

COMPLIANCE RISK MANAGEMENT IMPLEMENTATION IN DIRECTORATE GENERAL OF TAXATION REPUBLIC OF INDONESIA



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Abstract

The vast amount of taxpayer and the limited resources in Indonesian Tax Authority (DJP) to monitor the taxpayer, require DJP to plan tax audit optimally. This study aim to analyze the effectivity of Compliance Risk Management (CRM) policy in DJP. This study is using qualitative approach through interview with 7 peoples who have roles in implementing tax policy in Indonesia. This study founds the importance of CRM policy, in which the tax authority cannot apply the same treatment to all taxpayers, so it needs to decide which taxpayer needs to be investigated with rational justification based on risk level. Tax authority needs to focus on implementing CRM as an important source of information in decision making process.

INTRODUCTION

The issue of taxpayer non-compliance is a serious challenge faced by tax authorities in achieving revenue and hindering tax performance. One of the efforts made by the government to improve compliance is by imposing tax sanctions. The application of tax sanctions is aimed at creating taxpayer compliance. Hopkin (2014) state that heavier sanctions can improve tax compliance as long as the procedure is seen as fair by the public. According to Chooi (2020), the effort to increase taxpayer awareness to pay taxes is the core of tax regulations and the imposition of sanctions in the field of taxation. Tax sanctions are very necessary for the tax system so that taxpayers comply with their tax obligations. However, the taxpayers' knowledge about tax sanctions is still very minimal so that the government needs to play an active role in communicating the tax regulations and its consequences for non-compliance.

According to Devos (2013), as quoted by Cahyono (2019), the definition of tax compliance is the willingness of taxpayers to fulfill their tax obligations. Fulfillment of these tax obligations must be following applicable regulations without any audit, careful investigation (obtrusive investigation), warnings, threats, and the application of both legal and administrative sanctions. According to Oladipupo., et. al (2016) in the iBussines journal, their research results show that tax knowledge has a significant effect on tax compliance, while penalties (sanctions) have no significant effect on tax compliance. The results of the research in this

journal indicate that tax knowledge has a higher tendency to increase tax compliance than the imposition of tax sanctions.

According to Organization of Economic Co-Operation and Development (OECD), the definition of Compliance Risk Management (CRM) is a structured process to systematically identified, measure, and mitigate tax compliance risks such as non-registration of the taxpayer, error in reporting, etc. Like risk management in general, CRM is an iterative process that includes steps to continually improve decision-making by tax authorities (Lavermicocca, 2011). The implementation of CRM is closely related to the implementation of Cooperative Compliance, the policy of the Tax Authority to build relationships with large taxpayers based on trust and cooperation, to ensure that taxpayers comply with applicable tax rules. A study by OECD in 2008 finds that there are 2 main pillars of cooperative compliance: (1) When facing taxpayer, tax authority shows an understanding of the commercial side, act impartial, proportional, open, transparent, and responsive; (2) When facing tax authority, taxpayers act open and transparent

The slippery slope framework (Kirchler et al., 2014) proposes that tax compliance can be achieved by taking action to increase power and build trust. Power and trust-building measures are assumed to stimulate different motivations for paying taxes. The control-and-punishment-based power approach results in forced obedience, whereas trust-building leads to voluntary compliance. While forced and voluntary compliance can result in similar tax amounts, the difference is in practice on the ground. First, ensuring enforced compliance, as opposed to voluntary compliance, requires high audit fees. Second, forced and voluntary compliance requires different regulatory strategies (i.e., responsive regulation; Lipniewicz, 2017). However, power and trust are also assumed to influence each other. This is the case when highly-trusting citizens become whistle-blowers and thereby help increase the authority of power, or when acts of excessive power, such as audits and heavy fines, are perceived as signals of distrust.

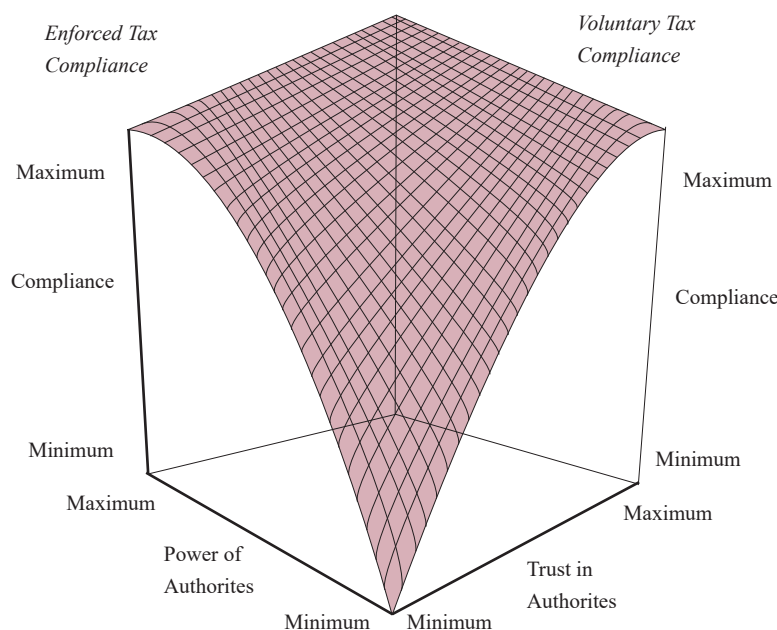


Figure 1. Slippery Slope Model

The relationship of power, trust, and forced and voluntary obedience are depicted in Figure 1. In the conditions of low power and low trust, there is a tendency for citizens to seek ways to maximize individual profits by avoiding taxes so that overall compliance is minimal. In this case, higher obedience can be achieved either by strengthening power or gaining trust. The term slippery slope refers to the mutual influence of power and trust. A decrease in one dimension can generate a decrease in another dimension and thus result in a sharp decline in tax compliance. The Tax Control Framework (TCF) is part of the internal control system that ensures the accuracy and completeness of tax payments and reporting by the company. TCF has an important role in the implementation of the concept of cooperative compliance (OECD, 2004). In a report published in 2004, the OECD concluded that when the TCF of a multinational company participating in a cooperative compliance

program is running effectively, and when the company provides transparent disclosure of information about tax risks to state revenue agencies, a review and audit is carried out on the tax reporting of the company can be reduced significantly, the state revenue agency can rely on the tax reporting of the company and believe that all kinds of tax problems owned by the company have been submitted. Access to the disclosure of information on the use of tax funds to the public is not easy to access, increasing public trust in the DGT needs to be improved to provide clarity to taxpayers regarding the fairness of tax calculations and the usefulness of collected tax funds for state development. According to Mahmood (2012) that one of the reasons for non-compliance behavior is dissatisfaction with the tax authorities, therefore the DGT actively educates the public about the tax system in Indonesia to increase their understanding of taxation, so that awareness arises to pay and report taxes.

Although the implementation of CRM to improve tax compliance has been widely implemented in other countries with positive results, its implementation in Indonesia itself has only recently been implemented at the Directorate General of Taxes (DGT) of the Ministry of Finance of the Republic of Indonesia, through the Surat Edaran Direktorat Jenderal Pajak number SE-24/PJ/2019 about the implementation of Compliance Risk Management in Extensification, Supervision, Audit, and Collection Activities at the Directorate General of Taxes.

CRM development at DGT is triggered by the weakness of the data-based Decision Support System, less than optimal data-based analysis, limited resource allocation and high workload, low understanding of taxpayer compliance behavior, and the need for a systematic process to identify taxpayer compliance risks. to ensure that taxpayer compliance can be carried out more objectively, transparently, and fairly. Understanding accompanied by the allocation of appropriate resources is expected to encourage the level of taxpayer compliance.

The most basic is building the data needed to make decisions. This data-based monitoring increases efficiency and effectiveness and can decide the best strategic policies in decision making.

Collaboration among government agencies both in the ministry of finance and other ministries and local governments, as well as third parties is important to build the data needed, Didit Hariyanto revealed "Finally what What is needed is a cooperation between governments that can build the system as a whole. If there is no cooperation, it will be difficult. For example, the treasurer of disbursement through KPPN must share data. Then exim, customs must be able to share data. Cooperation between ministries of finance." As is the practice in Hungary, the National Tax and Customs Administration of Hungary (NCTA) operates a centrally developed voting method and system that supports risk analysis to assist in selecting taxpayers for tax audits. In other words, it can be seen that the management of risk-based tax audits in Hungary focuses on the use of data as a basis for risk mapping in auditing and monitoring taxpayer compliance. The data are grouped so that it can be in the form of those provided by the Taxpayer, data that comes from third parties and has its own NTCA data.

The application of CRM at DGT aims to assist DGT in achieving the organization's strategic goals by utilizing a decision-making tool. CRM implementation can help the Directorate General of Taxes in dealing with taxpayers more fairly and transparently, resource management becomes more effective and more efficient so that in the end will realize a new compliance paradigm for the Directorate General of Taxes, namely sustainable compliance.

This study aims to contribute both academically and in the field of implementation. Academically, this study is expected to complement previous studies on tax risk management, especially in terms of CRM implementation. In terms of implementation, this study is expected to be a reference for tax authorities in Indonesia in implementing a CRM system to reduce tax risk and increase tax revenue.

METHOD

This study aims to analyze the effectiveness of CRM policies implementation within the Directorate General of Taxes of the Republic of Indonesia in increasing the level of tax compliance and the effectiveness of tax revenues. The analytical methods used in this study include literature study, descriptive statistical analysis based on secondary data, and qualitative analysis based on information obtained from data collection in the form of in-depth interviews.

The research approach used in this study is a qualitative research approach that has an inductive reasoning. Researchers want to describe social phenomena by prioritizing social realities found in research. Through a qualitative approach, the researcher wants to focus on the context that form an understanding of the problem being studied and develop the theory used in this research. Through inductive reasoning, researchers want to analyze compliance risk management policies at the Directorate General of Taxes of the Republic of Indonesia.

Literature studies are carried out by researchers since before the field study, during the field study, and until after data from the field has been collected. This is done by researchers by collecting and studying literature such as books, journals, scientific works, articles in newspapers, laws, government regulations, and searching

for information through electronic mass media (television and internet news) that have relevance to the design of compliance risk management in the context of tax audit within the Directorate General of Taxes. These data are used to complement data from field studies so that the concepts relevant to the research topic can be understood in depth by researchers from the beginning of the research (before going to the field) as well as being one of the tools in conducting analysis of the data obtained from the field study.

Table 1. List of Literature Study

Name & Title	Methodology	Result
Cooperative Tax Compliance: from deterrence to deference (Kirchler et al., 2014)	Qualitative	This study discusses slippery-slope tax compliance, which integrates economic and psychological factors. Two variables that affect tax compliance are power and trust. The results consistently show the influence of the trust factor which is greater than the power.
Behavioural insight of tax compliance : An overview of recent conceptual and empirical approaches (Biddle, 2019)	Qualitative	This study discusses the behavior of each different taxpayer, two important areas in this research, the first is the theory of corporate social responsibility, and the second is the importance of a country's legal system in influencing compliance.
Tax Knowledge, Penalties, and Tax Compliance in Small and Medium Scale Enterprises in Nigeria (Oladipupo et al., 2016)	Qualitative	The results show that tax knowledge has a significant effect on tax compliance, while sanctions have no significant effect on tax compliance
What is wrong with the fiscal social contract of taxation in developing countries? A dialogue with self-employed business owners in Nigeria (Umar et al., 2017)	Semistructured Interview	There are 3 main themes that cause tax evasion in developing countries: 1. Citizen engagement 2. Socioeconomic condition 3. Audit effectiveness
The effect of Audit Activity on Tax Declaration: Evidence on small business in Italy (Pisani et al., 2017)	Secondary Data	The most effective tax audits to do are Soft Audit and Deep Audit. The soft audit is an audit conducted by visiting taxpayers, by positioning taxpayers as partners. The deep audit is desk analysis by analyzing all historical data owned by taxpayers.
Should one be frightened of a Tax Audit in Thailand? (Noichum, 2009)	Interview	Tax audits do not need to be feared by taxpayers if the taxpayer has calculated their taxes properly and correctly. It is also important for taxpayers to have a tax advisor, to ensure the calculation of the tax.
Tax audits as path to tax compliance in Portugal (Marques et al., 2020)	Secondary Data	The need for the application of a tax investigation diamond in the implementation of tax investigations. The tax investigation diamond is a model that clearly distinguishes the roles of tax officers, tax advisors, and tax investigators so that there is no gray area in the implementation of taxation tasks.

Source: Previous Research

The information used as the basis for analysis in this study was obtained from interviews conducted from March to June 2021. In particular, the interview aimed to obtain a comprehensive evaluation of the implementation of CRM policies within the Directorate General of Taxes, which includes the principles and concepts of implementation, planning, system implementation, evaluation of the implementation of compliance risk management policies, as well as issues and challenges faced.

In-depth interviews in this study were conducted with parties related to the issues, objectives, and formulation of research problems. The informants interviewed by the researcher were the people from Directorate General of Taxes of the Republic of Indonesia and Academics. Interviews with the Directorate General of Taxes will be conducted with the Head of the DGT Data and Information Center and the Head of the DGT Audit Division as well as sections related to CRM implementers to find out how the CRM design implemented at DGT increases

the level of taxpayer compliance, as well as the strengths and weaknesses of the existing system. Interviews with academics were conducted to obtain information about the academic point of view on the practice of compliance risk management.

The result of the interview is as follows:

- a. The implementation of CRM within the Directorate General of Taxes has been carried out since 2019 through the issuance of SE-24/PJ/2019 on Implementation of Compliance Risk (CRM) in Extensification, Supervision, Audit, and Collection Activities at the Directorate General of Taxes. The implementation of this policy utilizes the existing information system, namely Approweb, which is continuously refined to be able to implement tax risk management.
- b. The approach used in identifying taxpayer compliance at DGT is CRM which is a combination of the CRM Guide for Tax Administration framework of the European Union, ISO 31000, and the Tax Administration Diagnostic Assessment Tool (TADAT). This approach combines financial statement analysis, linkages between internal and external data, expert judgment, stakeholders' experience in the field which is processed quantitatively with certain weighting and statistical methods.
- c. In the early stages, CRM implementation is carried out per tax function to simplify and speed up system development. In the future, an integrated CRM implementation will be carried out so that it can see the risk profile of taxpayers holistically. There is currently a roadmap and timeline for CRM integration in 2022.
- d. It is necessary to integrate data between the Directorate General of Taxes and other government agencies, including State-Owned Enterprises, in order to build a complete system. With data integration, the Directorate General of Taxes can also monitor vendors from Government agencies and SOEs if there are vendors who have not been registered as taxpayers.
- e. The preparation of the taxpayer risk profile is not carried out based on type of tax (VAT, PPh, etc.) but is carried out based on tax function (Audit, Supervision, Extensification, etc.). Some functions use the VAT variable as a form of risk level and use external data belonging to agencies, institutions, associations and other parties as a comparison.

RESULTS

CRM development at DGT is driven by the lack of a data-based Decision Support System, not optimal data-based analysis, limited resource allocation and high workload, low understanding of taxpayer compliance behavior, and the need for a systematic process to identify taxpayer compliance risks to ensure that taxpayer compliance can be carried out more objectively, transparently and fairly. Understanding tax risk along with appropriate resource allocation is expected to be able to encourage the level of taxpayer compliance.

The implementation of CRM at DGT is currently still being carried out per tax function, namely CRM for extensification function, CRM for audit and supervision function, and CRM for collection function. CRM in each function has a different purpose. The CRM for extensification function aims to map the risk of taxpayer compliance in registering themselves, the CRM for audit and supervision function seeks to map the risk of taxpayer compliance in reporting, paying, and report validity. Meanwhile, the CRM for collection function maps taxpayer compliance in paying tax receivables.

This CRM implementation takes into account the fundamental risks that influence taxpayers' efforts to carry out their tax obligations, namely registration risk, filing risk, payment risk, and reporting risk. All stages in the CRM process are directed at increasing taxpayer compliance and higher taxpayer satisfaction. Furthermore, risk mapping and its differentiated handling approach aim to provide justice and increase transparency in the handling of taxpayers, resource management becomes more effective and more efficient so that in the end will realize a new compliance paradigm for the Directorate General of Taxes, namely sustainable compliance.

To increase trust between tax authorities and taxpayers, there is a tool called the Tax Control Framework (TCF), which is part of the taxpayer's internal control system that aims to ensure the accuracy and completeness of tax payments and reporting done by the taxpayer. The TCF prepared by the taxpayer is submitted to the tax authorities who assess and test the implementation of the TCF. When the test results show discrepancies, taxpayers are given direction and tax authorities must communicate intensively (OECD, 2004). This is because TCF is a tool for tax authorities to cooperate with taxpayers. So, taxpayers are not directly penalized when the results do not match the expectations of the tax authorities.

In the implementation of CRM at DGT, input from risk management is still in the form of data from the DGT's reporting and payment system, and corporate taxpayer information which is being input manually by tax officials. The implementation of TCF where corporate taxpayers have online data that is integrated with the DGT unfortunately has only been applied to a limited number of SOEs. One of the SOEs that has implemented

TCF is Pertamina, so that the DGT can immediately assess how much tax must be paid, and how much has been paid by the taxpayer. The implementation of this TCF is actually beneficial for taxpayers, because with the integration of data, it will facilitate the process of tax refunds for taxpayers. Despite its benefit, there are still many taxpayers who are reluctant to disclose their financial data to the DGT. DGT should socialize the advantages of integrating taxpayer financial data with DGT, so that TCF implementation at DGT can run well.

The most fundamental thing in implementing CRM is building the data needed to make decisions. This data-based monitoring increases efficiency and effectiveness and can help to decide the best strategic policy in decision making. Cooperation among government agencies such as the ministry of finance and other ministries and local governments, as well as third parties is important to build the required data.

Table 2. Number of Audit and Tax Settlement

Year	Number of Audited Taxpayers	% increase (decrease)	Number of Audit Instruction	% increase (decrease)	Number of tax assessments	% increase (decrease)s	Tax Assessment Amount (IDR Bio)	% increase (decrease)
2018	106.371		168.795		379.096		105.091	
2019	109.056	3%	153.939	(9%)	367.800	(3%)	85.151	(19%)
2020	71.025	(35%)	88.373	(43%)	335.298	(9%)	72.273	(15%)

Source: Interview Results

The impact of the implementation of CRM at DGT can be seen from Table 1, where the number of Audit Orders (SP2) issued in 2020 decreased by 43% to 88,373 audits. Although the number of audits carried out decreased significantly, the Tax Assessment Letters (SKP) issued were relatively stable at 335,298 letters with an SKP value of Rp 72,273,411,554,839,-. This means that for each SP2 issued in 2020, an average tax assessment of IDR 817,822,316 can be produced, much more effective than in the previous year of IDR 553,148,079 for each SP2 issued.

Based on the results of interviews conducted with sources from the DGT, the increase in the effectiveness of SP2 occurs because the taxpayer is formally complying at reporting the SPT on time, but the material compliance is not good so that when the audit is carried out there is a larger tax to be paid. A very selective examination of taxpayers whose material compliance level is not good can be carried out by the DGT because CRM is widely used to analyze material compliance.

Taxpayers are audited following taxpayer profiling carried out on the Approweb system, where there is a significant tax potential so that the taxpayer is proposed to be audited. DGT will prioritize taxpayers who have a high fiscal impact and a high probability of non-compliance, namely the X3Y3 category in Figure 1 above. Audit proposal can be carried out bottom-up by the Account Representative (AR) or top-down based on inspection instructions directly from the head office.

DISCUSSION

Due to limited resources at the DGT which are not comparable to the large number of taxpayers that must be supervised, the DGT is more focused on large taxpayers in identifying risks, even though high tax risks may exist in individual taxpayers or small-scale companies, which even though the value is small but the number of taxpayers is large so that in total it causes not a small amount of tax risk (Mangoting, 2018). As mentioned in the 2016 OECD report, an effective and well-run TCF implementation will significantly reduce the review and audit that must be carried out by tax authorities on tax reporting by taxpayers. Currently, the application of TCF at DGT is only limited to one of the largest SOEs in Indonesia, namely PT Pertamina. For this reason, DGT should start prioritizing the implementation of TCF in Indonesia, to be able to more effectively identify tax risks.

In terms of the application of information systems, the approweb application used by DGT is sufficient to assist the risk identification process, but its application can still be improved by expanding the integration of approweb with external systems, such as new business licensing at the local government, banking data, online marketplaces, and other data sources that can provide a more complete picture of the potential of new taxpayers and the level of risk of existing taxpayers. With the integration of the system with external parties, the approweb system will be able to learn new things from external data, without having to be inputted manually by DGT employees. Based on the results of interviews conducted with DGT employees, it is known that in the future the approweb system is indeed directed to be integrated with external data, so it is hoped that it will

further improve the quality of the output produced by approweb. Currently, the approweb system is in the early stages of integrating the system with external parties.

With the enactment of Government Regulation in place of Law Number 1 of 2017 concerning Access to Financial Information for Tax Purposes (PERPU 1) on 8 May 2017, the Director-General of Taxes has the authority to obtain access to financial information for tax purposes directly from financial service institutions, capital markets, banking, insurance and other entities categorized as financial institutions. Based on the law, information that can be obtained from third parties shall at least contain information on the identity of financial account holders, financial account numbers, the identity of financial institutions, account balances or values, and income related to financial accounts.

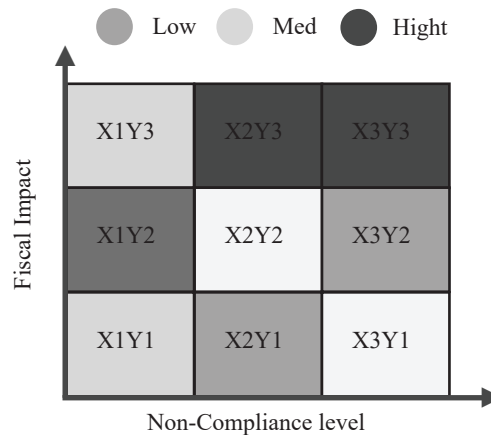


Figure 2. Tax Risk Diagram

Source: Director-General of Taxes

Other information can also be obtained by the Director-General of Taxes according to tax information needs. Databases from various sources, both internal and external, are very important for decision-making purposes, both for monitoring and inspection. The form of cooperation in providing information or exchanging data is important because according to Ghirana (2012) the cooperation of the DGT and other authorities in building a comprehensive tax database will be an effective tool in maximizing tax revenues. Data from third parties have a very important role in preventing and anticipating tax evasion and dealing with tax crimes.

DGT needs to increase tax information disclosure to the public, increase trust in DGT and provide clarity to taxpayers regarding the fairness of tax calculations and the usefulness of collected tax funds for state development. This is following Helhel (2014) theory that one of the reasons for non-compliance behavior is dissatisfaction with the tax authorities, therefore the DGT should actively educate the public about the tax system in Indonesia to increase their understanding of taxation so that there is an increase in taxpayers willingness to pay and report taxes.

CONCLUSION

The Directorate General of Taxes through the Compliance Risk Management policy since 2019 has been able to improve taxpayer compliance and tax revenue and reduce collection costs. Supervision and inspection focus on non-compliant taxpayers who have been analyzed using priority analysis based on big data analytics by processing data using machine learning algorithms through the approweb application. It is hoped that with the existence of a taxpayer profile based on the level of risk, the tax agency can improve supervision and provide incentives to obedient taxpayers, provide an understanding of regulations to non-compliant taxpayers who make mistakes due to a lack of understandings of tax regulations, and act decisively against taxpayers who intentionally conduct tax evasion, as well as carry out the continuous evaluation of the results of compliance that have been carried out through the Compliance Risk Management policy.

In the future, DGT is expected to expand the database with tax control framework tools, and cooperate with authorities that affect taxpayers such as tax consultants, legal consultants, etc. In this way, it is hoped that the plan to accelerate the restitution process with e-audit can be implemented and have an impact on the level of taxpayer confidence in the tax authorities, and result in high taxpayer compliance.

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