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## EVALUATION OF THE ADJUSTMENT OF TAX AUDIT PLAN AND AUDIT PROGRAM DURING THE COVID-19 PANDEMIC: (STUDY AT THE SMALL TAX OFFICE/KPP PRATAMA JAKARTA SETIABUDI TIGA)

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# EVALUATION OF THE ADJUSTMENT OF TAX AUDIT PLAN AND AUDIT PROGRAM DURING THE COVID-19 PANDEMIC: (STUDY AT THE SMALL TAX OFFICE/KPP PRATAMA JAKARTA SETIABUDI TIGA)

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## ABSTRACT

Tax audits are a type of supervision conducted by the Directorate General of Taxes to ensure the proper implementation of the self-assessment tax collection system. The audit process starts with the advance preparation of an audit plan and audit program for tax audits. The audit plan details the tax auditor's activities, while the audit program evaluates the methods, techniques, and procedures used. Due to the COVID-19 pandemic, completing the audit plan and selected tax audit program is impossible. Therefore, this study evaluated the process of adjusting audit plans and conducting its associated programs during the COVID-19 pandemic. Data were collected by interviewing tax auditors and audit plan documents and programs. A descriptive qualitative analysis and a comparative content analysis are used as analytic techniques. The audit plan and program documents revealed that the audit standard determined the relevant method and technique. However, certain inspection activities are prohibited due to the COVID-19 pandemic; hence the examiner is likely to make recommendations for changes to the audit plan and program and disclose information on the Audit Result Report, work paper, and program's implementation. This is the most efficient method because it saves time and allows for the description of activities during the inspection process.

**Keywords:** Tax Audit, Audit Plan, Audit Program, COVID-19 Pandemic

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## 1. INTRODUCTION

A tax audit is one of the law enforcement policies carried out to ensure taxpayers fulfill their obligations. According to Mebratu (2016), taxpayers tend to provide more accurate report, when the associated institution is able to detect errors or fraud during the reporting process and provide strict sanctions for these actions. Tax can be affected by audits in the form of additional receipts and changes in compliance with fulfilling tax obligations in the future (Gemmell & Ratto, 2012). Biber (2010) stated that the role of tax audits is to verify the reports of taxpayers' and ensure their reports and obligations are associated. Therefore, the auditor must detect the discrepancies between taxpayers' reporting and supporting documents.

Taxpayers are expected to calculate, report, and deposit their taxes correctly using tax audit. According to law No. 17/PMK.03/2013 of the Minister of Finance, an audit is a series of activities used to collect and manage data, information, and evidence objectively and professionally. This process uses an audit standard to test compliance with tax obligations and implement the provisions of tax laws and regulations.

The audit process starts with developing a plan and program prepared in advance. The audit plan describes the activities that the tax auditor intends to conduct, while; the program is a statement of the Audit Methods, Techniques, and Procedures. The audit plan and audit program are critical in ensuring the accuracy of the tax results (OECD, 2006).

Indonesia recorded the first case of the Covid-19 pandemic at the beginning of 2020, which led to the issuance of Government Regulation Number 21 of 2020 concerning Large-Scale Social Restrictions to minimize its spread. This policy restricted the movement of people and goods from one place to another.

The Directorate General of Taxes issued a regulation in a Circular Letter Number SE-13/PJ/2020 concerning Guidelines for the Implementation of Duties during the pandemic. This regulation limited the interaction between tax auditors and payers, thereby preventing the delivery of several activities. The occurrence of varying conditions between the Audit Plan and implementation in Circular Letter SE-126/PJ/2010 encourages the supervisor to prepare a Proposal for its Amendment. Furthermore, the restrictions on the movement of people and goods, as well as the interaction between tax auditors and taxpayers will likely cause changes to audit activities.

Therefore, this study evaluates how the audit plan and program adjustment at Small Tax Office/KPP Pratama Jakarta Setiabudi Tiga (KPP SB3) were conducted during the covid-19 pandemic. It was carried out within the scope of

the tax audit conducted by KPP SB3 as the object of study is because it had a higher revenue target in 2019. This study will provide an overview of the adjustment and implementation of audit plans and program during the pandemic and determine how tax examiners made adjustments. The results can be used by the Directorate General of Taxes (DGT) to create guidelines for tax auditors when they face different conditions. Meanwhile, when preparing the Audit Plan and program, the same treatment is provided irrespective of the restrictions due to the pandemic. This research is divided into five sections. The first contains an introduction to discuss the background, research objectives, scope, and contributions. The second section is a literature review, which analyzes the general behavior of taxpayers in carrying out tax evasion and the principles of tax collection. The literature review presents regulations regarding tax audits and the preparation of audit plans and programs. The third section discusses the research methodology related to the approach, data, and the sources used, while the fourth section discusses the results. Finally, the fifth section concludes the study.

## **2. LITERATURE REVIEW**

Becker et al. (1974) popularized the term “Deterrence Theory,” which emphasizes the economics of crime. According to Becker, criminals tend to rationally weigh the benefits of breaking the law against the possible costs of being apprehended. In the field of taxation, taxpayers’ willingness to engage in unlawful behavior in the form of tax evasion is usually inspected against the estimated cost of detecting the tax evasion behavior. This theory asserts that increasing tax rates and penalties deter or dissuade payers from violating the law. In the field of taxation, taxpayers’ willingness to engage in unlawful behavior in the form of evasion is considered against the estimated cost of detecting the tax evasion behavior.

The Four Maxims is the principle of tax collection put forward by the British economist Adam Smith. According to Smith, there are four principles in tax collection, namely equality, certainty, the convenience of payment, and economy. The role of the tax audit associated with the principle of tax collection is implementing the certainty principle. Tax audits can provide legal certainty regarding the amount of tax owed by the taxpayer that needs to be deposited to the state.

According to Allingham and Sandmo (1972), tax authorities rely on audits to prevent tax evasion and safeguard revenues. Appelbaum et al. (2020) stated that the onset of the global pandemic provided auditors with alternative ways to

collect audit evidence. Law Number 28 of 2007 concerning the Third Amendment and Law Number 6 of 1983 on General Provisions and Tax Procedures Article 1 number 25 defined audit as a series of activities used to collect and process data, information, and evidence objectively and professionally on an audit standard. This process is used to test payers' compliance with the fulfillment of tax obligations and other purposes according to the provisions of tax laws and regulations. The procedures for tax audits are in line with the Regulation of the Minister of Finance Number 17/PMK.03/2013 concerning Tax Audit Procedures. The implementation of the inspection starts with the preparation of an audit plan carried out by the supervisor. The rules related to the preparation of the audit plan are regulated in SE-126/PJ/2010. The Directorate General of Taxes issued a regulation in the form of a Circular Letter of the Director-General of Taxes Number SE-13/PJ/2020 concerning Guidelines for the Implementation of Duties During the pandemic. In this regulation, there are several policies related to implementing tax audits. The existence of this policy prevents the conduction of numerous activities related to tax audits. In SE-126/PJ/2010, the supervisor prepares a Proposal for Changes to the Audit Plan, assuming varying conditions are found between the audit plan and the implementation.

Numerous preliminary studies have evaluated the effectiveness of examination plans implemented during the pandemic. These include: "Auditing in times of social distancing: The effect of COVID-19 on auditing quality" by Albitar et al. (2020). Its purpose was to explore the theoretical implications of the COVID-19 outbreak on audit quality. A desk study was used as the methodology to investigate the potential impact of the COVID-19 pandemic on five critical audit quality considerations, namely audit fees, procedures, assessments, auditor human resources, and the salaries of audit personnel. The study concluded that the pandemic significantly impacted audit fees, business continuity assessments, auditor resources, procedures, audit personnel salaries, and efforts.

Li et al. (2019), in research entitled "The Determinants and Consequences of Tax Audits: Some Evidence from China," analyzed the determinants of corporate tax audits and the consequences of the audit. The result concluded that the tax authorities prefer auditing companies with a lower effective tax rate. Akrimi (2021), in a study entitled "The Impact of Coronavirus Pandemic on Audit Quality: The Perceptions of Saudi Auditors," examined the coronavirus pandemic's impact on audit quality from Saudi auditors' perspective. This study used a quantitative methodology with data collected through a questionnaire

survey. It is, subsequently, concluded that the Coronavirus pandemic significantly impacted audit quality.

Siregar (2018), in a thesis entitled “The Analysis of The Effect of Preparing an Audit Plan and an Audit Program on Improving the Quality of Tax Audits (Studies in the East Jakarta Regional Tax Office),” found out how the implementation of the audit plan preparation and programs improves audit quality. The results concluded that the preparation of the audit plan and program had been carried out properly.

### **3. RESEARCH METHODS**

This is a qualitative research with a case study approach. Creswell (1994) stated that qualitative research is an investigative process to understand social problems, thereby creating a complete, holistic picture formed in words by reporting detailed views of informants arranged in a scientific setting. Case study research focuses on gathering information on specific objects or activities, such as organizations (Sekaran and Bougie, 2013). Primary data were collected through semi-structured interviews, which Usman and Akbar (2017) defined as a direct exchange of questions and answers between two or more people. Interviews do not have to occur face-to-face but also via telephone or e-mail. According to Sugiarto (2017), a common type of interview is semi-structured, which is conducted in writing and requires respondents to provide answers to specific open-ended questions in brief descriptions.

The informants in this interview were supervisors, as those who planned the tax auditing process during the pandemic. The focus of information seeking for each source is different. Interviews with supervisors focused on the audit plan and program changes during the pandemic. Interviews with Examining Members were carried out to obtain information on how to respond to the implementation of the audit plan audit program due to Large-Scale Social Restrictions.

Data were collected from 18 employees consisting of 3 supervisors and 15 members of the tax audit team through semi-structured interviews. Of the 18 employees, 13 were male, and five were female, while based on the education level, 15 were undergraduate graduates, and 3 were diploma students. Due to social restrictions from the KPP SB 3, only semi-structured interviews were used to collect data by sending a list of questions via e-mail. The period between giving questions to interviewees and receiving responses was within one to two weeks.

Secondary data were collected from the audit plan documentation and programs, along with the changes that occurred in 2020. The data obtained is the Examination Working Paper (KKP) of Problem Identification and Audit Plans. The purpose of obtaining the Examination Working Paper of Problem Identification and Audit Plan is as material for evaluating the audit plan and program at KPP SB3 during the pandemic.

The content analysis process was used to analyze the data collected through interviews and documentation. According to Sekaran and Bougie (2016), content analysis is a method of observing and analyzing existing forms of communication. After conducting a content analysis of the gathered data, it is evaluated to develop the audit plan and program.

This study's information analyzed and evaluated was obtained from examining the Working Paper of Problem Identification and Audit Plan. The study analyzed a random sample of ten audit plans and programs prepared before the pandemic. However, inspection activities were initiated and completed afterward. The sampling selection criteria for the inspection plan and inspection program are as follows:

- The inspection plan and program were prepared prior to the pandemic.
- The implementation of inspection activities and the completion of the examination were carried out after the pandemic.

The ten taxpayers were selected by analyzing the completeness of the documents and the details of the audit plan and program presented. The analysis and evaluation were conducted by comparing the information in the Examination Working Paper of Problem Identification and Audit Plan to the critical points in SE-126/PJ/2010. The evaluation criteria were as follows:

- There is a memorandum of appointment of the supervisor from the Head of UP2
- An inspection work paper of Problem Identification
- Proposed inspection plan
- Proposed audit Program

The analysis and evaluation results were compared with the implementation of the audit plan and program carried out by the examiners during the pandemic. Data regarding the implementation of the audit plan and program conducted by the examiners were obtained using semi-structured interviews consisting of 3 supervisors and 15 team members.

#### 4. ORGANIZATION PROFILE

This research was conducted at the Small Tax Office/KPP Pratama Jakarta Setiabudi Tiga, one of the vertical work units under the Ministry of Finance. It consists of echelon I and II units of the Directorate and Regional office of the General of Taxes in South Jakarta I. The organizational structure is divided into the head office and operational offices. The head office carries out the functions of policy formulation and technical standardization, analysis, development, as well as coaching and administrative support. Meanwhile, the operational office performs technical support functions. KPP Pratama Setiabudi Tiga is an operational office used as the object of study because it had a higher revenue target in 2019.

#### 5. RESULT AND DISCUSSION

The COVID-19 pandemic made the government, especially the Directorate General of Taxes, issue regulations to implement work and mobility for its employees. Special rules related to the implementation of duties are regulated in the Circular Letter of the Director-General of Taxes Number SE-13/PJ/2020 regarding guidelines for carrying out duties during the prevention of the virus. Some of the policies related to the implementation of inspection activities include:

1. No new Inspection Order (SP2) has been issued;
2. SP2 was published, but its submission was postponed, except for the Overpaid Annual Tax Return;
3. SP2 that has been published and submitted will continue according to the applicable procedures;
4. Communication, borrowing documents and summoning taxpayers to need to be conducted without physical contacts, such as through e-mail, telephone, chat, and other online channels.

In the first and second points, the policy impacts the issuance of SP2. from 2019 to 2021, as shown in table 1.

Table 1: Issuance of SP2 for 2019 to 2021

Year	Inspection Order			
	Routine	Special Inspection	Other Purpose	Total
2021	216	6	27	249
2020	224	19	17	260
2019	187	46	16	249

Source: ALPP, accessed on 28 October 2021



The table shows that SP2 declines from 2019 to 2021 or special inspections. As for the issuance of SP2 for routine inspections, there was no decrease or increase in 2020 compared to 2019. Therefore, it needs to be issued for routine inspections related to taxpayers' rights to receive refunds for overpaid taxes. Since the deadline for completing inspections for overpaid annual tax returns has been set by law, the issuance of SP2 for routine inspections cannot be delayed, even in a pandemic. This is consistent with Adam Smith's Four Maxims, namely certainty. Tax levies must comply with the law in all circumstances, including those outlined due to the pandemic. Therefore, the issuance of SP2 on the overpaid annual tax return is intended to provide taxpayers with the right deposit under the law. The examination can start immediately upon issuance of the SP2.

The audit plan and program documents were evaluated by comparing the elements contained in the circular letter of the director-general of tax number SE-126/PJ/2010 regarding guidelines for preparing audit plans to test compliance with tax obligations. The following are the elements that were used as evaluation material in the preparation of both attributes:

- There is a memorandum of appointment of the supervisor from the Head of UP2
- There is a Tax Consultant Office of Problem Identification
- Proposed inspection plan
- Proposed Audit Program

These points were stated in the form of a checklist to evaluate the conformity of the audit plan and program with Circular Letter SE-126/PJ/2010 and its adjustments during the pandemic. The result for conformity and adjustment of the audit plan and program with SE-126/PJ/2010 is shown in Appendix 1.

Based on the evaluation of the sampling, it was found that both factors were prepared in accordance with the provisions contained in Circular Letter SE-126/PJ/2010. The tax auditor did not propose changes to the audit plan and program to the head office due to the pandemic; rather, adjustments were made in the form of techniques and procedures. An example of an adjusted inspection technique in the form of a physical correctness test and procedure is to check the quantity of existing assets. These inspection techniques and procedures cannot be carried out during the Covid-19 pandemic; therefore adjustments need to be made.

In SE-126/PJ/2010, it is stated that the Audit Plan must be prepared before issuing the Inspection Order (SP2). Issuance of KPP SB3 is based on an audit plan and program included in the description beforehand. In preparing the audit plan and program, the supervisors are assisted by several tools such as Apiseta

or E-Audit, and a new application was established in mid-2020, Desktop Pemeriksaan. It is essential to use tools such as Apiseta, E-Audit, and the Desktop Pemeriksaan to maintain the quality of inspection results.

To compare the differences between the preparation of the audit plan and the program before and after the pandemic, confirmation interviews with supervisors were carried out as follows:

“In my opinion, the Desktop Pemeriksaan application (Derik) does not affect the process rather the schedule during summons, field inspections, and site inspections need to be adjusted” (Supervisor 1, 2021)

“The preparation of audit plans and programs during and before the pandemic are the same” (Supervisor 2, 2021)

“Adjusting by reducing face-to-face and maximizing online and softcopy data” (Supervisor 3, 2021).

The interview results found no difference in the preparation of the audit plan and program before or after the pandemic. The minor changes were limited to the procedures for communicating with taxpayers and collecting documents in the form of soft copies. The changes made are more directed at the time of the inspection.

Several changes were made to the auditing sector during the pandemic due to the government policy restricting employee movement. Tax auditors respond in the following ways:

1. Meeting with taxpayers virtually through teleconference media (Informant 1, Team Member, 2021).
2. Fulfilling the documents in electronic form or soft copy (Informant 1, Team Member, 2021).
3. Continuing the examination according to the health protocol (Informant 3, Team Member, 2021).
4. Increasing the search for information from taxpayers, other parties, and the internet (Informant 6, Team Member, 2021).
5. Conducting intense communication (BAPK more often than usual) with several divisions of the taxpayer's position (Informant 9, Team Member, 2021).

Based on the interview results, it can be concluded that the presence of COVID-19 impacts the examination procedure, which is in line with Albitar et al.'s (2020) research.

Auditors' tests can only be limited to online data sources due to the restriction policy. Therefore, examiners were unable to conduct tests resulting from field inspections of business locations, such as factories, gardens,

warehouses, and shops. This is consistent with Appelbaum et al. (2020) assertion that the onset of the pandemic has increased pressure on examiners to develop alternative methods of audit evidence collection. Members of the audit team responded in a variety of ways:

- Making proposals for changes to the audit plan and programs. In Circular Letter SE-126/PJ/2010, it is stated that supposing different conditions are found between the audit plan and implementation, and the supervisor prepares a proposal for changes. The interview results confirm the following statements:  
“make an audit plan for changes for the inspection to be completed” (Informant 2, Team member, 2021)  
“make changes to the audit plan for things that cannot be implemented” (Informant 11, Team member, 2021)
- Disclosing the Inspection Report and Examining the Working Paper of the activities/procedures was impossible due to the COVID-19 restrictions. This is confirmed in the following interview excerpt:  
“For important things to be carried in the Audit Result Report and the Examination Working Paper (KKP), adequate explanations are needed; however, this is hampered by the presence of COVID-19” (Informant 3 Team members, 2021)  
“The constraints are explained in the Examination Working Paper (KKP); hence the audit plan and audit program cannot be conducted” (Informant 8 Team members, 2021)
- Lastly, making disclosures on the realization of the inspection program. The following interview results confirm this process:  
“The inspection procedure or technique cannot be conducted due to the restrictions” (Informant 10, Team members, 2021)

There are changes or adjustments to activities carried out due to the pandemic in line with the research "Auditing in times of social distancing: The effect of COVID-19 on auditing quality" by Albitar et al. (2020). This research revealed that the pandemic would affect audit quality, including audit procedures. Additionally, any changes or adjustments made by the tax audit team are one way; therefore, it can provide maximum results. This enables the determined Tax Assessment Letter to provide the maximum penalty to the taxpayer. The determination of maximum penalties is carried out to eliminate the behavior of taxpayers in avoiding tax in accordance with the deterrence theory proposed by Becker.

Based on the description above, it can be concluded that: the second option is the most effective. This option can describe all events that occurred during

the inspection, enabling readers to easily determine why an inspection plan and audit program cannot be implemented.

The first and third options are already in the rules regarding the preparation of the audit plan and the inspection program. However, this method is less effective because it requires a longer time, which must go through the supervisor and the approval of the head of the office. When the readers of the inspection report are unable to come across supporting documents, such as the inspection plan and program, the selection process is entirely left to the audit team.

The second step, which discloses the audit results and examination work, is the quickest and most efficient. Although Circular Letter SE-126/PJ/2010 regulates proposed changes to the audit plan and program, these are time-consuming and require approval from the head office. It will expedite the inspection process by disclosing the examination results and work papers. Disclosure in the audit report and paper is the most efficient method for making proposals for changes because it saves time and allows for the description of audit activities.

## **6. CONCLUSION AND DISCUSSION**

In conclusion, the audit plan and program were prepared in accordance with the applicable regulations, namely SE-126/PJ/2010, before and after the pandemic. This compliance was accomplished with the assistance of applications/tools such as Apiseta, E-Audit, and Desktop Pemeriksaan. Certain inspection activities are prohibited due to the pandemic, and under such circumstances, the examiner made recommendations for changes on the Audit Result Report and Examination Work Paper (KKP). The most effective method is to disclose it in the audit report and examination work paper, which saves time and allows for the description of activities during the inspection process.

This research demonstrates that supervisors' audit plans and programs are suitable because of the applications' assistance. The Directorate General of Taxes needs to determine the applications to create audit plans and programs to ensure consistency among tax auditors. In the long run, the chosen application needs to be maintained and continuously updated in accordance with technological advancements to ensure continuous assistance of the audit programs.

The study's data set is limited, as primary data was derived from interviews with supervisors and team members. Additionally, because this study uses a single research object, KPP SB3, it cannot accurately reflect the preparation of

the audit plan and audit program by all supervisors at the Directorate General of Taxes.

Additional research is expected to include other sources, such as the head of the office, who approves the audit plan and audit program prepared by the supervisor, and resource persons/informants from the Directorate of Audit and Collection, who act as policymakers.

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## APPENDIX

### Appendix 1. The conformity and adjustment form of the audit plan and audit program with Circular Letter SE-126/PJ/2010

Criteria	Confirmity Checklist	Adjustment Checklist
1. There is a memorandum of appointment of the supervisor from the Head of	✓	✗
2. There is a Tax Consultant Office of Problem Identification	✓	✗
3. Proposed inspection plans, including:		
a. Taxpayer Identity, which contains an overview of the Taxpayer	✓	✗
b. Identity of the Tax Auditor Team, which contains the composition of	✓	✗
c. Descriptions of the inspection plans, which contain:		
1. Examination criteria, which consist of Routine Examination and Special Examination;	✓	✗
2. Types of inspections, which consist of Office Audits and Field Audits;	✓	✗
3. The scope of the audit, which consists of all types of taxes (all taxes, Corporate/Personal Income Tax, Withholding and Collection of Income Tax, VAT, and other types of taxes;	✓	✗
4. Identification of the problem, which contains a resume of the Examination Working Paper of Problem Identification;	✓	✗
5. Audit completion date (the planned audit completion deadline date or the Audit Result Report date). It must pay attention to the period of completion of the examination as regulated in the applicable provisions;	✓	✗
6. The due date for the completion of the application for the refund of the tax overpayment;	✓	✗
7. Experts needed in the examination;	✓	✗
8. Supporting facilities needed in the examination, such as audit tool software and others;	✓	✗
9. Tax Return items to be checked:	✓	✗
4. Audit Program		
a. Understanding of the taxpayer's business processes	✓	✗
b. Description of the inspection program for each SPT post		
1. Purpose of examination	✓	✗
2. Inspection method	✓	✗
3. Examination techniques	✓	✓
4. Inspection procedure	✓	✓