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The Quality Effect of Auditing on Tax Compliance: Evidence from Tunisian Context

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ABSTRACT

Taxation is the subject of complex and evolving regulations. it has become one of the major concerns of any business to better manage its finance, the responsible for corporate governance give an importance to the fiscal in the strategy and management of the company. In recent years, the importance of taxation in the financial and accounting environment is motivated to study the impact of control and transparency of infomation affected by audit quality. We study a sample of 19 companies between 2013 and 2017, the result shows that audit quality improves tax compliance in the Tunisian context while measuring tax evasion by the difference between the statutory tax rate and the effective tax rate. This study finds that tax evasion in Tunisian firms may have decreased with better audit quality.

Keywords: Tax Compliance, Tax Avoidance, Audit Quality, Effective Tax Rate, Statutory Tax Rate
JEL Classifications: H26, M42

1. INTRODUCTION

Taxation is a system of tax collection, it is the fundamental parameter that any company must take into consideration, before taking any management decision or undertaking any action.

the Tunisian tax system is a declarative system, however there is a huge shortfall for the state. on the one hand because of the problems of fraud recovery and tax evasion on the other hand because of a corrupt regime which constitutes a questionable element of the Tunisian tax system.

The research on the effective tax rate (ERT) and tax avoidance is a very important subject that can influence many areas, more particularly the economy of the countries. this line has progressed and researchers have always proposed axes and incorporated new variables, they present the measures of tax evasion and the effect of the audit quality in the obligation of payment of the tax.

The presence of fraud is financial alsi it is consiste à contourner volontairement la législation fiscalethe purpose of the taxpayer is to reduce the amount that must pay. Studies done in the United States and Europe, show that the tax evasion in EU companies may have decreased with time (Thomsen and Watrin, 2018). Moreover, the effectiveness of the audit procedures used can influence tax compliance.

Snow and Ronald (2015) show that corporate auditing increases the compliance of prudent taxpayers. Thus, he still uncertain of detection which encourages the encouragement of compliance with tax obligations.

Based on recent theoretical research, Kanagaretnam et al. (2016), the study of an international sample on the relationship between the quality of the auditor and the aggressiveness of the corporate tax. contends that the auditor and the likelihood of tax aggression is more pronounced in countries where investor protection is enhanced, the risk of litigation of the auditor is higher, the audit environment is better and the pressure of the capital market stronger.

in the same sense Chan et al. (2016) examine the measure the quality of differential auditor can affect clients tax non-compliance at different levels of tax compliance. they find that high quality auditors are associated with better tax compliance of corporate clients. the high-quality auditors can not only limit the management of clients revenues, but also limit tax non-compliance.

The main purpose of this study is to examine the effect of audit quality in particular, the opinion mentioned in the audit report and the publication of audit fees on tax compliance in tunisian companies, our problematic is how audit quality can limit tax avoidance ?

The rest of his papers are organized like this. In the next section, we present the theoretical context. Then, the method used for the empirical test. Then we report the results and the discussion. In the end we conclude the document.

2. LITERATURE REVIEW

The tax administration suffers from the complexity of administrative procedures and legislative texts, tax evasion is defined as a manupulation of tax laws voluntarily decreasing the taxable base either by increasing expenditures or by decreasing revenues the Tunisian legislator chooses to use tax audit and control as a means of guaranteeing taxpayers' rights to avoid fraud and tax evasion.

Taxation presents finance, accounting and law it occupies an important place in the political, economic and social life of a country, so we can not talk about taxation without going through the accounting procedures specifically in our case the effect the external audit on tax compliance.

That is why, in this section, we review the literature on tax liability and audit quality. It is important to note that previous studies have used several measures of tax evasion where Chen et al. (2010) used GAAP effective tax rates GAAP ETR, cash ETR, total Book-Tax Differences total BTD,and abnormal total BTD. Taylor and Richardson (2012) used several tax avoidance measures based on BTD and long-term ETR. On the other side, Rego and Wilson (2009) used discretionary BTD, tax shelter prediction scores, and cash ETR to study equity risk incentives determining the aggressiveness of the corporate tax, all the more so Hanlon and Heitzman (2010) concluded that these measures are derived from the given financial statements because tax returns are not granted access only to a few.

BTD refers to the difference between income before tax declared in a financial statement of the corporation and the taxable amountdeclared income to the tax authorities.

Wilson (2009) found that BTD are more important for businesses. Desai, 2003 and Mills et al., 1998); but it is difficult to detect some types of taxs so it represents a complex measure our study is closely linked to work that takes into account effective tax rates (ETR) and possible changes in statutory tax rates (STR), the tax evasion measure is the difference between the STR (that is, STR = STR of country i of year t) and the ETR of a company.

Higher DIFF values (STR-ETR) indicate higher levels of tax evasion (Thomsen and Watrin, 2018).

A literature examines the variation and determinants of an effective tax rate (ETR), provides that the effective tax rate, defined as the total income tax (current and deferred) divided by pretax book income. (Hanlon et al., 2005; Dyreng et al., 2008; Wilson, 2009) used this measure.

Indeed, about the relationship between audit quality and tax avoidance, we note that several previous studies find a strong association between audit quality and tax compliance. (Richardson, 2006; Tsakumis et al., 2007) which shows that a high level of verification may signal mistrust of taxpayers, auditing level is the level of audit is measured by the affiliation of auditor to the big four (Pricewaterhouse Coopers House (PWC), Ernst & Young, KPMG and Deloitte), there is a strong correlation and a significant impact between auditor size and tax behavior (Jones et al., 2018) and his opinion of the previous yearindeed there is a significant positive effect of unmodified opinion on tax evasion, (Kinnunen et al., 2017).

On the basis of this literature review on the audit quality and tax avoidance we retain the following hypotheses:

H1: Audit quality has a positive effect on tax compliance
- The existence of a Big 4 auditor
- The certification of a qualified audit for the previous year

Moreover, we include control factors that may influence tax compliance with specialized research shows that the financial instability of companies and their profitability represent a positive effect on tax evasion which is explained by the debt level of companies more than it's higher more than it makes use of the tax evasion even more than the firm is profitable more than it is does not respect the taxation (Manzon and Plesko, 2002, Cai and Qiao. 2009; Platikanova, 2015). in addition The relationship between performance is measured by the return on corporate assets and corporate tax evasion is positive and significant (Zevenbergen, 2018).

we admit the following hypotheses:
H2: The level of debt of a firm has a negative effect on tax compliance
H3:The return on assetshas a negative effect on tax compliance

In addition, we include the organizationals factor,tax evasion increases with the age of the company and with its size the large firms are more likely to avoid taxs than small firms, for some measures of firm size (Askenberg et al., 2018)
H5: The size of firme has a negative effect on tax compliance
H6: The age of firm has a negative effect on tax compliance.

3. THE METHOD

In order to test our hypotheses, we chose our sample of 19 Tunisian companies and companies, some of which is available on the Thomson one database and the other part from the reference documents and reports. annual reports on the website www.cmf.tn and the websites of the companies themselves. These companies have been observed over a period of 5 years from 2013 to the year 2017. Our research requires an empirical approach by following the econometrics of the panel data. For this it is essential that all types of analysis start with some basic statistics by calling it descriptive statistics.

On the other hand, we use an analysis with a regression on panel data since it represents one of the statistical techniques making it possible to establish a relation between a variable to be explained and explanatory variables, carrying out the modeling in the presence of individual effects (model fixed effect and random effect model and ending with the application of Hausman) with the STATA 15.

$$TAXAV_{it} = \beta_0+\beta_1 OPINION_{it-1}+ \beta_2 BIG_{it} + \beta_3 DEBT_{it} + \beta_4 ROA_{it} +\beta_5 SEIZE_{it} +\beta_6 AGE_{it} + \varepsilon_{it}$$

The variable to explain
TAXAV: Tax avoidance
The explanatory variable
OPINIONt-1: Audit opinion
BIG: Auditor Big four
DEBT: Debt in the firm
ROA: Return on assets,
SIZE: Size of firm
AGE: Age of firm

4. RESULTS AND DISCUSSIONS

At this stage, we go from an analysis that describes in detail our variables via a description technique with another exploratory analysis of the effectiveness of the results obtained on the determinants of fical evasion Table 1.

From Table 2, we found that in our sample, the average of tax avoindance was 19.2%. This percentage indicates that the tax rate paid was lower than the Tunisian statutory tax rate (which varies between 30% in 2014 and 25% for the next four years). In fact, we considered that tax evasion of Tunisian companies was significant. Regarding the debt, we found that it was an average of 76.7% this showed that Tunisian companies had significant levelsof debts.

Regarding the debt, we found that it was an average of 76.7% this showed that Tunisian companies had significant levelsof debtsfor the average performance is 43.87 which shows that almost half of the companies have a good level of performance. The size generated an average of 20% and the age with an average of 15% which indicates that the Tunisian companies, selected in our sample,were of average age and age; have an important role on the tax compliance.

According to Table 3, our sample shows a frequency of 47.37%. This result explains that almost half of companies have not been audited by the BIG 4 and only 17.89% certify their qualified opinion; this posed the problem of the relationship between audit quality and tax evasion.

The results of the Hausman specification test indicate that the portability is greater than 5%. We take the random effect and neglect the fixed effect because it is the most efficient.

According to estimates of the quality of information and tax evasion shown in Table 4, it indicate that if the Tunisian company

Table 1: Variables definitions

Variables	Definitions	Measures
TAXAV	tax avoidance	DIFF (STR-ETR)=Difference between the statutory tax rate in tunisia and the effective tax rate (Income tax/pretax book income) of firm i in year t
OPINIONt-1	Audit opinion	1 if company i receives a qualified audit opinion of year t-1 and 0 if not.
BIG	Big 4	1 if the firm is audited by a Big Four company and 0 otherwise
DEBT	Debt	Total debt diveded by total asset
ROA	Return on asset	net income (NI) divided by total assets (TA).
SIZE	Size	natural logarithm of total assets (TA).
AGE	Age	logarithm of number of years since the constitution.

Table 2: Descriptive statistics

Variable	Min	Max	Mean	Std. Dev
TAXAV	−0.844	5.051	0.192	0.549
OPINION	0	1	0.178	0.385
BIG	0	1	0.473	0.501
DEBT	−3.712	9.422	0.767	1.697
ROA	−22.368	21.862	4.387	7.498
SIZE	1.071	2.970	2.029	0.485
AGE	0.698	1.924	1.488	0.243

Table 3 :Frequency table

Variables	Frequency
Audit quality	
Big	47.37%
Non Big	52.63%
Qualified opinion	17.89%
Unqualified opinion	82.11%

Table 4: Result of estimation

Explanatory variable	Expected sign	Coefficients	Z	P
$OPINION_{t-1}$	(−)	0.262	1.15	0.149**
BIG	(−)	−0.241	−1.34	0.180**
DEBT	(+)	0.006	2.36	0.018 *
ROA	(+)	0.005	0.71	0.478
SIZE	(+)	0.036	0.30	0.768
Age	(+)	0.009	1.92	0.055*
Constant		−0.420	−1.45	0.147**

Prob > Chi-square = 0.010
Significant at Respectively of 1%, 5%* and 10%**

has a good system that defines a better quality of audit minimizes the tax avoidance while respecting the laws, (Richardson, 2006, Tsakumis et al., 2007).

Moreover, the coefficient of the DEBT variable is positive and statistically significant, which means that highly indebted companies in Tunisia make more recourse to tax evasion and consequently to non-compliance tax (Manzon and Plesko, 2002; Cai and Qiao, 2009; Platikanova, 2015).

Similarly the results in line with the studies of (Askenberg et al. 2018) and show that the organizational factor AGEhas a significant and positive impact on tax evasion, more than the company is older than it does not respect the tax obligation.

5. CONCLUSION

The main interest of this work is to examine the relationship between audit quality and compliance tax. More precisely,we pointed out the factors that could be relatedtax avoidance certification of the auditor's opinion since it represents an important element of identification of the independence of the auditor and his belonging to the international network the big who have influenced the recourse of the Tunisian companies to tax evasion.

We have also emphasized the debt and the age of the company which expresses the financial level of the company and the organizational factors of the company.

The results showed that there was a positive relationship between the independence of the auditor and the respect of Tunisian tax laws. on the other hand, age and debt had a negative impact on this obligation, which showed thatthe debts of the oldest Tunisian companies were oriented towards the use of tax evasion. The limitations of our research can be explained by the lack of company data to increase the sample size.

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