

# “Factors affecting tax auditors’ performance: the moderating role of locus of control”

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# FACTORS AFFECTING TAX AUDITORS' PERFORMANCE: THE MODERATING ROLE OF LOCUS OF CONTROL

## Abstract

This study aims to investigate the effects of professionalism, competence, and role conflict on the tax auditors' performance. This study also needs to investigate the moderating role of locus of control. The sample consists of 139 tax auditors at the Riau Directorate General Taxes Office-Indonesia. Data analysis techniques include multiple regression and moderated regression analysis. The results show that professionalism, competence, and role conflict affect the tax auditors' performance. A tax auditor who is professional, has competence, and does not feel there is conflict in carrying out his/her role, will have better performance. Besides, this study also found out that locus of control moderates the effects of professionalism, competence, and role conflict on the tax auditors' performance. Internal locus of control will further enhance the tax auditors' performance with high professionalism, satisfactory competence, and reduce low performance resulting from role conflict. Internal locus of control will improve the performance, which decreases due to the occurrence of role conflict with the tax auditors.

## Keywords

professionalism, competence, role conflict, locus of control, performance

## JEL Classification

H21, M42, M48

## INTRODUCTION

Indonesia uses a self-assessment taxation system, which trusts taxpayers to fulfill their tax obligations independently. The consequence of the delegation of authority to taxpayers to fulfill their tax obligations is optimal supervision. The supervisory function of the Directorate General of Taxes (DGT) is highly necessary to minimize deviations.

To be able to find out whether the taxpayer has fulfilled his tax obligations correctly under applicable regulations, the DGT officials will likely conduct an audit of the taxpayer's tax report. Therefore, the DGT needs reliable tax auditors to be able to find tax potential that can still be explored. Hence, the participation of tax authorities is necessary to support the government in increasing tax revenues and to monitor the role of taxpayers in fulfilling their tax obligations.

Generally, several factors are often associated with individual performance, such as professionalism. Professionalism can affect the effectiveness of the tax auditors' performance. Thus, tax auditors with a high level of professionalism are expected to contribute to achieving the goals of the DGT significantly. For this reason, tax auditors are required to consistently increase their professionalism to carry out tasks assigned to them.

Competence has likewise been identified to affect the performance; therefore, employees are required to have certain competencies fol-

lowing their job responsibilities and position. A tax auditor's competence on the responsibilities of their assigned work will impact the effectiveness of their performance. Hadisantoso, Sudarma, and Rura (2017), and Lotunani, Idrus, Afnan, and Setiawan (2014) claimed that the higher the competencies of employees, the higher their performance.

Role conflict also plays an important role in influencing an individual's performance. According to Wallace (2005), role conflict is a condition in which an individual may occasionally need to perform conflicting tasks in the same situation. An employee who experiences conflict in his role will not be comfortable at work, which may inevitably result in a lack of focus.

The improvement of an individual's performance can also be influenced by individual factors, such as locus of control (Falikhatun, 2003). Locus of control, which consists of internal and external locus of control, is an individual's belief of his ability to influence events in his life. An individual who believes that his environment determines his destiny and that he has insufficient ability to influence events in his life has an external locus of control. However, an individual who believes that he can influence events in his life has an internal locus of control. Saputra (2012), Mujiatun and Ashal (2017) stated that locus of control affects the tax auditors' performance.

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## 1. LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT

According to Bernardin and Russell (1998), performance is a result produced by a particular job function or activities on a particular job for a certain time, which shows the quality and quantity of the work (Priansa, 2015). Another definition revealed by Sedarmayanti (2014), performance is a system used to assess and find out whether an employee has carried out his work as a whole (what someone must achieve) and competence (how someone achieves it). Meanwhile performance is what is done or not done by employees in carrying out their work (Priansa, 2015).

Personal commitment includes a remarkable sense of responsibility toward work, and a professional is an individual with a personal commitment that is deeply rooted in his work (Kadarisman, 2011). Professionals are individuals who are fully immersed in their work, which shapes their identity and maturity. Besides, professionals grow as their work grows and develops. Pamudji (1994) stated that a professional is a person who is committed to work that requires mental rather than manual tasks, such as teaching, engineering, and writing. According to Affandi (2002), four characteristics can be used as indicators to determine the professionalism of an individual:

- 1) mastery of knowledge in certain fields and perseverance to follow developments in those fields;
- 2) ability to apply knowledge, especially toward the interests of others;
- 3) faithful application of scientific ethics, high self-esteem, and the ability to understand and respect current social values;
- 4) remarkable sense of responsibility toward God, the nation, the state, the public, their family, and themselves in the application of their knowledge.

Based on the aforementioned views, if a tax auditor is a professional, then he is responsible and can perform his auditing duties well by maximizing his potential. According to Hall (1968) and Kalbers and Fogarty (1995), professionalism consists of five dimensions, namely community affiliation, autonomy demand, belief selection, dedication, and social obligation.

According to McClelland (1998), competence is a fundamental characteristic of a person that has a direct effect on performance and can predict excellent performance. The more competent an employee, the better his performance. Therefore, an organization will expect its employees to have adequate competence following their duties and

responsibilities, which will produce optimal performance. Employee competence includes the suitability of an employee's knowledge and skills, which, in carrying out his duties, will have an impact on and is the embodiment of his performance. The more appropriate the competency of employees in a field, the more optimal their performance. Thus, a competent employee generally has a relatively stable character, attitude, and ability to deal with situations at work. These characteristics are attributed to the synergy between character, self-concept, internal motivation, and contextual knowledge capacity, which quickly enable an employee to overcome work problems he may encounter. Thus, he can perform his tasks calmly and confidently while openly improving his self-quality.

Role conflict is a psychological symptom experienced by members of an organization that causes work insecurity, which can potentially reduce work motivation (Ratnawati & Kusuma, 2002). Role conflict can arise in case of more than one request originating from different sources, which can cause uncertainties in employees (Ratnawati & Kusuma, 2002). Role conflict can negatively affect employee behavior; for example, employees may become unfocused owing to confusion about which orders to handle. Such conditions will reduce employee motivation and interest to perform their tasks, which in turn may reduce performance. Therefore, role conflict can affect employee performance (Sutanto & Wiyono, 2016).

According to Rotter (1966), individuals' locus of control consists of internal and external locus of control, which illustrate their abilities to control situations for themselves and for the external environment. Individuals with an internal locus of control have high work ethics and are resilient in dealing with all forms of difficulties in their daily lives and at work. Individuals with an internal locus of control worry less and exhibit enthusiasm and courage in every challenge. Thus, they have no desire to escape from their problems, including challenges at work. By contrast, individuals with an external locus of control feel that they cannot perform their tasks owing to factors beyond their control, such as destiny, opportunity, or other people. Thus, if an individual has an internal locus of control, then he will feel empowered to perform his work. In case of

failures, such an individual will attribute the cause of a failure to his weakness or inability to perform his work. In other words, the failures he experiences are his fault; thus, he will engage in self-correction to avoid future failures. By contrast, an individual with an external locus of control will attribute his failure to perform his work not to his inability but factors outside his power.

### 1.1. Professionalism, competence, role conflict, and tax auditors' performance

As expected, individuals' professionalism will influence the improvement of their performance (Hall, 1968; Hadisantoso, Sudarma, & Rura, 2017). Moreover, Cahyani and Yuniawan (2010) found that the tax auditors' professionalism affects their performance. Their findings indicate that the more professional an employee is, the better the performance will be.

Tax audit is a series of activities to search, collect, and manage data or other information to ensure compliance of taxpayers in implementing the provisions in force of applicable tax laws (Mardiasmo, 2011). A professional tax auditor can demonstrate optimal performance because he will prioritize his duties and tasks in accordance with applicable rules. Therefore, tax auditor is said to have maximum performance if he can carry out the duties properly so that he can explore the potential for tax that is still possible to be explored. Tax auditors who have best performance will also be able to detect whether taxpayers have carried out their tax obligations in accordance with applicable laws and regulations.

Therefore, the more professional a tax auditor is, the more optimal his performance will be. Kadarisman (2011) conducted research on members of the Regional Representative Council and found that professionalism affects the performance of members of the board. Prabayanthi and Widhiyani (2018) likewise argued that professionalism affects the tax auditors' performance and indicated that the more professional a tax auditor is, the better his performance will be.

L. Spencer and S. Spencer (1993) posited that competence has a causal relationship with an employee's performance. The statements above indi-

cate that a tax auditor will be able to perform his job properly if he is competent. Furthermore, he will possess a relatively stable ability and can optimize his performance if he is sufficiently competent. The high competency and performance of its tax auditors can signal the DGT's effective management, which can fundamentally generate effective tax-auditing behavior. Therefore, the competency system can be used as a tool to predict the success of the work of a tax auditor, and the competency approach can be used as a benchmark to assess their work process. Kadarisman's findings (2011) showed that the competencies of Regional Representative Council members affect their performance.

Wolfe and Snoke (1962) suggested that role conflict arises in case of two different orders received simultaneously, and if one command is carried out, then the other command will be ignored. This condition will result in an employee who will be unable to conduct his work optimally, which will affect the decline of his performance.

Role conflict among tax auditors can occur if a supervisor influences a tax auditor to adjust tax audits in the interest of a taxpayer regardless of whether the data or information possessed by the taxpayer are inadequate or contrary to applicable regulations. On the one hand, a tax auditor should work in accordance with the law or regulations in carrying out audits. On the other hand, he has a responsibility to fulfill the wishes of the audited taxpayer who may try to influence him with adequate compensation. This situation creates role conflict for a tax auditor because he is faced with confusing work demands or is expected to act contrary of his desires or beyond his scope of work. Talise (2019) determined that role conflict negatively affects auditors' performance. These findings indicate that the higher the role conflict of an employee, the lower the performance will be.

Therefore, the following hypotheses are formulated based on the statements above:

*H1: Professionalism has a positive effect on tax auditors' performance.*

*H2: Competence has a positive effect on tax auditors' performance.*

*H3: Role conflict has a negative effect on tax auditors' performance.*

## 1.2. Moderating role of locus of control

A tax auditor with a high level of professionalism will be able to properly carry out his assigned tasks. Moreover, professional tax auditors will work under specified standards, prioritize their work, employ their potential expertise, are independent, confident, and dedicated to their work. Therefore, a tax auditor who performs his tasks professionally can optimize his performance. A tax auditor's internal locus of control, as a moderating variable, will strengthen the effect of professionalism on his performance. However, a tax auditor's external locus of control will weaken the effect of professionalism on his performance. Saputra (2012) believed that locus of control affects tax auditors' performance. Furthermore, Retno Sari and Thawil (2016) determined that locus of control moderates the effect of job insecurity and organizational commitment on job satisfaction among tax auditors.

Role conflict arises owing to the bureaucratic control mechanism of an organization that contradicts norms, rules, ethics, and professional independence. Role conflict can affect high or low individual performance and can occur between a tax auditor and a taxpayer as the object being examined. Role conflict can reduce individual motivation to work, which will affect the decline of individual performance. In the above frame of mind, the higher the conflicting role of a tax auditor, the lower his performance. A tax auditor's internal locus of control will reduce the influence of role conflict on the decline of his performance. Individuals, specifically the tax auditors in this study, will be able to act effectively in a work environment where they can obtain specific instructions or directions from the leadership, as well as controls applied to them (Brownell, 1981). Brownell (1981) stated that locus of control is a moderating variable that moderates the effect of the budget effectiveness on organizational effectiveness.

If the locus of control of a tax auditor is external, then the higher the role conflict, the weaker his performance. Thus, the following hypotheses are proposed:



H4: *Locus of control moderates the effect of professionalism on a tax auditor's performance.*

H5: *Locus of control moderates the effect of competence on a tax auditor's performance.*

H6: *Locus of control moderates the effect of role conflict on a tax auditor's performance.*

Stage 2:

$$Perf = \alpha + \beta_1 Prof + \beta_2 Comp + \beta_3 RC + \beta_4 \cdot LoC + \varepsilon.$$

If the test results in stage 2 show a significant LoC value, then the locus of control can be tested as a moderating variable.

Stage 3:

$$H4: \quad Kin = \alpha + \beta_1 Prof + \beta_2 LoC + \beta_3 Prof \cdot LoC + \varepsilon, \quad (quasi),$$

$$Kin = \alpha + \beta_1 Prof + \beta_2 Prof \cdot LoC + \varepsilon, \quad (pure).$$

$$H5: \quad Perf = \alpha + \beta_1 PComp + \beta_2 LoC + \beta_3 Comp \cdot LoC + \varepsilon, \quad (quasi),$$

$$Perf = \alpha + \beta_1 Comp + \beta_2 Comp \cdot LoC + \varepsilon, \quad (pure).$$

$$H6: \quad Kin = \alpha + \beta_1 RC + \beta_2 LoC + \beta_3 RC \cdot LoC + \varepsilon, \quad (quasi),$$

$$Kin = \alpha + \beta_1 RC + \beta_2 RC \cdot LoC + \varepsilon, \quad (pure),$$

where *Perf* = performance, *Prof* = professionalism, *Comp* = competence, *RC* = role conflict, and *LoC* = locus of control.

## 2. RESEARCH METHODS

### 2.1. Research objectives

The objective of this research is to investigate the effect of independent variables, i.e professionalism, competence, and role conflict on tax auditors' performance and also to identify the role of locus of control as a moderating variable.

### 2.2. Modeling volatility

The first, second, and third hypotheses are tested using multiple regression analysis with the following equation:

$$Perf = \alpha + \beta_1 Prof + \beta_2 Comp + \beta_3 RC + \varepsilon.$$

The fourth, fifth, and sixth hypotheses, as well as the moderating role of locus of control, are tested using a moderated regression analysis (MRA) technique. Three steps are applied in the MRA to determine the role of the moderating variable (Ghozali, 2018). Equations from the three stages are used to test the third, fourth, and sixth hypotheses. The first stage tests the effects of all the independent variables on the dependent variable. The second stage examines the effect of the moderating variable as an independent variable on the tax auditors' performance. The third stage investigates the role of the moderating variable on the effect of the independent variables on the dependent variable. If the moderating variable shows a significant effect in the second step, then its role is a quasi-moderator. However, if it demonstrates an insignificant effect, then the moderating variable is a pure moderator.

Stage 1:

$$Perf = \alpha + \beta_1 Prof + \beta_2 Comp + \beta_3 RC + \varepsilon,$$

### 2.3. Sample and data collection

The population in this study were all tax auditors at DGT Riau, totaling 139. The sampling method was carried out by the census method, so that all populations were sampled. Data collection is done by sending a questionnaire to tax auditors of the DGT in Riau, Indonesia. The data to be processed are the answers of the tax auditors, as respondents, to the distributed questionnaire. To measure professionalism, a questionnaire developed from PER-23/PJ/2013 Concerning Examination Standards to Test Compliance with Tax Obligations), consisting of 10 questions. Competence is measured using 24 questions developed from L. Spencer and

S. Spencer (1993). Role conflict is measured using 15 questions developed from Rizzo, House, and Lirtzman (1970). Locus of control was measured using 8 questions developed from Spector (1988). Meanwhile, tax auditors' performance was measured using 9 questions developed based on the Director General of Tax Circular Letter Number SE-11/PJ/2017 Regarding Plans, Strategies and Measurement of Audit Performance. A total of 112 questionnaires is returned, which is further processed, as shown in Table 1.

**Table 1.** Number of questionnaires returned

Description	Amount	Percentage (%)
Number of questionnaires distributed	139	100
Number of questionnaires not returned	22	15.8
Number of incomplete questionnaires	5	3.6
Number of questionnaires that can be processed	112	80.6

## 2.4. Data validity and reliability

To find out the validity of the data, the Pearson product moment instrument validity test was used, while the reliability of the data refers to the Cronbach Alpha value. The results validity testing showed that all question items showed a calculated  $r$ -value greater than  $r$  table value. Thus, it can be concluded that all questions used to measure the variables in this study are valid. Meanwhile, the results of the reliability test on all instruments showed a Cronbach alpha value greater than 0.6 (Ghozali, 2018). Therefore, it can be concluded that all instruments used to measure research variables are reliable.

## 2.5. Definition and variable measurement

Individual performance denotes the work achieved by an individual in carrying out his duties following his responsibilities and is one of the benchmarks used to determine whether a job is satisfactory or otherwise (Kalbers & Fogarty, 1995). The dimensions and performance indicators of tax auditors are measured based on the Director General Circular Letter Number SE-11/PJ/2017 concerning audit planning, strategy, and measurement.

Professionalism is defined as the behavior, expertise, or quality of an individual who is professional in performing the activities of a company or organization. The indicators used to measure professionalism are community affiliations, independence, beliefs, dedication, and social obligations (Hall, 1968).

Competence is an individual's characteristic that demonstrates a certain behavior and performance, which can be measured and determined. Employees are required to have certain competencies in their job or position they occupy. According to L. Spencer and S. Spencer (1993), the competence of a person is an underlying characteristic related to the effectiveness of his performance at work. Moreover, it is the basic characteristic of individuals who have a causal relationship, as well as effective or optimal performance at work or certain situations.

Competence consists of intellectual, emotional, and social competencies, which are part of the innermost personality of a person, that can predict or influence the effectiveness of individual performance. In this study, competency is measured by a competency instrument developed by L. Spencer and S. Spencer (1993).

Role conflict can be interpreted as a psychological symptom experienced by members of an organization, which can cause discomfort in a workplace and potentially reduce performance (Robbins, 2002). Robbins (2002) identified the indicators of role conflict as 1) incompatibility between actions with expectations and 2) conflict between life values and roles. Role conflict is measured by instruments developed by Rizzo et al. (1970).

Locus of control is a personality characteristic that describes individuals who assume that control of their lives originates either from within themselves (internal locus of control) or from external factors (external locus of control). Locus of control is measured by an instrument developed by Spector (1988).

## 3. RESULTS

The normality of the data should be tested, and classical assumption tests should be performed before the hypotheses are tested. The results of the data normality test show that the Kolmogorov-

**Table 2.** *p*-value and *t*-value for Hypotheses 1, 2, and 3

Model	Unstandardized coefficient		Standardized coefficient		
	B	Std. error	Beta	t-value	p-value
(Constant)	0.799	0.732	–	1.092	0.277
Prof	0.336	0.122	0.243	2.762	0.007
Comp	0.331	0.130	0.225	2.548	0.012
RC	–0.318	0.129	0.217	2.463	0.015

Smirnov value is 0.168, which is greater than 0.05. Therefore, the data in this study meet the data normality requirements. Tests on classical assumptions are likewise carried out, and the results show that the requirements for multicollinearity, heteroscedasticity, and autocorrelation are fulfilled.

Based on the partial SPSS output, the effects of professionalism, competence, and role conflict on tax auditors’ performance show a *p*-value of 0.007 for professionalism. Therefore, professionalism affects tax auditors’ performance. A positive beta value indicates that the more professional a tax auditor is, the better his performance will be. The testing results of Hypothesis 2 show that the *p*-value for competency is 0.012. Thus, competence affects the tax auditors’ performance. The positive beta value indicates that the more competent a tax auditor is, the better his performance will be. The testing results of Hypothesis 3 demonstrate that the *p*-value for role conflict is 0.015, which is smaller than 0.05. Negative beta values indicate that role conflict is negatively related to performance. This finding shows that the higher the role conflict experienced by a tax auditor, the lower his performance.

**Table 3.** *p*-value of Hypotheses 4, 5, and 6

Variables	<i>p</i> -value	Pure/quasi moderator	Description
ProffLoC	0.032	Pure moderator	Significance
CompLoC	0.010	Pure moderator	Significance
RCLoC	0.018	Pure moderator	Significance

Hypotheses 4, 5, and 6 aim to examine the moderating role of locus of control on the effect of professionalism, competence, and role conflict on the tax auditors’ performance. MRA performs the hypothesis testing. Several steps are performed to determine the moderating role of locus of control on the influence of the dependent variable on the independent variables. Based on their answers, the majority of the respondents possess an inter-

nal. The testing results of Hypothesis 4, that is, the moderating role of locus of control on the effect of professionalism on performance, show a *p*-value of 0.032 and a positive beta value. This finding indicates that locus of control moderates the effect of professionalism on performance and strengthens the effect of professionalism on the performance of tax auditors.

The testing results of Hypothesis 5, that is, the moderating role of locus of control on the effect of competence on performance, show a *p*-value of 0.010, which implies that locus of control, moderates the effect of competence on performance. The *p*-value of the interaction between competence and locus of control is 0.010. Thus, locus of control moderates the effect of competence on the tax auditors’ performance. The testing results of Hypothesis 6, that is, the moderating role of locus of control on the effect of role conflict on performance, show a *p*-value of 0.018. Thus, locus of control moderates the effect of role conflict on the tax auditors’ performance.

## 4. DISCUSSION

Professionals are individuals who are responsible, perform their duties well, and carry out their inspection tasks by optimizing their potential. A professional will prioritize the accomplishment of his duties and work under applicable rules. Therefore, a professional tax auditor will demonstrate satisfactory performance. The more professional a tax auditor is, the better his performance will be. This finding accords with the opinions of, Kadarisman (2011), Pamudji (1994), and Prabayanthi and Widhiyani (2018), who found that professionalism affects performance. The results of this study also indicate that the more appropriate the competency of employees is in their field of work, the more optimal their performance. This result is because



a competent employee generally has a relatively stable character, attitude, and ability to deal with situations in their workplace. A synergy between his character, self-concept, internal motivation, and contextual knowledge capacity will develop, which will enable him to overcome the work problems he will encounter quickly. Thus, he will be able to work calmly and confidently while openly improving his self-quality. According to McClelland (1998), employee competence includes the suitability of an employee's knowledge and skills, which, in performing his duties, will have an impact on his performance, which is an embodiment of his achievements.

Role conflict is a psychological symptom experienced by members of an organization that can generate work insecurity and potentially reduce work motivation (Ratnawati & Kusuma, 2002). Role conflict can have a negative impact on employee behavior, such as an employee's inability to perform his job owing to confusion about which command to follow. Such conditions will reduce the motivations and interests of employees to carry out their work, which will have an impact on the decline of their performance.

Based on observations of their answers, the majority of respondents have an internal locus of control. An individual with an internal locus of control will perceive his capabilities to perform his tasks and, in case of a failure, will attrib-

ute that failure to personal weakness or inability. In other words, the failure he experiences is his fault, which would motivate him to correct himself to avoid future failures. Professional tax auditors with an internal locus of control will incomparably demonstrate better performance than tax auditors with an external locus of control.

In this study, the results of the tests of the moderating variables show a positive beta value. Thus, tax auditors are professionals and have an internal locus of control. This finding means that professionalism and competence will further enhance the tax auditors' performance. Saputra (2012) found that locus of control affects the tax auditors' performance. Retno Sari and Thawil (2016) likewise determined that locus of control moderates the influence of job insecurity and organizational commitment on job satisfaction. Locus of control will affect role conflict by limiting its influence in reducing the tax auditors' performance. By contrast, external locus of control will increase the influence of role conflict in decreasing performance. Tax auditors will be able to function effectively in a work environment where they can obtain specific instructions or direction by leadership, as well as controls that are always applied. A tax auditors' external locus of control will further enhance the capacity of role conflict to reduce his performance.

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## CONCLUSION

The tax auditors' performance may be influenced by their professionalism, competence, and conflicting roles. The results of this study indicate that the more professional and competent a tax auditor is, the better his performance will be. Besides, the results of the study also determined that the higher the conflicting role of a tax auditor is, the less optimal his performance will be. Besides, a tax auditor's locus of control can influence his performance. A tax auditor with high level of professionalism and competence and an internal locus of control will demonstrate satisfactory performance. By contrast, a tax auditor's external locus of control will limit the role of professionalism and competence in improving his performance regardless of whether he has high levels of professionalism and competence.

Based on the findings in this study, the DGT should improve the professionalism and competence of its tax auditors. Besides, the institution should avoid conflicting roles among tax auditors. Recruiting tax institutions should consider the orientation of prospective tax auditors to be able to improve their performance. This study demonstrates that an internal locus of control can increase the role of professionalism and competence in improving performance. Moreover, internal locus of control can limit the decline in tax auditors' performance resulting from perceived role conflict.

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