EXAMINATION OF TAX OFFICER'S SCEPTICISM ON TAX FRAUD JUDGMENT: IN-DEPTH ANALYSIS OF THE CLIENT'S RISK FACTORS

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Abstract

Purpose – This study examines the effect of scepticism, and the client's risk factors (internal control and financial pressure) on the tax fraud judgement of the Inland Revenue Board of Malaysia (IRBM) tax officers. Additionally, it explores the interaction effects of these variables on tax fraud judgement. The analysis aims to identify the key factors contributing to tax fraud judgement among tax officers. This will assist them in conducting effective tax audits and tax investigations aligned with IRBM's Tax Audit and Investigation Framework 2023. By identifying the key factors influencing tax fraud judgement, tax officers can prioritize their efforts and resources towards higher risk areas, leading to more effective tax audits and investigation activities.

Design/ methodology/approach – An experimental study was conducted with four case scenarios for 176 tax officers from the IRBM tax officers. The paper utilized a quantitative approach, specifically employing structural equation modelling.

Findings – The study reveals that both scepticism and the client's internal control are critical factors that influence how tax officers assess the risk of tax fraud, while client's financial pressure does not directly impact tax fraud judgements. This could indicate that financial pressure alone does not necessarily raise red flags for tax fraud without other factors being present. Further analysis of the moderation effects shows that the client's financial pressure plays a significant role in moderating the relationship between scepticism and tax fraud judgment, as well as between the client's internal control and tax fraud judgment. This suggests that when financial pressure is high, scepticism and internal control have a stronger influence on how tax fraud is judged. However, the client's internal control does not significantly moderate the relationship between scepticism and tax

fraud judgment. This suggests that strong internal control systems, by themselves, are effective in reducing the likelihood of tax fraud, regardless of the level of scepticism. Therefore, internal control alone has a significant impact on how tax fraud is judged, even without interacting with scepticism.
Research Limitations – This study is limited to examining scepticism, client's internal control and client's financial pressure on tax fraud judgement. Future studies may consider other additional individual and contextual factors that could influence tax fraud judgment, such as competency, technology and regulatory enforcement.
Originality/ value – This paper offers a valuable contribution to the body of knowledge by addressing significant gaps in the literature on tax fraud. It also explores the integration between behavioural studies and tax fraud judgement, which has been scarcely supported by statistical evidence in previous research.

Key Words – Tax Fraud Judgment, Scepticism, Internal Control, Financial Pressure, Tax Officers.

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1. Introduction

Over the years, the government has experienced a significant loss of revenue due to non-compliance and fraud, despite efforts made by the Inland Revenue Board of Malaysia (IRBM) to promote tax compliance [1]. The rise in additional taxes and penalties indicated an increase in tax non-compliance and fraud. Failing to address tax fraud might have detrimental effects on both society and the economy. It not only diminishes the government's revenue but also has the potential to significantly disrupt public services, infrastructure development, and social welfare programs that rely on this funding. To address this issue, the tax authority should consider implementing stricter tax enforcement measures and conducting more frequent and comprehensive tax audits [2].

Tax fraud is prevalent; hence the tax authority primarily uses tax audit and tax investigation activities as the major enforcement strategy [3]. Their objectives are to educate taxpayers about their rights and duties under the Income Tax Act (ITA) 1967 and to raise awareness to prevent tax fraud [4]. In Malaysia, if tax fraud including an understatement or omission of income is found during an audit, a penalty will be applied according to subsection 113(2) of the ITA. The penalties can be substantial, typically amounting to a fine of up to 100% of the tax undercharged. Additionally, taxpayers who are found guilty of such offences may also face prosecution, which would lead to further financial penalties and, in some cases, imprisonment. This emphasizes the critical role that tax officers play in detecting and addressing tax fraud [5]. They are responsible for conducting thorough audits and investigations to uncover discrepancies and ensure taxpayers comply with tax laws. As the representatives of the tax authority, their expertise and vigilance are essential in identifying fraudulent activities that might otherwise go unnoticed, thus maintaining the integrity of the tax system [6]. Their assessment of tax fraud during the audit significantly influences the achievement of tax audit objectives aimed at deterring tax fraud. To ensure a successful audit, tax officers must efficiently plan their work to finish the audit duty thoroughly [7].

However, tax officers face complexity when the tax issues fall into a grey area, requiring them to distinguish between tax fraud and acceptable tax avoidance [8, 9]. For instance, they are encountering difficult challenges related to globalization, such as offshore financial centres, tax havens, and the misuse of transfer pricing practices [10]. Moreover, the paperless system and heavy reliance on electronic data processing tools for managing daily company transactions pose challenges for tax officers in evaluating the credibility of audit evidence [11]. In some cases, audit trails exist only for a limited period, and it is difficult to uncover unauthorized transactions and/or other exceptions later if they are not detected on a timely basis [12]. Therefore, tax officers must thoroughly comprehend the client's business nature and assess pertinent risks before selecting appropriate audit processes to accurately determine the tax amount.

Previous studies on tax fraud are only focused on the factors contributing to tax fraud from the taxpayer's perspective [13], tax fraud indicators [14,15,16,17] and behavioural characteristics of the taxpayers on tax compliance [18]. Moreover, research on scepticism particularly those that relate to the tax officer's professional judgement is scarce. Prior studies on scepticism are focused on the validation of scepticism scale [19,20] and factors contributing to scepticism [21,22,23]. Apart from the individual-based factors (i.e. scepticism) as a focal point in the behavioural research studies, the contextual-based factors (i.e. client's risk factors) are also important in influencing judgement [24,25]. Few studies examine the effect of client's risk factors (i.e. internal control and financial pressure), particularly those related to the auditor's judgement [26] but did not particularly focusing on the tax fraud judgement of the tax officers. Although past studies have examined the relationship between internal control, financial pressure and the occurrence of fraud [27,28,29] empirical evidence examining these contextual factors on the tax fraud judgement is still limited.

Moreover, prior studies examined the effects of individual-based factors and contextual-based factors separately without addressing the linkage of these two factors as well as taking into consideration the moderation effects of these two factors on the tax fraud judgement [30,36]. Also, there are lack of studies that examined the interaction effects between two different types of contextual factors. This study has proven that the two types of contextual factors significantly interacted which influenced the individual's judgement. As there are very limited studies that conducted this kind of examination, this study aims to contribute to additional empirical findings on this relationship.

2. Literature Review and Hypothesis Development

2.1 Behavioural Decision Theory (BDT)

This theory posits that individual judgment is shaped by both internal and external factors. Internal factors include personal characteristics and behavioural tendencies, while external factors encompass environmental and situational contexts, such as risk factors and workplace influences [31,32]. These internal and external pressures lead individuals to rely on heuristics, or mental shortcuts, to make rational decisions within the constraints of their circumstances [33]. This principle of bounded rationality explains how individuals optimize their decision-making when faced with limited information or time. Previous studies have rarely incorporated classic theories of individual judgment in developing risk assessment frameworks, particularly concerning tax fraud. This study seeks to expand the application of Behavioural Decision Theory (BDT) by using it to explain the internal and external factors influencing tax fraud judgments [34,35]. While BDT has been widely applied in fields such as economics, education, medicine, political science, marketing, geography, engineering, management science, and psychology [37,38], there is a noticeable gap in its use in tax fraud risk assessment. By incorporating BDT into this study, the research introduces a novel approach to understanding how individuals make tax fraud-related decisions, offering new insights into behavioural judgment. This framework is expected to provide empirical predictions about tax fraud judgment performance, which has not been extensively explored in the existing literature.

2.2 Tax fraud judgement

Tax audits and investigations are the administrative procedures that verify the accuracy of the taxes to be paid [5]. In performing the tax audit or investigation, tax officers are required to exercise their judgement throughout the audit or investigation process by assessing the taxpayer's business records and financial affairs (i.e. financial statements) to determine the right amount of income is declared and the amount of tax calculated and paid is per tax laws and regulations IRBM [4,39]. Specifically, under the provision of section 90 (2) of the Malaysian Income Tax Act 1967, a tax officer is demanded to make a judgement based on a taxpayer's estimated income. For instance, tax officers make judgement to perform further investigation or perform additional testing if they have the opinion that the submitted annual return form has been miscalculated (e.g. the net assets accumulated over a period did not match with the income returned for that period), there is a dispute over the taxability of a certain income source (i.e. gains from rental income held to be taxable under section 4(a) of Business Income or section 4(d) of Rental Income of the Income Tax Act 1967 as both types of income have different methods of tax calculation. The judgement of the tax officers in assessing tax fraud during the audit has a significant impact on the achievement of tax audit objectives to deter tax fraud. Thus, for a successful audit, the tax officers must organise their work in such a way that the audit task is accomplished completely and efficiently [8].

As businesses nowadays are expanding rapidly, transactions have become more complex and therefore, tax officers are demanded to carry out much greater levels of assurance related to financial fraud [40]. A lower rating of tax risk assessment may lead to less scrutinizing of documents and suggestions to close the audit or investigation case without raising any tax adjustment and penalty. In contrast, a higher rating of tax risk may trigger a thorough audit, require more audit procedures to be conducted and result in larger findings and more additional taxes to be charged to the taxpayers [41]. In addition, tax officers' tasks somehow become complex when tax issues intervene in the grey area which requires them to differentiate whether the issue found is a tax fraud offence or acceptable tax avoidance [9]. For instance, tax authorities are facing challenging issues in globalization including offshore financial centres and tax havens as well as abuse of transfer-pricing practices [10]. In addition, due to the paperless system and relying heavily on electronic data processing systems to manage the organisation's day-to-day business transactions also somehow challenges the tax officers in assessing the validity of audit evidence [8]. In some cases, audit trails exist only for a limited period which makes it difficult to uncover unauthorized transactions and/or other exceptions later if they are not detected on a timely basis [12]. Therefore, it is crucial for tax officers to have an adequate understanding of the client's nature of business and to consider relevant risks before proceeding with suitable audit procedures in determining the correct amount of tax.

This study focuses on JDM in tax institutions, focusing on tax fraud risk, which is a new branch of the JDM research area. It is strengthened by a combination of prior studies on fraud risk assessment such as [6,40,42,43,44,45,46,47] and studies on tax fraud risk such as [48,49. A review of prior literature found very limited studies on tax officers' fraud judgement that focused on individual perspectives. Most studies in the context of tax fraud assessment focused more on the organisational level, looking into issues such as tax compliance, tax fraud indicators and prevention tools, regulatory requirements and public perception of tax authorities [50,16,17,15,51]. In the study conducted by [52] they highlighted that research on the tax officers' or tax authorities' behaviour and judgement requires more attention as the tax officers are the ones who maintain direct contact with taxpayers and implement control as well as impose charges and penalties. Due to that, this study aims to fill the literature gaps and provide a richer understanding of the judgement of tax officers in performing fraud risk assessment.

2.3 Scepticism

According to PCAOB 2006, scepticism is 'an attitude that includes a questioning mind and a critical assessment of audit evidence', a very important element in making sound audit judgements as well as a foundational construct in auditing professions [53]. The importance of scepticism to the audit profession is also highlighted in the auditing literature by its prominence throughout auditing standards [54,20,23,55,56,57]. This could also be seen by its prominence in the international auditing standards i.e. SAS 1 (AICPA, 1997); SAS 82 (AICPA, 1997); SAS 99 (AICPA, 2002) as well as in the Malaysian auditing standards i.e. ISA 240 – The Auditors' Responsibility to Consider Fraud in An Audit of Financial Statements, where there is a specific code that emphasizes the importance of auditors to be sceptical in performing the audit [58]. In relation to tax fraud judgement, scepticism reduces the risks of overlooking unusual circumstances, over-generalizing when making judgements from the audit observations, and using inappropriate assumptions in determining the nature, timing and extent of the audit procedures and evaluating the results thereof. Thus, scepticism can be viewed as the force that drives auditors to recognize potential errors and irregularities as well as to investigate whether any misstatements or fraud exist. This implies that scepticism is essential to a high-quality audit [59].

2.4 Client's internal control

The most widely used definition is the one provided by the Committee of Sponsoring Organisations [60], internal control is "a process, affected by an entity's board of directors, management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in (1) the effectiveness and efficiency of operations, (2) the reliability of financial reporting, and (3) the compliance of applicable laws and regulations". In any organisation, internal control is an important aspect to address as it assists in promoting orderly, effective, efficient and economical operations as well as in safeguarding resources against loss due to abuse, waste, errors, mismanagement and fraud [28]. It involves the control procedure and control environment, all the policies and procedures adopted by the directors and top management of an entity to assist in achieving their objectives, including adherence to internal policies, completeness and accuracy of records, the safeguarding of assets, timely preparation of reliable financial information as well as the prevention and detection of fraud and error [61].

Over the years, the importance of internal control within organisation gained significant attention as a key corporate governance mechanism. Regulators contend that increased examination of control systems is required as control weaknesses are the main factor of the large-scale fraudulent financial reporting (e.g. Enron, Lucent, WorldCom and HealthSouth, to name a few). Moreover, in a recent report conducted by the Association of Certified Fraud Examiner [62] revealed that lack of internal control as the highest factor that contributes to the occurrence of fraud. This shows that internal control is one of the important aspects that require sufficient courtesy in an organisation. In assessing fraud risks, internal control is the most effective system for detecting fraud through monitoring and enhancing organisational and financial reporting processes as well as ensuring compliance with pertinent laws and regulations [63,64,65].

In the context of tax, several prior studies conclude that the tax accrual is used to manage earnings, and lack of internal control over tax processes both allows error and potential tax fraud to occur [51,66]. In addition, a study by Graham & Bedard (2015) shows that material weaknesses in internal control over financial reporting of taxes were among the most frequent account-specific control problems reported. They also find internal control deficiencies related to preparing the tax provision and deferred taxes are more likely to be severe, as are those related to lack of internal control. These results indicate that increased scrutiny of internal control over the tax area is an aid to promote better financial reporting quality.

2.5 Client's financial pressure

According to [67], corporate financial pressure can be further attributed to four broad terms which are commonly used in business research: failure, insolvency, bankruptcy and default. Concerning tax issues, based on a study conducted by [68], there are several implications on a company's tax policy when having financial pressure. For instance, an increase in the cost of capital, a reduction in access to external funding sources (particularly in debt), and an inclination for managers to take more risk change a company's equilibrium position regarding tax avoidance. Moreover, a company which is under financial pressure may have limited options but to adopt a higher risk appetite and become more tax aggressive as the need to raise the company's liquidity (e.g. cash) becomes critical, particularly as the tax expense is a significant cash outflow despite any negative reputational effects [69,70].

Another implication faced by a company struggling with financial pressure is the likelihood of manipulating its accounting policies to temporarily increase its operating income to avoid defaulting on its loans or distorting its ability to pay creditors [70]. If companies are aggressive in terms of their accounting policies, derivations of accounting estimates and disclosures, they are potentially aggressive in terms of tax planning. Prior research also reveals that companies under financial pressure conditions (e.g., less persistent earnings or lower forecast credit ratings) have the intention to manipulate their taxable income. For instance, [29] discovers that management earnings forecasts issued by distressed firms show greater upward bias and are viewed as less credible than similar forecasts made by non-distressed firms. [71] reported that companies with low earnings increases have larger average deferred tax expenses than the companies with low earnings decreases. [72] in their study found that book-tax differences are positively associated with prior earnings patterns and financial pressure.

2.6 Conceptual framework and hypothesis development

The conceptual model of this study is represented in Figure 1. The model presents hypothesised linkages between an individual factor (scepticism), contextual factors (client's internal control and client's financial pressure) and tax fraud judgement of tax officers. Specifically, H1, H2 and H3 represent the direct effect of scepticism, the client's internal control, client's financial pressure on tax fraud judgement. Moreover, H4, H5 and H6 show the interaction effects of the client's internal control and client's financial pressure) on the relationship between scepticism and tax fraud judgement.

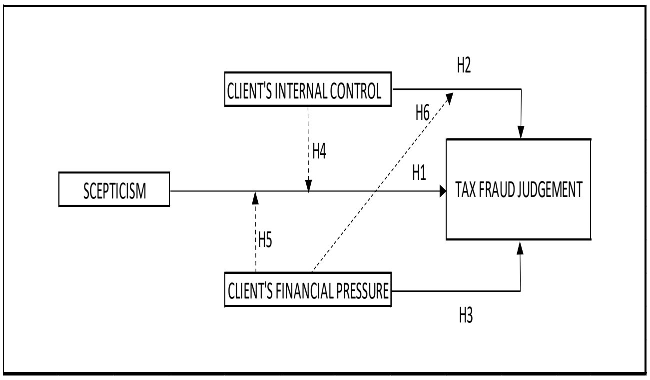

Figure 1: Conceptual framework

2.5.1 The effect of scepticism on tax fraud judgement

Prior studies on auditors' scepticism have shown that high scepticism leads auditors to get more information, execute greater amounts of audit work, assess a greater possibility of fraud and attribute more encumbrance to fraud evidence [73,57,58] agreed that scepticism will likely influence critical job outcomes, including judgements, within the auditing profession. It is important to understand whether scepticism improves the quality of the audit, or increases the quantity of audit work performed [53,56,76]. This is because a greater understanding of scepticism could assist auditors to acquire and maintain adequate levels of scepticism, which in turn could improve the quality of their audit judgement [57].

In addition, [75] found that auditors who demonstrated high scepticism, such as willingness to extend audit procedures thoroughly, have a high possibility of receiving higher relative performance evaluations. In her study which adopted an experimental method for a work-paper review task, [19] examined the effect of scepticism as a trait on evidence assessment and production of alternatives. In the study, they found that auditors with higher scepticism acted more systematically compared to those less sceptical auditors. In her study on fraud risk assessment, [57] discovered that higher sceptical respondents evaluated fraud evidence to be more relevant to their judgement than less sceptical respondents. This result is consistent with the earlier findings on initial fraud or error expectation and fraud evidence evaluation as well as the findings that respondents with higher scepticism are more likely to conclude that the uncovered misstatement is due to fraud. In his model of scepticism, [55] recognized such individual traits as an important factor of auditor behaviour. In the field of psychology and sociology research on scepticism shows that before making a judgement, individuals who demonstrate high level of scepticism tend to have a questioning mindset as well as to evaluate and query all possible information and other available alternatives.

Most of previous studies on scepticism have been conducted in the area of auditing [19]. For instance, a study by [77] they have indicated that auditors who displayed a higher level of scepticism are more likely to enquiry existing audit evidence and exhibit a greater tendency to question management's tendency in managing their earnings. However, there has been no research which investigates the link between tax officers' scepticism and their tax fraud judgement. In addition, two other studies revealed that Hurtt's score can envisage individual behaviour. [73] they examined the internal auditors' fraud detection. Results from the study found that respondents with higher Hurtt scores are more likely to search for more information in detecting fraud. In an online audit work-paper review task, [19], examined the association between auditors' Hurtt score and scepticism consistent behaviours (i.e., expanded information search, increased generation of alternative hypotheses, increased contradiction detection and increased analysis of interpersonal info). The results provided evidence that Hurtt's scepticism score is significantly associated with the number of information search queries and the number of contradictions detected in the event of auditors facing high-risk clients compared to low-risk clients.

In relation to tax fraud judgement, the sceptical attitude of tax officers is crucial in every stage of conducting a tax audit or investigation particularly when assessing tax fraud risks, as well as the extent of the tax officers' search for evidence or planning of additional audit procedures. Moreover, tax officers would also adhere to professional standards while assessing taxpayers' tax returns and financial statements [78]. For instance, sceptical tax officers should presume that there are significant risks of fraud in revenue recognition regardless of experience in auditing revenue at an entity and regardless of the assessed competency and integrity of management. In addition, the application of scepticism assumes some level of carelessness, incompetence, or dishonesty in the tax returns or financial statements preparation. As tax fraud is becoming more complicated, tax officers should also adopt an elevated attitude of scepticism in assessing potential tax fraud in every tax audit or tax investigation assignment. While many studies reported that amplified scepticism increases auditors' performance in fraud risk assessment, there is limited evidence at present that increased scepticism influenced the tax fraud judgement in the perspective of tax officers. Therefore, as supported by previous findings that scepticism is associated with judgement, the following hypothesis is to be tested.

H1: Scepticism has a significant positive effect on tax fraud judgement.

2.5.2 The effect of client's internal control on tax fraud judgement

Internal control has proven to foster good governance practices in an organisation effectively. This control system includes rules, procedures, and practices through clearly written policies. In the context of the public sector, for instance, efficient internal financial control is crucial as the public sector's good governance and accountability rely on the internal financial control systems [79]. In the context of this study, effective internal control over financial reporting of taxes is important particularly to ensure the business tax position has an ongoing and up-to-date view condition to provide the revenue body with reliable tax information [80].

In a forum on tax administration, the Organisation for Economic Co-operation and Development (OECD) (2010) emphasizes the Internal Control Framework (ICS) that enables businesses to ensure that their operating, financial and compliance objectives are met and provided for the proper management of risk. The framework consists of five major components which are risk assessment, control environment, control activities, information and communication and monitoring. The OECD also highlighted that efficient internal control in place in a taxpayer's organisation, will commence a 'self-risk assessment' of all its control and monitor functions and will be able to provide a statement (known as an 'in control statement') about those functions. This statement indicates that a management board affirms that it is in control of the processes taking place in its business. Consequently, the business will be able to detect, document and report any relevant tax risks to the revenue body, by providing specific tax requirements which then are incorporated into the Internal Control Framework.

In addition, the taxpayer is required to provide the revenue body with both the description of the main tax risks that are related to the business and the design and effectiveness of the internal risk management and control systems, for the main tax risks during the relevant financial year. In this situation, the role of the revenue body can be changed to assessing the monitoring system of the taxpayer itself, rather than performing intrusive auditing (OECD, 2006). This is because the revenue bodies need to consider the level of transparency about the related risks they would consider as material which have a significant impact on the business tax reporting.

Since it is the role and responsibility of the tax officers to assess tax fraud risks in the tax audit and investigation activities, they are also required to obtain a sufficient understanding of the risks of the taxpayer's business, including its internal control systems [81]. The internal control system assessment is important to the process as control may mitigate some of the risks that would otherwise lead to material misstatements including in tax reporting purposes [41]. The argument is that the internal control system is the internal environment factors within the client's organisation that not only influence the activities and choices of the tax officers but may also indicate the possibility of tax fraud [82]. The falsification of tax returns and financial statements requires an override of the accounting systems. Thus, a weak accounting internal control which includes lack of independence, segregation of duties and poor record keeping within the client's organisation may provide indicators the likelihood of tax fraud committed is high. As the taxpayer's internal control system is an important element in assessing tax fraud risks of the tax officers while conducting tax audit and investigation activities, the following hypothesis is proposed:

H2: Client's internal control has a significant positive effect on tax fraud judgement.

2.5.3 The effect of client's financial pressure on tax fraud judgement

Most prior studies examine the relationship between companies that were having financial pressure and their likelihood of committing financial reporting fraud. For instance, [83] found all the pressure proxy variables including negative cash flow from operations, analyst forecast errors and percentage of director's shareholdings pledged for loans and credits are associated with a higher likelihood of fraudulent financial reporting. This suggests that companies with financial pressure are more likely to engage in fraudulent financial reporting. [70] found that companies that were having financial pressure could manipulate their accounting policies by temporarily increasing their operating income to avoid defaulting on their loans or distorting their ability to pay their creditors. However, if the companies are aggressive in terms of their accounting policies (including accounting estimates and disclosures), they are potentially aggressive in terms of tax planning. These findings are consistent with a study conducted by [84] that found financial reporting aggressiveness has a significant effect on tax aggressiveness.

It is also revealed that companies under financial pressure such as less persistent earnings or lower forecast credit ratings have the intention to manipulate their taxable income. For instance, [29] discovered that management earnings forecasts issued by distressed firms show greater upward bias and are viewed as less credible than similar forecasts made by non-distressed firms. [71] reported that companies with low earnings increases have a larger average deferred tax expenses than the companies with low earnings decreases. [72] in their study found that book-tax differences are positively associated with prior earnings patterns and financial pressure. Moreover, companies with lower credit ratings report greater interest expenditure in their tax returns compared to their financial statements, which is a sign of increased tax avoidance. Finally, [85] reported that companies with large book-tax differences have less persistent earnings and cash flows than companies with small book-tax differences. Hence, companies may seek to reduce their taxable income significantly when they have weaker earnings and or lower credit ratings. Yet even though tax avoidance is legal, it can quite easily turn into tax fraud.

Based on the above discussions, most prior studies focused on the influence of firms' financial pressure on the likelihood of committing financial fraud, which is organisational base. However, there are limited studies that examined the influence of firms' financial pressure on professional judgement particularly in the perspective of tax officers (individual base). Taking into consideration that taxpayers' financial condition has a significant impact on the likelihood of financial fraud reporting (e.g., tax fraud), the following hypothesis is proposed:

H3: Client's financial pressure has a significant positive effect on tax fraud judgement.

2.5.4 The moderation effect of client's internal control and client's financial pressure on the relationship between scepticism and tax fraud judgement

The Context Theory of Classification [86] suggests that judgments are based solely on knowledge that has been previously stored as an exemplar. According to this theory, a person's judgment is shaped by their prior knowledge and understanding of a particular issue. In the context of this study, it is anticipated that the tax officers' judgement regarding the likelihood of tax fraud in the client's business transactions is expected to be influenced by his or her knowledge regarding the level of client's internal control and client's financial pressure in a specific audit scenario. In arguing the interaction effect of these two variables on the relationship between tax officers' scepticism and their tax fraud judgement, it is deemed that their effect is different across various levels of client's internal control and client's financial pressure (i.e. low or high). In the event where the client's internal control is high (strong), a tax officer with high scepticism can be less extensive in his or her evidence-gathering and sampling [30]. On the other hand, if the client's internal control is low (weak), this would lead the highly sceptical tax officers to collect more evidence and to perform more extensive audit procedures to ensure that any material misstatements (or tax fraud) are detected. This showed that an understanding of a client's internal control is important in making tax fraud judgement. Additionally, this is also consistent with the findings by [40] suggest that if internal control is lower, errors are more likely to affect reported earnings, demanding greater audit exposure.

Moreover, a study by [87] showed that a risky environment increases auditor scepticism and audit effort, thereby resulting in more explanations generated by auditors. In such a situation, highly sceptical tax officers could have a better awareness of the occurrence of tax fraud in the low level of internal control as well as in the high level of financial pressure. This is consistent with prior studies that showed highly sceptical auditors perform a greater amount of audit work, expand their information searches assess a greater likelihood of fraud and attribute more weight to fraud evidence [73,57,58]. Hence, tax officers tend to be more cautious and exercise better judgement in assessing tax fraud risk. In contrast, low-sceptical tax officers can be less extensive in his or her evidence gathering and sampling. This kind of situation will lead to the tax officers carrying out less rigorous tests and thus will affect his or her professional judgement. As he or she is more 'lenient' or 'relaxed' in his or her audit work, there is a lower probability that he or she would be able to perform better professional judgement than if he or she had assessed the level of risk as high. Moreover, tax officers with low levels of scepticism are expected to be more trusting of others because they assume that people are generally trustworthy [57].

The considerations above suggest that tax officers' capacity to assess tax fraud risk is influenced not just by their intrinsic behaviour, but also by other external factors that could change their perceptions and responses [88]. As such client's internal control and client's financial pressure are seen as the elements that could strengthen or weaken the relationship between scepticism of the tax officers in exercising judgement on tax fraud risk. Applied to this study, the client's risk factors, (internal control and financial pressure), by its context may influence the relationship between scepticism and their tax fraud judgement. The risk level plays a role in whether specific stimulus information is assessed. As such, based on the above arguments, the following hypotheses to prove the interaction effect of client's internal control and client's financial pressure on the relationship between scepticism and tax fraud judgement are proposed:

H4: The effect of scepticism on tax fraud judgement differs significantly between those tax officers who perceive low client's internal control versus high client's internal control

H5: The effect of scepticism on tax fraud judgement differs significantly between those tax officers who perceive low client's financial pressure versus high client's financial pressure

2.5.5 The 2-way interaction effect between client's financial pressure and client's internal control on tax fraud judgement

As discussed in Sections 2.5.2 and 2.5.3, it is generally believed that higher client's financial pressure and higher client's internal control lead to better tax fraud judgement of the tax officers. This is highlighted by OECD (2010) in a forum on tax administration, the significant role of internal control is to ensure that the business has an ongoing and up-to-date view of its tax position thus providing the revenue body with reliable tax information. As for the client's financial pressure, prior studies have shown that there is a significant relationship between companies that are having financial pressure and the likelihood of committing financial reporting fraud [85,83,29,71,70]. However, according to the Fraud Triangle Theory which was developed by [89] the occurrence of fraud may exist due to a combination of the elements of fraud which consist of pressure, opportunity and rationalisation or management attitude. This is consistent with the study conducted by [90] which highlighted that it is not sufficient for only one element of fraud on its own for the occurrence of fraud. They further suggested that in conducting risk assessment auditors should take into consideration of the interaction effect of these fraud elements. Taking together this argument, this study aims to examine the interaction effect between these two fraud elements: the client's internal control and the client's financial pressure on the tax fraud judgement. The tax officers need to enhance their understanding, identifying, and taking into consideration all of these elements during the process of fraud risk assessment before making judgement. It is presumed that the client's financial pressure and internal control act as signals or cues that tax officers use to determine the likelihood of tax fraud in the client's company.

Moreover, this study is concerned with the audit risk model (also called the inherent and control risks) closely related to fraud. The principle behind the concept of the audit risk model is that the detection and audit risks should be lower in the event the client's inherent and control risks (internal control) are relatively high. On the other hand, when the tax officers rate the inherent or control risk of the client as high, this would lead the tax officers to assess the level of detection risk as low. In this situation, the tax officers should collect and gather sufficient audit evidence, performing more extensive audit procedures to ensure that fraud can be detected [91]. In contrast, if the auditors assess the inherent or control risk as low (task risk level is low), the auditors will assess the detection risk as high and in this situation, the auditors can be less extensive in collecting audit evidence and sampling [92]. This suggests that there should be an interaction effect between client's internal control and client's financial pressure on tax officers' professional judgement. Thus, based on the above arguments, the following hypothesis is proposed:

H6: There is a significant interaction effect between client's financial pressure and client's internal control on tax fraud judgement.

3. Methodology

3.1 Research Design and Instrument

This study used an experimental design with a 2x2 between-within-subjects factorial design. The research instrument consists of two hypothetical case scenarios which are constructed to simulate the situations that tax officers face in their course of work. The case scenarios were constructed by considering the two manipulated independent variables (client's internal control and client's financial pressure) [93]. Each case was manipulated at two levels: high and low. The method of manipulation at two levels was previously adopted by [6,42,94,95]. Overall, there are four scenarios developed with different combinations of the strength of clients' internal control and clients' financial pressure as per Table 1.

Table 1: Manipulation constructs for the case scenario

	Case Scenario 1	Case Scenario 2
Group 1	low financial pressure, high internal control	low financial pressure, low internal control
	Case Scenario 3	Case Scenario 4
Group 2	high financial pressure, high internal control	high financial pressure, low internal control

3.2 Measurement of Variables

3.2.1 Tax fraud judgement

Tax professional judgement was measured directly by asking the participants to respond on their level of agreement to the four statements provided as presented in *Table 2*. In each case scenario, participants were asked to indicate their level of agreement regarding the statement on a seven-point Likert-scale (1=strongly unlikely, 7=strongly likely). Similar to previous studies, the seven-point Likert-scale was used to measure the likelihood of responses [96,42,97].

Table 2: Tax Fraud Judgement Scale Items

Item	**Statement**
UR	Based on your judgement, what is the likelihood of underreporting of income in the above case?
FM	Based on your judgement, what is the likelihood that the management would fraudulently misrepresent the financial statements?
FINV	Rate the likelihood of you would do further investigation (i.e., increase sample size / interview) on the relevant audit area
CHRG	Rate the likelihood of this case to be an offence and charge under provisions of Income Tax Act (ITA 1967) i.e., 113(1), 119A

3.2.2 Scepticism

The scepticism construct was adopted from 30 items of the scepticism scale developed by [19]. The items were measured based on the six elements which comprised self-confidence (five items), self-determining (six items), suspension of judgement (five items), search for knowledge (six items), questioning mind (three items) and interpersonal understanding (five items). Responses to the scepticism were made on a seven-point scale (1 = strongly disagree; 7 = strongly agree).

3.2.3 Client's risk factors – internal control

The client's internal control was measured by the level of internal control in place at the client's organisation in the scenarios. There are two levels which are low and high. The low level of the client's internal control is illustrated as a poor or weak system implemented in the client's organisation, where the employee could manipulate and thus make tax fraud possible. In contrast, a high level of client's internal control is illustrated by providing information on the adequacy or strong internal control implemented in the client's organisation. This variable is measured as a categorical variable. The low level of the client's internal control is coded as "0" and the high level of the client's internal control is coded as "1".

3.2.4 Client's risk factors – financial pressure

The client's financial pressure was measured by the level of financial pressure encountered by the client in the scenarios given. There are two levels of client's financial pressure which are low and high. The low level of the client's financial pressure is illustrated by indicating several situations of financial pressure such as declining in sales and customer demand. This indicates that financial pressure could influence clients to behave illegally and in an unethical manner. This variable is measured as a categorical variable. A low level of client's financial pressure is coded as "0" and a high level of client's financial pressure is coded as "1".

3.3 Participation and data collection procedures.

The participants are the tax officers of IRBM who are attached to the headquarters and branches, directly assessing tax fraud risk while conducting corporate tax audits and investigation activities. For each branch and headquarters, a person in charge and their contact number are provided for questionnaire distribution and collection. The research instrument was randomly assigned to the tax officers according to the groups allocated. Random assignment is an experimental technique for assigning participants to different groups in an experiment study [98]. An official letter had been submitted to the IRBM to seek approval to distribute the questionnaires. The questionnaires were delivered either through courier or hand delivery. Out of 250 questionnaires distributed, 176 completed questionnaires (Group 1= 92; Group 2 = 84) were responded to and completed, representing a usable response rate of 70 percent.

In total, the sample comprised 176 tax officers who are attached to the Tax Audit and Investigation Department. *Table 3* presents the selected demographic characteristics of subjects in this study. There are 88 tax officers per gender in the total responses. 110 tax officers (63%) are tax auditors, while 66 (37%) are tax investigators. Notably, half of the tax officers are from central region branches, 38 (21%) from southern, 28 (16%) from northern, 12 (7%) from Sarawak, and 5 (3%) from Sabah and east coast branches. The table also shows that the majority of the participants, 149 (85%) were not professional members of any professional bodies. However, 17 (10%) tax officers are MIA members, 7 (4%) are CTIM members, and 3 (1%) are MACFEE members. Finally, 87 (50%) of respondents have worked as tax officers for 1 to 5 years, 41 (23%) for 6 to 10 years, 32 (18%) for 7 to 15 years, and 16 (9%) for more than 16 years in tax audit and investigation.

Table 3: Demographic profiles of respondents

	Frequency *N* = 176	%
Gender		
Male	88	50
Female	88	50
Department		
Audit	110	63
Investigation	66	37
Region	88	50
Central Region	38	21
Southern Region	28	16
Northern Region	12	7
Sarawak	5	3
Sabah	5	3
East Coast		
Professional Membership		
Malaysian Institute of	17	10
Accountant (MIA)	7	4
Chartered Tax Institute of	3	1
Malaysia (CTIM)	149	85
Malaysian Association of		
Certified Fraud Examiner		
None		
Working experiences		
1 to 5 years	87	50
6 to 10 years	41	23
7 to 15 years	32	18
More than 16 years	16	9

4. Results and discussions

4.1 Data analysis

This study utilised SmartPLS version 4.1.0 [99] for analysing the data. Furthermore, PLS-SEM is a statistical technique that can be used to estimate measurement and structural models.

4.2 Assessment of the measurement models

According to [100] the reliability and validity of the measurement model can be evaluated by four main criteria: indicator reliability, internal consistency, convergent validity, and discriminant validity. The client's financial pressure and internal control are treated as single-item constructs. In analysing the data, both client's financial pressure and client's internal control are coded as '0' for low level and '1' for high level. In this study, there are two types of constructs. They are constructs with higher order (second order) and constructs without higher order. In this study, only Scepticism is conceptualized as a second-order construct. Table 4 illustrates and presents the results of the measurement model of this study. Based on the measurement model, confirmatory factor analysis (CFA) was performed to confirm the parsimonious unidimensionality of the measurement items that reflect the underlying constructs [101]. The analysis of these measurement models was conducted using SmartPLS Algorithm function and evaluated based on the four main criteria; indicator reliability, internal consistency, convergent validity and discriminant validity. The results show that all reflective and formative measured constructs' measures are reliable and valid except for six constructs of scepticism (SC30, SC1, SC10, SC17, SC18 and SC11) that have been excluded from the analysis as they did not meet the threshold value.

4.2.1 Indicator reliability

The indicator reliability is assessed by evaluating items' loading. A measurement model is said to have satisfactory indicator reliability when each item's loading is at least 0.7 and is significant at the level of 0.05. Based on the results in Table 4, all items in the measurement model exhibited loadings exceeding 0.5, ranging from a lower bound of 0.581 to an upper bound of 0.954. Based on the results, all items used for this study have demonstrated satisfactory indicator reliability.

4.2.2 Internal consistency reliability

The results of a measurement model which has satisfactory internal consistency reliability when the composite reliability (CR) of each construct exceeds the threshold value of 0.7. Table 4 shows that the CR of each construct for this study ranges from 0.758 to 0.967 and this is above the recommended threshold value of 0.7. Based on the analysis, the results indicate that the items used to represent the constructs have satisfactory consistency and reliability.

4.2.3 Convergent validity

The measurement model's convergent validity is assessed by examining its average variance extracted (AVE) value. To achieve adequate convergent validity, each construct should account for at least 50 percent of the assigned indicator's variance (AVE > 0.50) [134]. Table 4 shows that all constructs have an average variance extracted (AVE) ranging from 0.510 to 1.0, which exceeded the recommended threshold value of 0.5. This result shows that the study's measurement model has demonstrated adequate convergent validity (Ahmed et al. 2024).

4.2.4 Discriminant validity

Discriminant validity was assessed using the HTMT criterion proposed by [102]. The results indicate that all HTMT values are well below the 0.85 threshold [103], suggesting that the respondents have a solid understanding of the construct.

Overall, the reliability and validity tests on the measurement model are satisfactory. All reliability and validity tests are confirmed, indicating that this study's measurement model is valid and fit to be used in estimating the parameters in the structural model.

Table 4: Measurement Model Assessment

Model Construct	Measurement Items	Loadings	AVE	CR	VIF
Tax fraud judgement (DV)	UR1	0.954	0.879	0.967	1.661
	FM1	0.943			
	FINV1	0.915			
	CHRG1	0.938			
Scepticism					
Self-confidence	SC2	0.581	0.560	0.833	2.576
	SC12	0.699			
	SC19	0.842			
	SC30*	0.432			
	SC6	0.83			

		9			
Self-determining	SC1* SC10* SC16 SC17* SC23 SC29	0.298 0.366 0.688 0.410 0.733 0.722	0.510	0.758	
Suspension of judgement	SC3 SC9 SC18* SC20 SC25	0.736 0.760 0.353 0.693 0.757	0.543	0.826	
Search for knowledge	SC4 SC8 SC15 SC21 SC26 SC27	0.765 0.775 0.882 0.802 0.746 0.857	0.650	0.917	
Questioning mind	SC7 SC13 SC22	0.729 0.758 0.791	0.577	0.804	
Interpersonal understanding	SC5 SC11* SC14 SC24 SC28	0.798 0.488 0.824 0.634 0.69	0.551	0.829	
					7
Client's internal control	-	SIM**	N/A	N/A	1.889
Client's financial pressure	-	SIM**	N/A	N/A	2.032

**Items under the accepted threshold were excluded from the analysis*
*** Single-item measures*

4.3 Assessment of structural model

4.3.1 Collinearity.

It is essential to verify that there is no lateral collinearity issue in the model by evaluating the variance inflation factor (VIF) before assessing the structural model of the study. Based on the results in Table 4, all the VIF values are below the threshold of 3.3 [104]. Thus, we determine that collinearity is not at a crucial threshold.

4.3.2 Assessment of path coefficients (Hypotheses testing)

The bootstrapping Smart PLS approach was used to assess the structural model and specifically determine the statistical significance of all parameter values [105]. The primary evaluation of the PLS structural model is the assessment of R2, the goodness-of-fit (GoF) index, and the Stone-Geiser Q2 test for predictive relevance. Based on the bootstrapping results, it shows that the R^2 for the tax fraud judgement is 0.380 which is considered highly acceptable in the field of behavioural studies [100].

4.3.2.1 Assessment of path coefficients (Direct relationships)

Results of parameter estimation (path coefficients and significance level) obtained through SmartPLS's bootstrapping procedures are presented in Table 5. Scepticism (SC) and the client's internal control (CIC) are found to significantly influence the tax fraud judgement (TFJ) with ($\beta = 0.413$, $p < 0.001$ and $\beta = -1.178$, $p < 0.001$) respectively. The corresponding significant levels (at 2.5% and 97.5%) for the significant hypotheses are also showing a homogenous sign, hence confirming the significance of these path relationships. Nevertheless, the client's financial pressure is found to not significantly influence the TFJ with (($\beta = 0.057$, $p > 0.1$) and/or their significance levels have conflicting signs. Hence, hypotheses H1 and H2 are supported, while H3 is not supported.

4.3.2.2 Assessment of moderation effects of client's internal control and client's financial pressure.

As shown in Table 5, there is a significant moderation effect of client's financial pressure on the relationship between scepticism and tax professional judgement (H5) with moderation yields p-value = 0.015, β = -0.178 indicating a statistical significance at 5% (two-tailed). The result is also shown in a graphical form in Figure 3. The graph shows that by plotting β values for scepticism (β = 0.413), client's financial pressure (β = 0.057) and the interaction effect (β = -0.178), the regression lines show an interaction where the two lines representing both 'low client's financial pressure' and 'high client's financial pressure' are non-parallel and merely intercept each other. Similarly, there is a significant interaction effect between client's financial pressure and client's internal control on tax fraud judgement (H6) which is also presented in Table 5. The result shows that the moderation effect yields p = 0.039, β = 0.303 indicating a statistical significance at 5% (two-tailed). This result is supported by the interaction graph presented in Figure 4. The graph indicates that the lines intersect within the observed range, suggesting the presence of an interaction effect. Nevertheless, the result presented in Table 5 also shows that there is no moderation effect of client's internal control on the relationship between scepticism and tax fraud judgement (H4) with yields p = 0.120, β = -0.098. This means that the influence of scepticism on tax fraud judgment is not significantly impacted by the level of internal control. The negative sign suggests a weak inverse relationship, but it is not statistically significant, indicating that internal control does not alter how scepticism affects tax fraud judgment in this case. Based on the results, we can conclude that hypotheses H5 and H6 are supported, while H4 is not supported.

Table 5: Results of Bootstrapping for Assessment of Path Coefficients

Hypothesis	Path Relationship	β	SD	*t*-values	*p*-values	Confidence Intervals 5%	Confidence Intervals 95%	
H1	SC → TFJ	0.413	0.066	6.243	0.000*	0.303	0.518	Supported
H2	CIC → TFJ	-1.178	0.122	9.622	0.000*	-1.368	-0.962	Supported
H3	CFP → TFJ	0.057	0.111	0.512	0.304	-0.119	0.244	Not supported
H4	SC X CIC → TFJ	-0.098	0.083	1.176	0.120	-0.235	0.037	Not supported
H5	SC X CFP → TFJ	-0.178	0.081	2.182	0.015**	-0.308	-0.041	Supported
H6	CIC X CFP → TFJ	0.303	0.172	1.776	0.039**	0.017	0.584	Supported

Notes: SC: scepticism; CIC: client's internal control; CFP: client's financial pressure; TFJ: tax fraud judgement
*Significant at $P < 0.001$, ** $P < 0.05$

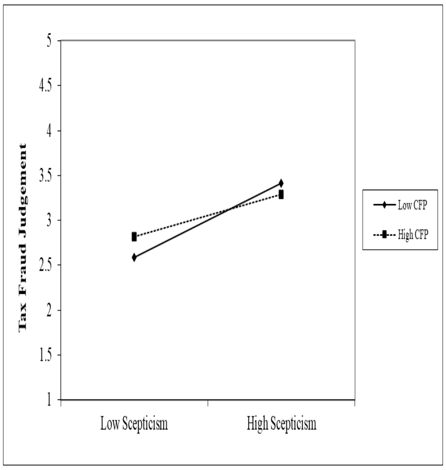

Figure 2:
Graphical representation of the moderating effect of client's financial pressure on the relationship between scepticism and tax fraud judgement

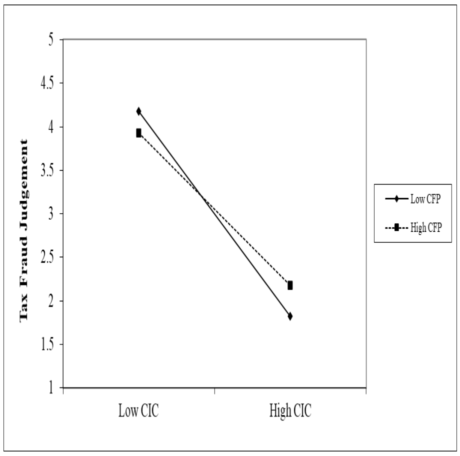

Figure 3:
Graphical representation of the 2-ways interaction effects between client's financial pressure and client's internal control on tax fraud judgement

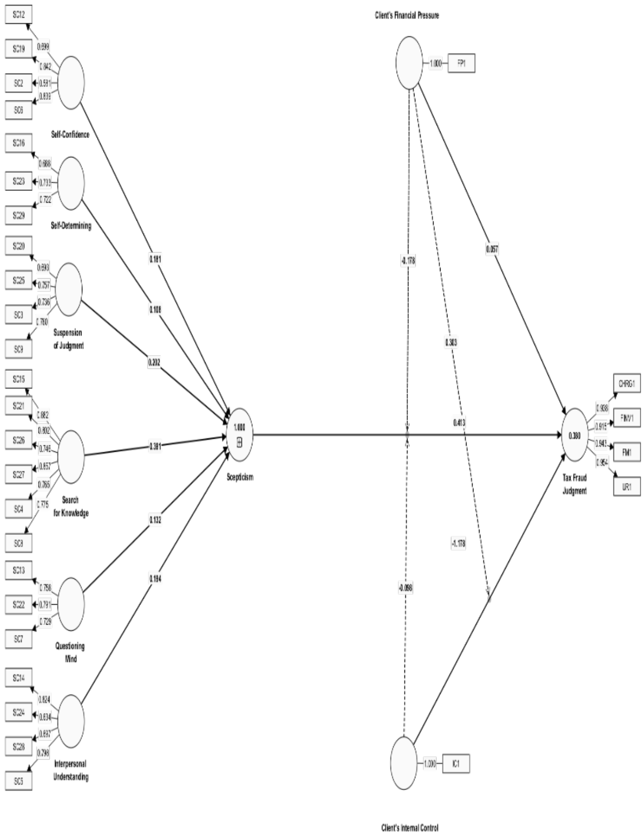

Figure 4: PLS Bootstrapping of the Structural Model

5. Discussion

This study examined the effects of scepticism, and two client's risk factors (client's internal control, and financial pressure) on tax fraud judgment among 176 IRBM tax officers. The results emphasize the importance of scepticism and the client's internal control in shaping judgments [106]. Additionally, the evidence suggests that while the client's financial pressure does not directly impact tax fraud judgment, it serves as a significant moderator in the relationship between scepticism and tax fraud judgment, as well as between the client's internal control and tax fraud judgment [107].

Scepticism was found to affect tax fraud judgement significantly. It can be construed that the tax fraud judgement of tax officers in assessing tax fraud risk is variably different upon the level of their scepticism. It implies that tax officers exercise better tax fraud judgement when they have a sceptical mindset when performing a tax risk assessment [108]. The finding that scepticism positively influences tax fraud judgement is aligned with a study by [74] which emphasized the application of scepticism as an important element within the auditing profession, which is likely to affect critical job outcomes including judgements. It further supports the notion that tax officers adhere to professional standards requiring appropriate scepticism in their professional judgment [78]. This implies that tax officers equipped with sufficient relevant knowledge and skills are more likely to exhibit scepticism in conducting tax risk assessments. Additionally, their exposure to various client behaviours necessitates a cautious approach, requiring them to verify the information provided by clients rather than accepting it at face value. For example, when examining a client's revenue recognition, a sceptical tax officer should recognize the potential risk of fraud, irrespective of management's integrity. Consequently, a sceptical officer should consider the possibility of carelessness, incompetence, or dishonesty in the client's tax returns or financial statement preparation [109,110].

The finding that a client's internal control significantly influences tax fraud judgment indicates that the strength and effectiveness of these controls are crucial for tax officers when assessing fraud risk. Strong internal controls enhance trust in the accuracy of financial reporting and compliance, leading to more confident tax fraud assessments [111]. Conversely, weaker internal controls raise concerns, prompting tax officers to adopt a more skeptical stance, thereby increasing the likelihood of identifying potential fraud risks. This underscores the importance of understanding a client's internal control systems in tax risk assessments, aligning with auditing standards such as those mandated by the Sarbanes-Oxley Act and the Public Company Accounting Oversight Board (PCAOB). For example, if a tax officer perceives low internal control alongside constant audit risk, they will need to gather more audit evidence and perform extensive procedures to detect potential tax fraud. In contrast, if internal controls are deemed strong, the tax officer can afford to be less extensive in their evidence collection [112].

Nevertheless, the client's financial pressure was found to not significantly influence tax fraud judgment among the tax officers. This finding may be attributed to several possible factors. First, tax officers may rely more heavily on other cues, such as internal control systems and evidence of discrepancies in financial records, rather than on subjective assessments of financial pressure [88]. Additionally, financial pressure is often seen as an internal or personal matter that may not be easily observable or quantifiable by tax officers [113]. Officers might prioritize objective, documented evidence over perceived pressure, aligning with the cognitive-based approach to fraud detection, where scepticism and evidence-based assessments are given greater weight [114]. Moreover, some studies suggest that financial pressure may only indirectly influence judgment, as it could be mitigated by the presence of strong internal controls [115]. Tax officers may perceive the existence of robust internal controls as a safeguard that minimizes the risk of fraud, regardless of the client's financial situation.

The lack of a significant moderation effect of the client's internal control on the relationship between skepticism and tax fraud judgment may be attributed to several factors [116]. One possible explanation is that tax officers, despite being influenced by the level of internal control, primarily rely on their professional skepticism when assessing tax fraud risk [117]. Skepticism, as a fundamental aspect of tax officers' judgment, might be exercised independently of the internal control environment, leading to consistent levels of caution and thoroughness, regardless of the client's control systems [110]. This could suggest that internal control is perceived as an important, but secondary, factor in tax fraud judgments, with tax officers placing greater emphasis on their training, experience, and skepticism in identifying potential risks [118]. Another possible reason is that internal controls may vary greatly across organizations, and tax officers may not always have in-depth access to or understanding of the intricacies of the client's control environment, making it difficult to assess its effectiveness accurately [119]. Furthermore, research indicates that professionals in auditing and tax-related fields often prioritize evidence collection and direct risk factors over internal control systems when forming judgments, especially if they suspect material misstatement or fraud [78]. This could explain why the moderation effect of internal control on the skepticism-tax fraud judgment relationship is not significant.

However, the finding that client's financial pressure plays an important role in influencing the relationship between scepticism and tax fraud judgment among tax officers may be because financial pressure acts as a contextual factor that heightens the tax officers' scepticism [120]. When tax officers perceive a client to be under financial pressure, it may activate their professional scepticism, making them more alert to potential fraud indicators and leading them to scrutinize the client's behaviour more thoroughly [19]. Studies have shown that scepticism is more likely to influence fraud detection when external cues, such as financial stress, align with suspicious patterns in a client's records [58]. In such cases, officers may interpret financial pressure as a "red flag" reinforcing their scepticism and prompting them to dig deeper into potentially fraudulent activities [121]. Furthermore, when combined with evidence of weak internal controls, financial pressure can amplify scepticism, leading to a more cautious and detailed judgment process [55]. This interaction effect suggests that tax officers' scepticism may be heightened when financial pressure exists, as it provides a context in which the risk of fraud is perceived to be higher. As a result, scepticism and financial pressure may work together to influence fraud judgments more significantly than either factor alone.

The significant interaction effect between the two client's risk factors (financial pressure and internal control) on tax fraud judgment suggests that tax officers assess the likelihood of tax fraud differently depending on the combination of these two factors [122]. When both client's financial pressure and client's internal control are low, tax officers are likely to rate a higher probability of tax fraud, as weak internal controls and financial strain can create an environment conducive to fraud [123]. In contrast, when the client's financial pressure is low, but the level of its internal control is high, tax officers may perceive less risk because strong controls mitigate the opportunity for fraud, even in stable financial conditions [127]. In scenarios where the client's financial pressure is high and the internal control is also weak, tax officers tend to assess a higher fraud risk due to the increased incentive and opportunity for fraudulent activities [124]. However, in cases where client's financial pressure is high, but their internal controls are strong, the likelihood of fraud is perceived as lower, since effective controls can help reduce the potential for fraudulent actions despite financial strain. This demonstrates that a combination of weak internal controls and financial pressure amplifies the perceived risk of tax fraud, while strong internal controls can mitigate this risk even in financially pressured situations [125].

This study has brought about several important implications, in terms of theoretical and practical points of view [126]. The findings could contribute towards fostering new research and improving the current practice of tax fraud judgement. There are a few theoretical implications that have been established in this research, particularly in the field of tax auditing. It has theoretically established a foundation for a more elaborate study on tax fraud judgement. This study extends the tax fraud judgement literature, specifically in the context of IRBM as a tax regulator, by providing evidence on the interrelationships among these factors. From a practical perspective, this research could provide several insights for the tax authorities, particularly IRBM in improving their tax officers' professional judgement in conducting tax audit and investigation activities. Apart from tax authorities, the outcome of this study could also provide valuable insights for other tax practitioners exposed to tax fraud risks, such as tax consultants, and internal and external auditors. As tax fraud becomes increasingly complex, the Inland Revenue Board of Malaysia (IRBM) should adopt a more proactive approach to ensure that tax officers are equipped with the necessary skills and traits. Relevant knowledge, technical skills, and a strong professional attitude are crucial, as they enhance tax officers' ability to assess tax fraud risk effectively [128]. Studies suggest that ongoing training and development can significantly improve tax officers' judgment and decision-making in fraud detection [129]. Additionally, the adoption of a more sophisticated understanding of fraud patterns, combined with practical experience, has been shown to lead to more accurate assessments of fraud risks [130].

5.1 Limitation and future research

There are some limitations of the study. Firstly, the study focuses specifically on tax officers from a single organization, the Inland Revenue Board of Malaysia (IRBM). As a result, the findings may not be fully generalizable to tax officers in other countries or contexts where regulatory environments, tax laws, or organizational practices may differ [131]. Secondly, the data were collected through self-reported measures, which may introduce bias due to social desirability or the respondents' tendency to report what they believe to be the expected response rather than their actual judgment practices [132]. Lastly, tax fraud judgment inherently involves a degree of subjectivity, and individual differences among tax officers in terms of experience, training, and personal biases might affect the outcomes. These differences were not explicitly accounted for in the study. As this study is limited to the specific variables investigated, future studies could expand the framework to include other variables. Particularly, future studies on tax fraud judgment may explore various other factors. For instance, external factors such as governance structure, clients' organizational culture, and the client's workplace environment. Recent studies highlight that strong governance structures can mitigate fraud risks by fostering transparency and accountability [133]. The research findings could be important for the IRBM and other accounting bodies (i.e., auditing and tax consultation firms), for instance in shaping the recruitment and training programs for the tax officers to prepare them for greater challenges ahead in dealing the tax fraudsters. Moving forward, future research may venture into less explored areas of tax fraud judgement which could help to contribute to a more inclusive overall picture and greater understanding of the problem plaguing our economy.

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Data Availability: Data will be made available on reasonable request to the corresponding author.

Ethical Approval Statement: Formal ethical approval has been waived by the Institutional Review Board of MAHSA University Malaysia, as of Sept 26, 2024 (ref: MAHSA/AC/RIE/FOBAF/2024/005). This decision falls under Category 2: Educational Testing, Survey Procedures, Interview Procedures, and Observation of Public Behavior, as outlined in the Department of Health and Human Services (DHHS) regulations for the protection of human subjects (45 CFR 46.101(b)) criteria.
This study adhered to the principles of the Declaration of Helsinki, following strict ethical standards. Participation was anonymous, confidential, and voluntary, with informed oral consent obtained from all participants. Participants had the freedom to withdraw from the study at any point.

Conflict of interest: Authors declare no conflict of interest.

Author Contributions: NHK & ZMS played a pivotal role in conceptualizing the study and was also involved in data curation, formal analysis, investigation, software development, visualization, and drafting the original manuscript. Furthermore, RH contributed to reviewing and editing the manuscript. FMR contributed to the conceptualization of the study, oversaw the project as a supervisor, and participated in data curation. RH & MMR was involved in formal analysis, investigation, contributed to drafting the original manuscript, and acted as a supervisor alongside NHK, NH and FMR took part in data curation, contributed to drafting the original manuscript, and was involved in reviewing and editing the manuscript. All authors have read and agreed to the published version of the manuscript.

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