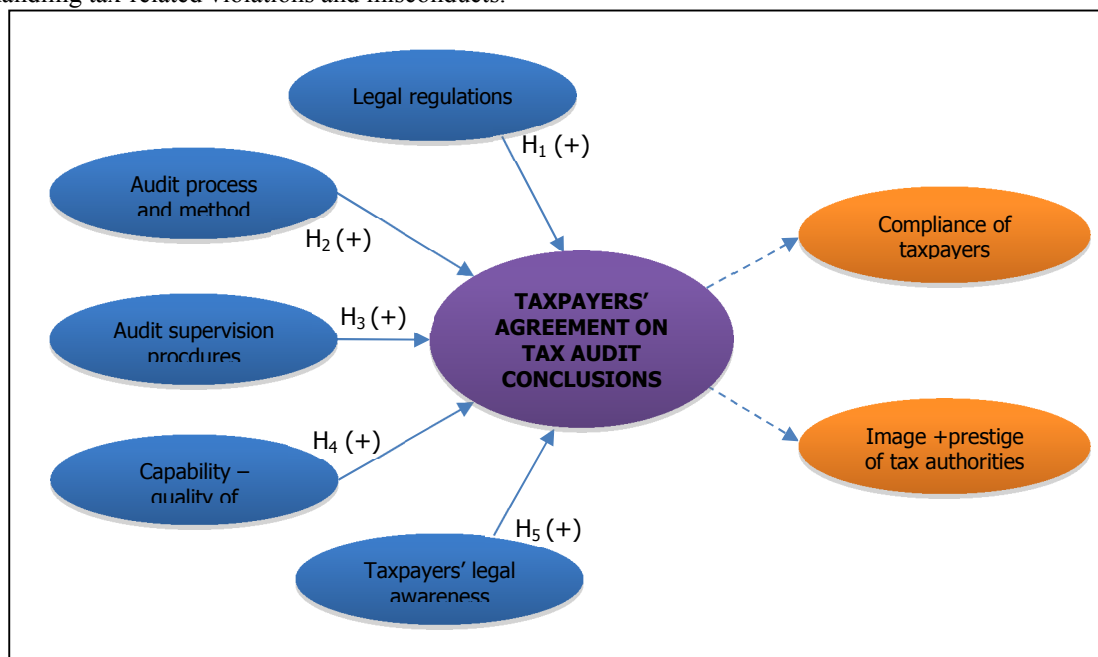

Figure 1. Research model

Five assumptions correlating with 05 drivers are given below:

- H_1: The more sufficient, evident and practical the legal regulatory system related to tax audit activities is, the more likely taxpayers agree with tax audit conclusions;

- H_2: The more sufficiently, scientifically and suitably the audit process, procedures and method are regulated and conducted, the more likely taxpayers agree with tax audit conclusions;

- H_3: The more evident and practical the procedures to supervise tax audit activities are, the more likely taxpayers agree with tax audit conclusions;

- H_4: The better the auditors' capability and quality, the more likely taxpayers agree with tax audit conclusions;

- H_5: The more taxpayers know about tax legal regulations, the more likely they agree with tax audit conclusions.

3.2. Variables

The scale to measure the level of agreement of taxpayers regarding tax audit conclusions, 05 drivers and 26 variables are adjusted and supplemented after the preliminary research. Details are given in Table 1.

Table 1. Variables of Model of drivers' impact on taxpayers' agreement on tax audit conclusions

Variables	Coding	Measurement
Taxpayers' agreement	DTKL1	Agree with violations determined by tax audit
	DTKL2	Agree with handling actions after tax audit
	DTKL3	Agree with recommendations after tax audit
Legal regulations	QDPL1	Law provisions on tax obligations
	QDPL2	Law provisions for tax agency when conducting tax audit
	QDPL3	Law provisions for taxpayers when being audited
	QDPL4	Law provisions on handling tax-related violations and misconducts
Audit process and method	TTPP1	Procedures to announce the auditing decision
	TTPP2	Procedures to examine and assess taxpayers' fulfilment of tax obligations
	TTPP3	Procedures to discuss handling issues identified via tax audit
	TTPP4	Procedures to assess taxpayers' explanation on arising issues
	TTPP5	Appropriateness of handling recommendations for arising issues during tax audit
	TTPP6	Procedures to giving instructions to execute tax audit conclusions
	TTPP7	Procedures to supervise the execution of tax audit conclusions
Supervising procedures	TTGS1	Tax audit agency's awareness of auditing progress
	TTGS2	Tax audit managers' awareness of arising issues during tax audit
	TTGS3	Tax audit managers' instructions for tax audit
	TTGS4	Supervising mechanism to prevent tax auditors' misconducts and wrongdoings
Capability – quality of tax auditors	NLCB1	Auditors' awareness of taxpayer's business
	NLCB2	Auditors' knowledge
	NLCB3	Auditors' skills
	NLCB4	Impact of material issues on tax auditors' professional decision
	NLCB5	Impact of social relationship on tax auditors' professional decision
Taxpayers' legal awareness	HBPL1	Taxpayers' awareness of general law provisions on taxation
	HBPL2	Taxpayers' awareness on law provisions on conducting tax audit
	HBPL3	Taxpayers' awareness on law provisions on handling tax-related violations

The research also assesses the spillover effect of taxpayers' agreement on tax audit conclusions over tax authorities and taxpayers themselves via variables of HACQ (image, prestige of tax authorities after tax audit) and TTDN (taxpayers' compliance after tax audit).

3.3. Data Collection
With the aforementioned research model, the research data is collected through:
    - Data collection design: Official questionnaires handed over to firms during 2013-2015 consisting of 28 items (Likert scale from 1 to 5 was applied for each item);
    - Sample: firms whose offices are located in 15/63 provinces and municipalities to ensure the representativeness regarding geographic and socio-economic characteristics;
    - Survey results: questionnaires were distributed to 935 firms in total, in which 256 questionnaires are qualified, accounting for 27.38%.

3.4. Data Processing
Data is processed and analyzed by SPSS Statistics following these main steps as:
    - Assess the reliability and value of scale by Cronbach's alpha and Exploratory Factor Analysis – EFA by using SPSS 22; delete variables that do not explain research concepts (i.e. do not meet reliability requirements) and re-structure the remaining variables into suitable factors (or measuring components) to be a foundation for further adjusting research model, hypothesis, analysis and verification;
    - Regression Analysis - RA with linear relationship to verify important factors which influence taxpayers' agreement on tax audit conclusions; assess the correlation between taxpayers' agreement on tax audit conclusions and spillover effect on tax authorities and taxpayers.

4. Results and Discussions
4.1. Research Results
Verification results of scale and factor analysis
Verification results of scale by using Cronbach's alpha for all variables show that it is necessary to delete 3 variables (namely QDPL4, TTPP4, NLCB5). After removing these 3 variables, verification results of scale for drivers of taxpayers' agreement on tax audit conclusions using Cronbach's alpha are all qualified (Legal regulations: 0.839; Audit process and method: 0.905; Supervision procedures: 0.753 and Capability and quality of tax auditors: 0.776). Similarly, verification results of scale by using Cronbach's alpha for variables of

taxpayers' agreement on tax audit conclusions show that it is unnecessary to delete any variables (Cronbach's Alpha = 0,860).

The research also uses KMO and Bartlett's test of sphericity in order to assess the correlation of indicators of the model and EFA conditions. With qualified KMO (0,781 > 0,5) and critical value of Bartlett's test of sphericity = 0.000, the hypothesis saying that indicators in the model does not have any correlation is removed. Therefore, EFA is deemed appropriate.

As the EFA method continues to be applied to drivers' indicators to reduce these indicators into new meaningful factors for the research, all indicators now ensure the convergent validity (since factor loading is lower than 0.5). Also, all five drivers' indicators are shown to converge (the total variance explained is 70.649% and Initial Eigenvalue = 1.142 for the fifth driver).

To increase the ability to explain various factors, the researchers apply Varimax procedure to perform orthogonal rotation of factors to minimize the number of variables with large factor loadings in the same factor. After conducting the EFA, it is shown that indicators result in 05 factors explaining 70.649% of taxpayers' agreement on tax audit conclusions (with the total variance explained of 70.649%); the remaining 29.351% of taxpayers' agreement on tax audit conclusions can be explained by other factors.

After considering the level of importance of each variance for each factor through factor loading matrix results, here are the results:

(i) Law regulation: QDPL = 0.398 QDPL1 + 0.373 QDPL2 + 0.299 QDPL3

(ii) Audit process and method: TTPP = 0.196 TTPP1 + 0.240 TTPP2 + 0.199 TTPP3 + 0.183 TTPP6 + 0.197 TTPP5 + 0.225 TTPP7

(iii) Audit supervising procedures: TTGS = 0.316 TTGS1 + 0.318 TTGS2 + 0.321 TTGS3 + 0.320 TTGS4

(iv) Capability and quality of tax auditors: NLCB = 0.262 NLCB1 + 0.321 NLCB2 + 0.329 NLCB3 + 0.373 NLCB4

(v) Taxpayers legal awareness: HBPL = 0.303 HBPL1 + 0.371 HBPL2 + 0.359 HBPL3

Regression Analysis Results

We employ Pearson correlation coefficient to analyze the correlation of 05 independent variables (05 drivers) and a dependent variable, tax audit performance. As a result, the variable of tax audit performance correlates with other variables and possesses a correlation coefficient which is statistically significant. The adjusted R^2 shows that used factors can explain 56.0% of Taxpayers' agreement on tax audit conclusions.

The regression model continues to be tested through F Statistics and verifying the proposed hypothesis via correlation verification and multiple regression to see whether it is appropriate for the collected data and whether it can be applied to practical use or not. Multiple regression results are then collected, along with coefficients in the model of factors impacting Tax audit performance. The results prove that Taxpayers' legal awareness should be deleted from the regression analysis model due to its high Sig. (Table 3). The remaining 04 factors in the analysis model are still suitable with relatively small Sig., which are not against Collinearity statistics (i.e. factors do not correlate).

Table 3. Multiple regression results along with coefficients in the model

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			B	Std. Error
(Constant)	.227	.195		1.167	**.244**		
QDPL	.108	.035	.158	3.098	.002***	.663	1.508
HBPL	.045	.043	.058	1.055	**.292**	.567	1.763
TTGS	.132	.044	.157	2.988	.003***	.628	1.593
NLCB	.119	.039	.136	3.023	.003***	.850	1.176
TTPP	.483	.040	**.558**	12.179	.000***	.823	1.215

a. Dependent Variable: DTKL

'***': statistically significant at 1%.

The research also analyzes the correlation between taxpayers' agreement on tax audit conclusions and their compliance after tax audit as well as their attitudes towards tax authorities' prestige and image after tax audit. The results are shown in Table 4 below.

Table 4. Correlation between taxpayers' agreement on tax audit conclusions and spillover effect on tax authorities and taxpayers

		DTKL	HACQ	TTDN
DTKL	Pearson Correlation	1	.698**	.776**
	Sig. (2-tailed)		.000	.000
	N	256	256	256
HACQ	Pearson Correlation	**.698****	1	.801**
	Sig. (2-tailed)	**.000**		.000
	N	256	256	256
TTDN	Pearson Correlation	**.776****	.801**	1
	Sig. (2-tailed)	**.000**	.000	
	N	256	256	256

'**': statistically significant at 5%

4.2. Discussions

Based on the highest factor loadings of 05 factors, the research would like to suggest some recommendations to enhance taxpayers' agreement on tax audit conclusions in Vietnam as follows:

(i) Legal regulations: Law provisions on tax obligations, Law provisions for tax agencies when conducting tax audit (factor loadings reflecting the roles of 02 indicators are respectively 0.398 and 0.373);

(ii) Audit process and method: Examination procedures to assess taxpayers' fulfilment of tax obligations and monitor taxpayers' execution of tax audit conclusions (factor loadings reflecting the roles of 02 indicators are respectively 0.240 and 0.225);

(iii) Audit supervising process: Supervising mechanism to prevent tax authorities' misconducts and wrongdoings and instructions of tax audit managers (factor loadings reflecting the roles of 02 indicators are respectively 0.320 and 0.321);

(iv) Auditors' capability and quality: Honesty, Skills and Knowledge (factor loadings reflecting the roles of 03 indicators are respectively 0.373; 0.329 and 0.321);

(v) Taxpayers' legal knowledge: Knowledge of legal regulations on tax audit, Knowledge of regulations on tax-related violations (factor loadings reflecting the roles of 02 indicators are respectively 0.371 and 0.359).

Thanks to regression analysis, the impacts of (i) Legal regulations, (ii) Audit process and method, (iii) Tax audit supervision process and (iv) Tax auditors' capability and quality on taxpayers' agreement on tax audit conclusions are clearly shown (assumptions H_1, H_2, H_3, H_4 are confirmed). Also, tax authorities can refer to the 04 factors' impact levels of taxpayers' agreement on tax audit conclusions which are arranged in a descending order to give appropriate priority: Audit process and method ($\beta = 0.558$); Legal regulations ($\beta = 0.158$); Tax authorities' audit supervision process ($\beta = 0.157$) and Tax auditors' capability and quality ($\beta = 0.136$).

5. Recommendations

From the research results, Vietnamese tax authorities should focus on a number of foundational measures to enhance taxpayers' agreement on tax audit conclusions, in particular:

(i) Restructure the tax audit process; supplement and finalize suitable and effective tax audit measures to increase transparency and objectivity of tax audit activities (tax audit team needs to precisely analyze and assess taxpayers' fulfilment of tax obligations; tax audit team needs to discuss and explain in details the drafted version of audit minutes; and tax authorities need to urge and monitor taxpayers' execution of audit conclusions).

(ii) Enhance tax audit supervision to strengthen taxpayer's trust in honesty, fairness and objectivity of audit activities (it is necessary to have supervision mechanism to prevent auditors' misconducts and wrongdoings to ensure the consistency and suitability; tax audit managers should give timely and suitable auditing instructions and orientation).

(iii) Recommend building a tax legal regulatory system in a complete, evident and practical manner to increase taxpayer's agreement on tax audit conclusions, which prioritizes complete, evident and suitable regulations on tax obligations as well as roles and responsibilities of tax auditors.

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