

## The Quality Financial Statements of Small and Medium Enterprises Business (SME's) in View of the Tax Auditor

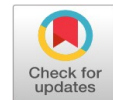
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**Abstract:** This research aimed to study the quality of financial statements of small and medium enterprises in the view of tax auditors by gender, age, education level and experience in inspection. Sample population was 117 tax auditors using the questionnaire as a research tool. The statistics used in the research were percentage, mean, standard deviation, and variance. The results showed that most of the respondents were 94 female, 80.30%, aged from 41 to 50 years old, and had experience in audit and certification of financial statements from 11 to 15 years, 93 people. Quality of the financial statements of small and medium enterprises in the view of the tax auditor was Understandable, Decision-making, Reliability, and Comparison. There was no difference in age and experience in inspection. However, there was difference if classified by gender. However, there is the limitation of the research due to most respondents were female. In the future, comparative quality of financial statements may be studied in the view between auditor and tax auditor.

**Key Words:** : Financial statements, Small and medium business, Enterprises

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### INTRODUCTION

Small and Medium Business (SME's) in Thailand plays an important role in the growth of the country's economy. The government supports and develops economy in order for SME's to survive or grow in accordance with appropriate policies, operating and utilizing resources in the country for maximum benefit. Therefore, the planning, management, marketing, finance, and accounting of SME's can be profitable the most. It is the primary responsibility of the management to ensure that the management and supervision of what is achieved will be the most effective that is financial report (AL Khuja & Mohamed, 2016; Sasivimol, 2005). Financial reports consist of financial statements and other financial information. Businesses must prepare financial statements to provide information on financial status, results of operations and changes in financial status. In addition to being useful to businesses, outsiders can also use financial data to make economic decisions. Accounting information is the inside information that helps business operators to capitalize and work well.

Generally, the business of making financial statements differs according to the nature of the business activities and is different from the financial statements of other countries. It may be the result of a variety of situations, social, economic, and legal aspect. In addition, each country may also set its own accounting standards in order to meet the needs of different users of financial statements (Federation of Accounting Professions, 2008). Therefore, The presentation of financial statements is important, the financial information of the financial statements must be qualitative characteristics because the users of the financial statements are internal users, i.e., the executives, employees, and the stake holders. These individuals use the financial statements for their investment decisions. The outside users for example, investors, revenue, creditors, and Bankers use the financial statements in the investment decisions. The Revenue uses the financial statements for income taxes. Ministry of Commerce uses in the oversight of government agencies.

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While preparation and before the presentation of information in the financial statements it must be audited and stated their opinion by the Certified Public Accountant or audited and certified by the tax auditor first, depending on the size of the business. Presently, the problem of presenting a financial statement of SME's is to try to refine the numbers in the financial statements and to conceal the confidentiality of the material that is not disclosed completely. It will be misleading the user's financial statements, resulting in erroneous decisions and damage. Therefore the tax auditors should provide quality information to the users of the financial statements for increase their confidence and more reliability (Bellovary, Giacchino, & Akers, 2005; Dianita, 2015).

With regard to the importance and problems mentioned above, the researchers are interested in studying the quality of financial statements of small and medium enterprises as a guideline for improving and developing the quality of financial statements to be used for maximum efficiency and effectiveness.

### **Research objectives**

To study the quality of financial statements of SME's.

### **LITERATURE REVIEW**

SME's operate in different ways according to the nature of the business, production, service or purchase. There are different types of registrations it may be in the form of a single owner, partnership, limited company under the Small and Medium Enterprise Promotion Act, 2000 and under the Revenue Code shall have a registered capital not exceeding five million Baht, total assets and total revenues not over thirty million baht or to employ no more than two hundred people (Revenue Department, 2017). The Accounting Act 2000 refers to the financial statement, accounting standards, Accountants, bookkeeping, auditing and certification of financial statements. As a result, the factors in financial statement quality for SME's consist of the knowledge of accountants by the IFAC Board of Education determined that the accountant's knowledge should include Federation of Accounting Professions Professional knowledge, Professional skills, Professional Value, and Professional Ethics.

Even the presentation of financial information in the financial statements must be accordance with the quality of financial reporting. Which are understandability, relevance, reliability, comparability, accuracy, completeness, timeliness, consistency and accuracy (Wang & Wang, 1996). However, the quality of financial reporting from the view of Federation of Accounting Professions consists of 4 characteristics.

1. Understandability is the information must enable the user to understand the financial statements immediately when using the information. The user of the financial statements must be reasonable person with knowledgeable about the business, economic activity and accounting.
2. Decision Making is the financial information are useful in the economic judgment of the users of the financial statements. It can be used to evaluate past performance, present and future. The experts about financial reporting quality are also important for the quality of financial reporting information (McDaniel, Marti, & Maines, 2002).
3. Reliability is the information must be a fair representation. Objectivity, Completely and free from significant error and bias. The reliability of financial reports can be seen from the effectiveness of the internal control structure (Akgun, 2016).
4. Comparability is financial information must be comparable in different time periods. Whether it is the Single or Sole Proprietorship or a joint venture. The information in the financial statements must be consistent. In accounting practice for the same item or event in every accounting period. To comply with accounting standards and disclose clearly defined accounting policies. Accounting Act 2000 defines the duties and responsibilities of business operators who are responsible for accounting to the fullest extent permitted by law to provide accurate and complete accounting records, to supervise the accountants to make accounting accurate and truthful, and the aged senior executives affect with the quality of financial report (Huang, Rose-Green, & Lee, 2012). Financial statements must be reviewed and certified from the auditor.

In addition, the characteristics of SME's must also have other aspects that must be managed on their own, expertise knowledge, having a personal character in the business, resulting in business

success. The business entrepreneur should have the following features; be creative, learn or innovate, discipline, sedation, pay attention to details, dare to be balanced, and have the ability to handle the general management. It is committed to operating and has patience. The organization will achieve the highest quality and highest quality results, (Pron, 2003) based on 4 characteristics: organization, person, environment, and policy of management, operation, and corporate culture. The success of a business entity is measured by the financial statements that are required to be disclosed in the notes to the financial standards. Select and apply accounting policies in accordance with the relevant accounting standards. Presentation of accounting policy information in a manner that is relevant to the decision, reliable, comparable and understandable. Disclosure of information that has been in compliance with the requirements of the Financial Reporting Standards allows users to understand the impact of the transaction. Other Events and situations affect the disclosed information in the financial statements which consist of management's conclusion on the financial statements are presented fairly and accurately as they should disclose the financial effects of the transactions (Supaporn & Saowanee, 2008). The financial statements of the Company do not comply with the financial reporting standards per transaction. Additional information not provided elsewhere in the financial statements, but the information is relevant to understanding the financial statements.

Presentation of financial statements must be audited and certified by a certified public accountant or tax auditor. The auditor has the criteria to audit the financial statements Audit and certify large corporate accounts. Make a report on the financial statements. A corporate established under Thai law with a registered capital not exceeding 5 million baht, total assets not exceeding 30 million baht, and total revenue not exceeding 30 million baht is considered a small business must be audited and presented by the tax auditor. The duties and responsibilities of the auditors shall be established in writing in order to know how to perform the audit work. Financial reports must be prepared for the audit and report of the findings. They must follow the code of ethics of the auditor and certify the account (Silapaporn & Chanchai, 2008). To report on the performance of the work in accordance with the rules, procedures and conditions. Code of Conduct for taxpayers. In examining the financial statements of small businesses, it is possible to use the standards of auditing and audit practice, Code 1005, as a guideline for auditing small business to practice as a professional. However, today's business is fiercely competitive (Suwannee, 2012). Quality Development and Financial Monitoring Affect Competition for Business Excellence (Swift, Humphrey, & Gor, 2000). If any coporate does not meet any of the criteria in Section 69, it shall be regarded as a large business. The financial statements have been audited and provided opinion by the Certified Public Accountant.

There are many changes and rapid changes, especially in information technology, where entrepreneurs and accountants need to have knowledge, management concepts, understanding the basics of information technology provides the ability of the system to provide sufficient information to support the management. So entrepreneurs and accountants need to adjust, modify workflow to create value for the organization. As a result, the financial statements of small and medium businesses benefit the users (Godfrey, Hodgson, Tarca, Hamilton, & Holmes, 2010). Reflections on qualitative financial statements include: 1. Understanding, 2. Decision-making, and 3. Trust. Secondary features consist of five representations of fairness; fair representation, content is more important than form, neutrality, vigilance, completeness, and comparability.

In addition, the information in financial statement also helps entrepreneurs in small and medium enterprises to be able to evaluate the performance and financial status in each period. This is a guideline for policy planning and decision making and controls the operations within the business (Foster, 2004). It indicates the condition of the business as well.

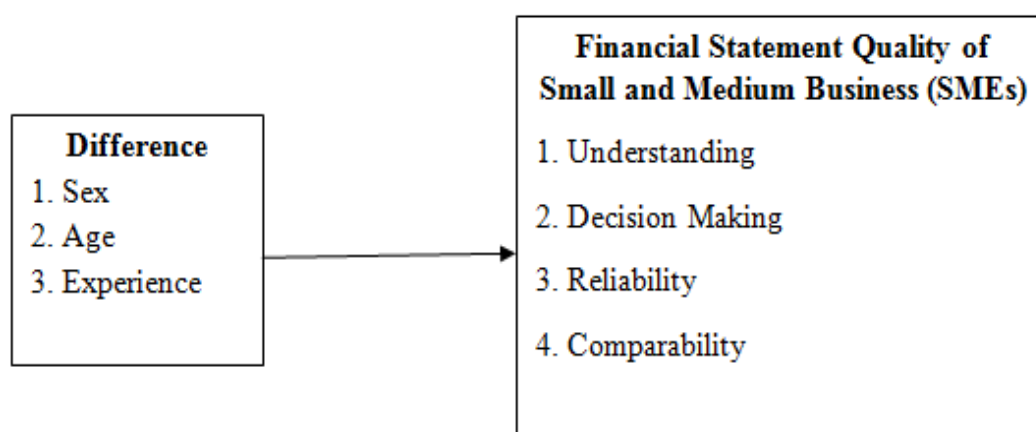


Figure 1. Summary of the study

### METHODOLOGY

The researcher collected data from the questionnaires from the tax auditor registered with the Revenue Department, Ministry of Finance, selected the samples by using the formula TaroYamane from the 1,726 tax auditors and sent questionnaires to 325 respondents. The questionnaire was returned from 117 respondents, representing 36 percent. The reliability test was conducted by 5 experts. The data from the completed questionnaires were analyzed. Statistics used in tool testing include the reliability of tools. The Cronbach method was used to determine the alpha coefficients and used the statistically significant test at the level of 0.5. The questionnaire was used the Likert Scale.

### RESULTS

Most of the respondents were 94 female, 80.30 percent, followed by 23 male, 19.7%. There were 112 people with 41-50 years of age, or 95.73%. There were 5 people with 20-40 years old, accounting for 4.27%. There were 93 people, accounting for 79.49% having 11-15 years of experience in auditing and certifying financial statements. They also have experience in auditing and certifying financial statements from 1 to 10 years, accounting for 20.51%.

Table 1: Analyze the differences in financial statement quality of SMEs in the taxes auditor’s perspective on gender

Quality Financial Statements	Sex	N	$\bar{X}$	S.D	t-test for Equality of	
					Mean Sig.	Mean Difference
1. Understanding	Male	23	4.5054	.48115	0.001*	-.18539
	Female	94	4.6908	.26156		
2. Decision Making	Male	23	4.6138	.43618	0.005*	-.12774
	Female	94	4.7416	.26267		
3. Reliability	Male	23	4.5217	.46430	0.000*	-.20522
	Female	94	4.7270	.23163		
4. Comparability	Male	23	4.4946	.50351	0.000*	-.21953
	Female	94	4.7141	.25688		

Table 1, analyze the difference in the quality of financial statements of small and medium enterprises in the tax auditor’s view on gender was found that different auditors’ gender has different opinions about the quality of the financial statements. Female auditors have opinions on the quality of financial statements in decision-making, reliability, comparability, and understanding higher than male auditors by the average 4.74 , 4.72 4.71 and 4.69 respectively.

Table 2: Analyze the differences in the financial statement quality of SMEs in the taxes auditor’s perspective on

Quality Financial Statements	Sex	age			t-test for Equality of	
		<i>N</i>	$\bar{X}$	<i>S.D</i>	Mean Sig.	Mean Difference
		1. Understanding	From 20 40	5	4.7250	.31437
	Above 41 years	112	4.6512	.32423		
2. Decision Making	From 20 40	5	4.7647	.28516	.985	0.5042
	Above 41 years	112	4.7143	.30853		
3. Reliability	From 20 40	5	4.6824	.29294	.787	-.00446
	Above 41 years	112	4.6868	.30265		
4. Comparability	From 20 40	5	4.7250	.29843	.905	.05647
	Above 41 years	112	4.6685	.33198		

Table 2 Analyze the differences in the quality of financial statements of small and medium enterprises in the view of tax auditors, classified by age. The results show that tax auditors are aged from 20 to 40 years. In terms of decision-making, reliability, comparability, and understanding between the tax auditors who are 20-40 years and the auditors who are above 41 years old are not different by the average 4.71, 4.69, 4.67 and 4.65 respectively.

Table 3: Analyze the differences in the financial statement quality of SMEs in the taxes auditor’s perspective on

Quality Financial Statements	Sex	experience			t-test for Equality of	
		<i>N</i>	$\bar{X}$	<i>S.D</i>	Mean Sig.	Mean Difference
		1. Understanding	From 1 10	24	4.6536	.26515
	Above 11 years	93	4.6546	.33740		
2. Decision Making	From 1 10	24	4.7108	.30339	.558	-.00712
	Above 11 years	93	4.7179	.30903		
3. Reliability	From 1 10	24	4.6659	.28104	.694	-.02607
	Above 11 years	93	4.6920	.30718		
4. Comparability	From 1 10	24	4.7083	.28710	.738	.04704
	Above 11 years	93	4.6613	.34050		

Table 3 analyzes the differences in the quality of financial statements of small and medium enterprises in the perspective of the tax auditor on experience. The results show that the tax auditor has more than 11 years of experience in decision-making, reliability, comparability and understanding are not different with different from the tax auditors with 1 to 10 years of experience by the average 4.72, 4.69, 4.66 and 4.65 respectively.

## DISCUSSION AND CONCLUSION

The quality of financial statements of small and medium enterprises in view of the tax auditor in decision-making, reliability, comparison, and understanding on the gender of the auditors is different. Female auditors have opinions on the quality of financial statements in decision-making, reliability, comparison, and understanding higher than male auditors. The differences between men and women auditors likely to be due to womens increased familial responsibilities (Senatra, 1988). But for age and experience of the tax auditors have opinions in the quality of financial statements on understandable, decision -making, reliability, and comparison not differently. The auditors between the ages of 20-40 years are not different from the auditors of above 41 years and the tax auditor with the experience from 11 years upwards; there is no difference with the tax auditor experience from 1 to 10 years. The research of Pouryousof, Abousaiedi, Taheri, and Shamsadini (2013) found that the auditor’s ability for information processing relies on their cognitive style in accordance with Schorder, Driver, and Strefert’s theory.

## LIMITATIONS

1. The questionnaires received from the majority of tax auditors were female rather than male. These data have resulted in differences in the quality of financial statements in relation to decision making. Reliability Comparable and Understandable.
2. The questionnaire was asked only for tax auditors. Which oversees the financial reporting of small businesses.

## SUGGESTIONS

In the future, there should be a comparative study of the quality of the financial statements between the Certified Public Accountant and the Tax Auditor.

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