



ADDIS ABABA UNIVERSITY
COLLEGE OF BUSINESS AND ECONOMICS
DEPARTMENT OF ACCOUNTING AND FINANCE
(GRADUATE PROGRAM IN ACCOUNTING AND AUDITING)

FACTORS AFFECTING TAX AUDIT EFFECTIVENESS IN
CATEGORY TAX PAYERS “A” IN ADDIS ABABA CITY
ADMINISTRATION REVENUE AUTHORITY MEDIUM NO 2
BRANCH OFFICE

BY
MOTUMA NEGERI GEJE’A

JUNE, 2019
ADDIS ABABA, ETHIOPIA

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**A THESIS SUBMITTED TO ADDIS ABABA UNIVERSITY, COLLEGE OF
BUSINESS AND ECONOMICS, DEPARTMENT OF ACCOUNTING AND
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MASTER OF SCIENCE DEGREE IN ACCOUNTING AND AUDITING**

**By
MOTUMA NEGERI GEJE’A**

**JUNE, 2019
ADDIS ABABA, ETHIOPIA**

Declaration

I have carried out independently a thesis on “*Tax Audit in Addis Ababa city administration Revenue Authority Medium No.² Branch Office: Factors determine tax audit effectiveness in category tax payers “A”*” in partial fulfillment of the requirements of the MSc Degree in Accounting and Auditing with the constructive guidance and support of the research advisor.

This thesis is my own work that has not been presented for any degree or diploma program in this and any other institution, and that all source of materials used for the thesis have been duly acknowledged.

Name: MOTUMA NEGERI GEJE’A

Signature _____

Date _____

Statement of Certification

This is to certify that Motuma Negeri Geje'a has carried out a thesis on the topic entitled "*Tax Audit in Addis Ababa City Administration revenue authority medium no2 branch office: Factors determine tax audit effectiveness in category tax payers "A"*" under my supervision. In my opinion, this thesis is suitable for submission in partial fulfillment of the requirement for the award of the MSc Degree in Accounting and Auditing.

Advisor: ALEM HAGOS (PhD)

Signature: _____

Date: _____

Approved by:

Name: _____

Signature: _____

Date: _____

Approval of Board of Examiners

As members of thesis Approval Board of Examiner we certify that we have read the thesis prepared by Motuma Negeri Geje'a, entitled "*Tax Audit in Addis ababa city administration revenue authority medium no2 branch office: Factors determine tax audit effectiveness in category tax payers "A"*" and submitted in partial fulfillment of the requirements for the MSc Degree in Accounting and Auditing complies with regulation of the university and meets the accepted standards with to originality and quality.

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_____	_____	_____
Advisor	Signature	Date
_____	_____	_____
Internal Examiner	Signature	Date
_____	_____	_____
External Examiner	Signature	Date

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Acronyms and Abbreviations

ANOVA	Analysis of Variance Education
ERCA	Ethiopian Revenues and Customs Authority
EXP	Experience
IS	Information System
OECD	Organization for Economic Cooperation and Development Ordinary Least Square
SIGTAS	Standard Integrated Government Tax Administration System
SPSS	Statistical Package for the Social Science
TIT	Tax Infringements Tracking
TL	Tax Legislation
TR	Training
VIF	Variance Inflating Factor
EDU	Education
OLS	Ordinary Least Square

Abstract

The purpose of this study is to investigate factors affecting tax audit effectiveness in category tax payer “A” medium tax payer’s branch no 2 office. The study aims to examine the statistical significance between factors and tax audit effectiveness In light of this objective the study was adopted mixed research method of research approaches to test a series research hypothesis and explanatory research design. Data was analyzed using Pearson’s correlation, multiple regression analysis and descriptive statistics quantitatively; and a mixed research approach was employed. Variables was used in the study are information system, legislation, education, experience, training and tax infringement. Specifically, the study was used survey of questionnaire analysis offices’ on tax auditors. Then tax auditors and team leaders were selected. Because, the target population was studied was small. In medium tax payer’s office there are 67 tax auditors was supervised and lead by 8 team leaders managed by one process owners. Then the researcher was distributed those questioners to the 67 tax auditors, 8 team leaders and to the critical one process owners. The finding of the study indicated that tax audit effectiveness was determined by tax legislation and lack of experience, tax audit quality and the rules and regulation in the office are not effectively accordingly tax policy and regulation are implemented due to a regulation of tax audit was broken by white collar and auditor themselves additionally the finding of the study indicated is all about structurally system of the office are corrupted for example according to interview discussion with tax Audi process that showed there is a secret relationship between the trader and auditors .Based on the finding of the study the researcher recommended that Addis Ababa city administration revenue authority head office should extremely fellow up , take measurement and work on awareness creation about a tax law and organize experience sharing and leering.

Key words *Information systems, Tax audit, Tax infringements, Tax legislation, Experience*

CHAPTER ONE

1. INTRODUCTION

1.1. Background of the Study

This chapter deals with introductory issue of the study, such as the background of the study, statement of the problem, objective of the study, significant of the study, definition of key terms, scope of the study, and organization of the study.

Taxation is one of the important elements in managing national income, especially in developed countries and has played an important role in civilized societies since their birth thousands years ago. It becomes an issue of worldwide concern, from the time of its inception. This is due, in great part, to effects on the life of virtually every human being. Taxation has gained importance not only as a tool for raising revenue but also help to meet the administrative costs of governance, the provision of public services such as medical care, education, infrastructure, security and maintenance of law and order. Also as a tool available to planners, policy makers and implementers aiming to regulate the economy in order to bring about desired economic development (Laymer and Oat, 2009).

Tax administration is a complex and dynamic responsibility. On a regular basis, leaders have faced with new issues, conflicting priorities, taxpayer compliance and emerging commitments Thomson (2008). As Berhan and Jenkins (2005) noted, governments of developing countries are eager to create modern tax systems although settled with weak tax administrations, and sometimes have experimented with tax administration mechanisms that inflict higher compliance costs on the private sector.

Tax is an ingredient of development in all parts of the world. In the last decade or so, government's scholars, economists, and international organizations have emphasized the need for improved tax 'administration to increase the contribution of tax revenue towards financing development activities. Developed countries have largely, been able to enjoy the benefits of improved tax administration, and developing countries seem to be following suit. The latter, however, still encounter various constraints. Some of these problems included corruption, restraint in administrative recourses and tax evasion to mention only a few. These problems, and many others, have contributed to poor tax revenue and consequently affected economic

growth and development (Bird, 2004).

Tax involves every aspects of income generating activities and consumption items, and requires not only administrative capacity of revenue authority but also the involvement of private sectors through proper accounting and reporting (Tadros, 2009).

Tax audit is an extension of the normal audit generally conducted for expressing an opinion as to the fairness of the accounts examined by the auditor, and the certification of financial statements for tax purposes. It is meaningful if based on the knowledge of tax laws, similarities and dissimilarities between commercial accounting and tax accounting and reporting to the tax department, recognizing their requirements to enable the latter to compute taxable income. It includes what a tax official can look for when aiming to complete an assessment of tax. It covers also the disclosure of all significant accounting practices employed in the organization, a report on the financial accounts, i.e. the balance sheet, profit and loss account and other related accounts and schedules, which are part of the financial reports. Furthermore, information is required to compute the assessable income as well as to ensure that the compliance of the tax laws and regulations is proper. On the other hand, tax audit is not a very welcome procedure for both the taxpayers and the economy. Conducting audits involves costs to the tax department as well as to the taxpayer. Tax administration agencies should therefore, use their scant resources very judiciously to achieve maximal taxpayer compliance, and minimal intrusion and costs. Among others, having effective tax audit program is a key success factor for cost minimization and detection of tax evasion and fraud as well as proactively preventing tax frauds (Gupta and Nagadevara, 2010).

An effective audit program will have significantly wider impacts than just raising revenue directly from audit activities. By selecting the highest risk cases, efficiently detecting noncompliance, applying appropriate sanctions, and publicizing results of audit activity(either generally or specifically), taxpayers are put on notice that attempting to avoid tax will result in a high likelihood of detection and imposition of significant sanctions. Thereby, a well-planned audit program can provide the administration with significant advantage across the community rather than only affecting the taxpayer selected for audit and collecting the tax that should has been paid in the first place (Biber, 2010).

Tax audit is a detailed exploration into the activities of a taxpayer to determine whether he/she has been correctly declaring the tax liabilities. The inspection of the taxpayer's activities indirectly drives voluntary tax compliance, and directly generates additional tax revenue collections. As a result, both (compliance by the taxpayers and the additional tax revenue collected) help tax agencies to reduce the tax gap between the amount due and collected (Barreca & Ramachandran, 2004).

The tax audit function plays a critical role in the administration of tax laws in all countries. In addition to their primary role of detecting and deterring noncompliance, tax auditors are often required to interpret complex laws, carry out intensive examinations of taxpayers' books and records, while through their numerous interactions with taxpayers operating very much as the "public face" of a revenue body. These factors, as well as the absolute size of the audit function in most revenues bodies, provide a strong case for all revenue bodies paying close attention to the overall management of the tax audit function. Tax audit (expected to be performed by public accountants) can be thought of as an extension of this "attest function". For tax purpose, one assessed is liable to file a return to the concerned assessing officer with supporting documents sometimes required by tax law for simultaneous submission with the return. The assessing officer sometimes calls for the assessed under the tax law for producing the same. In this context, the question of tax audit may arise. In addition, tax audit means to audit an assessor's accounting and other documentary evidences to prepare the correct tax return as well as to prepare the statements showing the detailed computational working for different heads of income or items in tax return. Other required evidential statements regarding allowances and disallowance for deductions and all these have followed by an audit report giving the auditor's opinion about the degree of correspondence between the information content in the tax return and the regulatory provisions of the existing tax laws (Gebye, 2008).

ERCA was established in 2008 (by proclamation number 587/2008) through the merger of the former Ministry of Revenues, Federal Inland Revenue Authority and the Ethiopian Customs Authority. The formation of ERCA signals the Ethiopian Government's commitment to establishing a modern tax and customs administration dedicated to meeting the requirements of the business community, encouraging voluntary compliance, combating smuggling, tax evasion and fraud as well as other illegal activities, thereby, contributing to the economic and

social development of Ethiopia. In response to these requirements, ERCA has developed a Strategic Plan, which sets out how it is planning to meet these challenges over the next five years.

This Tax Audit Policy and Strategy has been prepared to support the successful delivery of the ERCA Strategic Plan. Tax audit is one of the components of the compliance risk management strategy that is designed to support the delivery of the voluntary compliance concept. Conducting tax audit involves significant costs to ERCA as well as to the taxpayer. Therefore, ERCA needs to use its limited tax audit resources very judiciously to achieve maximal taxpayer compliance, minimum intrusion, and minimum costs.

This is best achieved by the development of a risk based audit program that rewards taxpayer compliance with a light touch approach and openly demonstrates that valuable taxpayer resource is being deployed against the non-compliant. The tax audit policy and strategy is designed to deliver the aspiration of helping customers pay the right tax at the right time and with the minimal administrative and compliance cost to both ERCA and customers alike.

Addis Ababa city administration revenue authority has 4 office divisions for its 340520 tax payers .micro, small, middle and large tax payers office. There are 116 wereda offices in the city for those tax payers who are classified under micro office division. Tax payers with annual revenue of five hundred thousand birr are identified under the micro office division. Small tax payers with annual revenue of birr five hundred thousand to five million are served at the district level, the authority has four middle tax payers' offices for those tax payers with an annual turnover of five million birr to 40 million birr. For annual revenue birr 40 million or more are large tax payers office .According to the authority mentioned four middle tax payers office among of them my project focused on the middle number 2 tax payers' branch office.

To collect the necessary tax revenue from the taxpayers, countries should design different mechanisms of tax collection. Effective tax audit is one of the mechanisms that help to collect the estimated governments' revenue from tax. Of course, there are factors that affect the tax audit effectiveness such as tax legislation, information system, education level of the tax auditors, experiences of tax auditors, and the trainings that are given to tax auditors (Drogalas et al. 2015). However little research has focused on the effectiveness of tax audits in general and in Ethiopia in particular; therefore, this study emphasis on the issues that affect the

effectiveness of tax audit in Addis Ababa medium branch two tax audit in A category perceptions in Addis Ababa City Government Revenue Authority, No. 2 .

The Addis Ababa City Government Revenue Authority, No. 2 has the largest share of the revenue generated from the economy. Consequently, tangible results have been recorded in each field for the past one year. The income has shown a steady improvement. However, it is clear that the revenue collected in the city's economy is not yet collected, and the tax payer is not in an efficient and encouraging manner. Thus, it is planned to collect 4,604,057,293.98 birr in 2011 fiscal year, up from 40.5% in 2010/11, based on experience gained in the fiscal year 2010 and birr 3,276,606,664.02.

While the budget year focuses on the strategic focus of the institution, the development and implementation of developmental tax administration system is an integral part of the developmental army that has a strong, full-fledged public and private (including taxpayers and consumers). To this end, periodic agendas are being formulated, trainings and dialogues will be undertaken, and the developmental forces will be established to take the lead in this process. This key action will be implemented while creating favorable conditions for our development and development partners, reducing rent-seeking attitude and function, and earning the fines for the fiscal year.(ADDIS ABABA)

1.2 Statement of the Problem

Under inadequate tax administration including insufficient and ineffective audit program, the potential amount of tax revenue in developing and transitional countries has not been collected in an efficient and equitable manner (Edmiston and Bird, 2004).It is unmoving under a number of challenges regarding to its operation and administration that are not yet resolved. Further, weak tax administration may make the tax system unfair in that honest tax payers would bear heavier and disproportional burden. It, in turn, may have impact on the efficiency of tax operation, and also may encourage businesses to work in the illegal economy.

Specifically in Addis Ababa tax can't be collected appropriately. for example we can trace as evidence within six month in 2011E.C operation ministry of revenue announced that it has identified 135 companies involved in 14 billion birr tax evasion in the last six months .The ministry has also disclosed that law enforcing bodies , with the support of general public , have also detained some 105 individuals in relation to the tax evasion .Briefing jornalists , Adanech

Abebe , the ministry monitoring system revealed that 78 individuals were caught red-handed while the rest 57 through continuous investigation.

She also noted that the ministry is committed more than ever to expose tax evasions and collect the 14 billion birr tax revenue lost (herald new 2011).

The proper use of enforcing tax laws, examining taxpayers systems and financial documents by the tax auditors for the selected business companies are crucial to check whether the taxpayers declared correctly their tax liabilities through tax audit. It may include cross checking of taxpayer's records with those of taxpayer's suppliers or with other government departments and agencies source of information and its effectiveness and efficiency must be guaranteed by means of proper procedures and application of modern audit tools and techniques (OECD, 2006).

Among the factors that affect the collection of tax revenue of a country, tax audit effectiveness plays a vital role on the side of tax authority (Drogalas et al., 2015; Elias, 2014). In Ethiopia the main domestic source of revenue is taxation. But according to Getaneh (2011), in his research the collection of revenue from taxes is affected by effective tax audit activities .And also Elias (2014) in his research used the independent variable of audit quality, organizational setting, top management support, audit attributes and organizational independence in Bahir Dar City and concluded that tax audit effectiveness is affected by these variables. In addition to this, Mihret and Yismaw (2007) in their study of internal audit effectiveness on an Ethiopian public sector described that the above variables listed by Elias affect the internal audit effectiveness.

From the report of Addis Ababa City Government Revenue Authority, No. 2 an Exemplary Quarterly Task Team selected files The Disaster Management Team sent out 189 files in the 2007 financial year to the audit process according to the CRC, and in this fiscal year only 124 files were transferred and 65.6% of the 189 files were selected and the remaining files were audited in 2008 budget year. Compared with the performance of the audit activities in 2012/13, 33.42% of executed.

Therefore, the purpose of this study is to focus on the investigation of which factor is affecting tax audit and to fulfill the gap by providing an intervention activities for the Addis Ababa City Government Revenue Authority No. 2 office

1.3 Research Questions

Based on the statement of problem stated in the previous section, the researcher designed the following research questions.

1. How does the information system affect tax audit effectiveness in the Addis Ababa City Government Revenue Authority, No. 2 office?
2. How does the role of tax legislation highlight tax audit effectiveness in the Addis Ababa City Government Revenue Authority, No. 2 office?
3. What are the effects of tax auditors' education level on tax audit effectiveness in the Addis Ababa City Government Revenue Authority, No. 2 office?
4. How does the tax auditors' experience affect the tax audit effectiveness in the Addis Ababa City Government Revenue Authority, No. 2 office?
5. How is the tax auditors' training affecting the tax audit effectiveness in the Addis Ababa City Government Revenue Authority, No. 2 office?
6. To examine the impact of TIT on tax audit effectiveness

1.4 Objectives of the Study

1.4.1 General Objective

The main objective of this study is to examine the determinant factors affecting tax audit effectiveness of the Addis Ababa City Government Revenue Authority, No. 2.

1.4.2 Specific Objectives

The study attempts to address, the following specific objectives; Based on the general objective stated above, the study is attempts to address, the following specific objectives:

- To investigate the effects of **information** system on tax audit effectiveness in the Addis Ababa City Government Revenue Authority, No. 2 office?
- To examine the role of tax **legislation** on tax audit effectiveness in the Addis Ababa City Government Revenue Authority, No. 2 office?
- To determine the effects of **education** level of tax auditors on tax audit effectiveness

in the Addis Ababa City Government Revenue Authority, No. 2 office

- To examine the effect of tax auditors' **experiences** on tax audit effectiveness participated in the tax audit in the Addis Ababa City Government Revenue Authority, No. 2 office
- To examine the effect of tax auditors' **training** frequency that given for the tax auditors' on tax audit effectiveness in the Addis Ababa City Government Revenue Authority, No. 2 office
- To examine the effect of tax infringement tracking on tax audit

1.5 Scope of the Study

All research actions have its own delimitation that limits the application of assumptions to be drawn from the analysis. The researcher desired to assess all revenues and customs authority branch offices in Addis Ababa to be included in the study. However, due to shortage of time and resources it is limited to only Addis Ababa City Government Revenue Authority, No. 2 office. In addition to the capability of the researcher to manage and analyze the data; the researcher proposed to distribute the questionnaires only for the tax audit officers in the tax audit department without considering the taxpayers for conducting this research. This study is focused on Addis Ababa City Government Revenue Authority N2 because among of the medium branch office of the largest annual income generating not only income generating but also have many customer than the other branches.

1.6 Significance of the Study

This study may help to the experts and tax policy makers at the national level of the country, tax auditors, and auditors to use the outputs of the study that addressing the factors determine affecting the tax audit effectiveness in the Ethiopian Ministry of Revenue. Ethiopian Ministry of Revenue policy makers may use the outputs of the study for giving feedbacks to the federal government to strengthen the positive parts and revises weakens parts of the tax legislation, directives and regulations. It helps to have better audit effectiveness for the Ethiopian Revenues Minister. In addition, the Addis Ababa City Government Revenue Authority, No. 2 tax auditors will be beneficiary in terms of time saving in the audit process and avoiding complexity if the policy makers of Ethiopian Revenue Ministry will revise the tax laws,

directives, and regulations those are complex and difficult to audit process. Because, simple and easy tax legislation, directives, and regulations are very important to the tax auditors in order to use and interpret easily. Moreover, the Ethiopian Revenue Ministry will design the training programs for the tax auditors for those who did not get any training related with tax audit and help for the tax auditors make simple and easy for their tax audit process which will have a positive impact for audit effectiveness. Finally, for those who are interested to make further study on the related issues this research findings may be used as indication.

1.7 Limitations of the Study

Every research has its own challenges. It is saving word; this research had its own limitations. During data collection, most of the workers were on site so it was quite difficult getting in touch with them. The researcher also did have limited time, but these limitations did not affect the validity of the study. To minimize all of these challenges the researcher tried best with a lot of patience. Finally, the research has concluded in well-organized manner keeping the limitations.

1.8 Organization of the Study

The study is includes chapter one chapter two and Chapter three. In Chapter one includes introduction, background of the study, statement of the problem, objective of the study, significance of the study, scope of the study, organization of the study and definition of key terms .In chapter two literatures are reviewed and in chapter three the research design and Methodology in sub content of source of data, sample and sampling techniques, the Target population, instrument of data collection, method of data analysis, procedures of data collection and ethical consideration. Chapter Four includes the result and discussion of the study the data collected and analyzed using the data analysis tools. Finally, the last chapter shows the summary, conclusion and recommendation.

CHAPTER TWO

2. LITERATURE REVIEW

2.1 Theoretical Literature

The following part of this study examinations the important literatures that will selectively review of meaning of taxation in Ethiopia , tax audit, types of tax audit, Measurements of tax audit effect, theoretical review, and Empirical review in general. The theoretical review focuses on the information system, tax legislation, tax education, auditors' experience and auditors' training that given to the auditors; which will describe the factors of tax audit effectiveness.

The final section provides concluding remarks on the review of the literature and identifies the knowledge gap that has been addressed in the study.

2.1.1 Theoretical Studies of Tax and Tax Audit

Tax is define as a compulsory levy, imposed by government or other tax raising body, on income, expenditure, or capital assets, for which the taxpayer receives nothing specific in return. However, not all payments to government are considering tax payments: for example, charges, and other levies have paid to obtain a specific service and are not strictly tax payments. One of the main reasons why the government imposes taxes is to generate income to manage the economy and redistribute resources (Lymer& Oats, 2009).

Taxation is one of the important elements in managing national income, in both developed and developing countries. Thus, taxation can be broadly and comprehensive defined as a compulsory collection of money by government; it is a payment extracted by the government from people and organizations to fund public expenditures, transfers resources from private to public consumption and are involuntary levies without a quid pro quo (Misrak, 2008).

Tax audit defined as “an examination of an individual or organization’s tax report by the relevant tax authorities in order to ascertain compliance with applicable tax laws and regulations of state”. He further said that tax audit is a process where the internal revenue service tries to confirm the numbers that you have put on your tax return. Tax compliance can be defined as “an ability of a tax liable body to submit accurate, complete and satisfactory

returns in conformity with tax laws and regulations of the state to the authority for the purpose of tax assessment” (Kircher, 2008).

Frank (2010) concludes that, the designed tax authorities audit policy can have important effects on production decision by firms. The nature of such effects depends on whether firms compete or collude. Accordingly, an appropriate designed audit policy may not only achieve greater compliance and higher net revenue for given output and resources spend on audit but may also have other effects that normally considered desirable in a wider economic context. By a smart design of audit policy, the authorities can create information externalities that partially offset the informational advantages of industry insider. Since decision in the product market is in the light of the eventual outcome of net after tax expected profits, the audit policy can create a linkage to Output decisions.

Tax audit just like financial audit involves the gathering of information and processing it for determining the level of compliance of an organization with tax laws of the territory. For a successful audit, it is necessary that the auditor organize his work in such a way that the assignment was accomplishes completely and efficiently. More importantly however, a professional tax auditor or investigator must possess sound accounting and taxation knowledge, he must be sharp in interpreting the tax laws, tactical and must display high intelligence in applying tax laws, and he must have sound knowledge of investigation techniques. Apart from technical skills, he must be alert and open minded with good communication Skills. These are necessary personal prerequisite for any tax auditor or investigator to be successful for tax audit assignments. A tax as we already know is a charge imposed by governmental authority upon property, individual or organization to raise money for public purpose. An audit on the other hand can be seen as the examination of the records underlying a financial statement as will enable the auditors to report authoritatively, whether in his opinion, the statement gives a true and fair view (Izedonmi, 2000; Okoye, 2006)

A tax audit is a systematic examination of a business’ relevant commercial system to determine whether a taxpayer’s declaration states the tax liability correctly and complying with the provisions of the tax laws and related subsidiary legislations. Auditing involves examination of the financial statements, books of accounts and vouchers of a taxpayer by Tax Auditors to ascertain whether the taxpayer has accurately considered revenues and expenses

when determining the taxes shown in the declarations as per the requirements of the tax laws. It also involves other approaches such as observation of premises, direct monitoring of receipts in cash businesses, use of mark-up techniques and analysis of key ratios (ERCA Tax Audit Manual 2014). However, a tax audit is an investigation made by the tax authority in order to verify the accuracy of tax returns and attempt to detect non-compliance behavior and activities (Kirchler, 2007).

Thus, tax audit results in increased tax revenue in two ways: (1) directly through assessment of additional taxes; and (2) indirectly by discouraging underreporting of liabilities by all taxpayers. The purpose of tax audit is to check the evasion of tax and ensure compliance in accordance with the laws and regulations. The tax audit in a tax administration system that includes purpose of tax audit, types of tax audit to performed, effective audit program, audit case selection methods, examination techniques to be apply for tax audit and required capabilities of effective tax auditors (Barreca & Ramachandran, 2004).

2.1.2 Theoretical Foundations

According to Kangave (2005) tax administration is an activity of identification of tax liabilities of taxpayers based on the tax legislation which is practicing in accounting the liabilities & the collection of taxes or principals, interests and penalties imposed on the disobedient taxpayers. So tax administration covers wide areas of study, encompassing aspects such as registration of taxpayers, assessments, returns processing, collections, and audits.

As Biber (2010) noted, that the role of an audit program in a modern tax administration must extend beyond merely verifying a taxpayer's reported obligations and detection of discrepancies between a taxpayer's declaration and supporting documents.

2.1.3 Theories of Auditing

Auditing theory helps explain why society needs auditing: the role and purpose of audit services in communication between a company and its environment.

The agency theory is the most prominent of the existing theories.

1 Agency theory

Adams (1994) used agency theory to explain that it is in the interest of management to

maintain a strong internal audit department. Implementation of audit recommendations is highly relevant to audit effectiveness (Van Gansberghe, 2005) and the management of an organization is viewed as the customer receiving internal audit services. As a result, management's commitment to use audit recommendations and its support in strengthening internal audit is vital to audit effectiveness (Sawyer, 1995).

Using agency theory, Xiangdong (1997) explained the role that internal audit plays in an economy and points out that internal audit has an advantage over external audit in obtaining information quickly and finding problems at an earlier stage; and Spraakman (1997), applying the theory of transaction cost economics, demonstrated how internal audit recommendations are important to the management of government organizations. Audit findings and recommendations would not serve much purpose unless management is committed to implement them.

“Auditors are engaged as agents under contract but they are expected to be independent of the agents who manage the operations of the business. The primary purpose of audited accounts in this context is one of accountability and audits help to reinforce trust and promote stability” (Audit quality, 2005)

2 Positive Accounting Theory (PAT)

Watts and Zimmerman seek to develop a positive theory of the determination of accounting standards. “Such a theory will help us to understand better the source of the pressures driving the accounting standard-setting process, the effects of various accounting standards on different groups of individuals and the allocation of resources, and why various groups are willing to expend resources trying to affect the standard-setting process” (Watts and Zimmerman, 1978, 112).

3 Institutional theory

The concept of institutionalisation is related to organizations actions over time. Such actions are said to be legitimated within an organization and environment (Pfeffer 1982). Institutional theory suggests that internal operating processes loosely coupled with the observable structures accomplish the real work of an organization.

As a result, organizations with the appropriate structures in place will avoid deep

investigations of their function by external auditors (Meyer and Rowan 1977). Organizations are subject to rules and regulations to which they must conform in order to ensure their legitimacy and thus have access to resources and ensure their survival (DiMaggio and Powell 1983). However, these rules and regulations don't necessarily guarantee that organizations will continue to operate efficiently (Meyer and Rowan 1977; Scott 2008).

Institutional elements comprise the institutions and over time the institutional elements are given priority. The key point is to identify what institutional elements reinforce or undercut other elements (Scott 2008). Functional pressure, political pressure and social sources are three possible factors that cause pressure on institutional common practices (Oliver 1991)

4 Stewardship theory

Stewardship theory outlines a co-operative and optimistic view of relationships within the corporation by assuming that managers are good stewards and do not misappropriate corporate resources; their behavior is also conditioned by non-financial motives such as the need for recognition of their achievements and performance (Vanden et al. 2004). Thus the directors' role is to counsel and advice rather than to monitor the stewardship theory holds that no inherent, general problem of executive motivation exists.

The model of man is based on a steward whose behavior is pro-organizational and collectivistic.

Following the basic thoughts of stewardship theory, there is no need of implementing monitoring mechanisms. There is no need of engaging audit services in order to secure the reliability of information. However, within stewardship theory an audit could be of value as a means of assisting the executive's stewardship.

5 Stakeholder theory

Stakeholder theory explains the relationship between organizations and their external environment (Freeman 1984). A stakeholder is defined as a human agency that can have an impact or affect organizations (Gray et al. 1996). Stakeholders represent the big umbrella for all individuals and parties that may have a direct or indirect interest in an organization.

Direct stakeholders are shareholders, employees, investors, customers and suppliers whose interests are aligned with the company. An example of an indirect stakeholder is the

government, which is indirectly affected by the company's function (Kiel and Nicholson 2003). Due to this role of stockholders, organizations are not only accountable to shareholders only but also to stakeholders.

According to Hayes et al. (1999) there are several different theories that may explain the demand for audit services. Some of them are well known in research and some of them are more based on perception

6 The Policeman Theory

According to Hayes et al. (1999), this was the dominant theory on auditing until the 1940s. This theory advocates that an auditor play the role of a police officer focusing on arithmetical accuracy and on prevention and detection of fraud. They further opine that the inability of the theory to explain the shift of auditing to verification of truth and fairness of the financial statements' has made it lose its explanatory power.

This theory of auditing was purely on the arithmetical accuracy and on the prevention and detection of fraud. This theory makes the auditor to detect and prevent errors and fraud in organizations.

The policeman theory claims that the auditor is responsible for searching, discovering and preventing fraud. In the early 20th century this was certainly the case. However, more recently the main focus of auditors has been to provide reasonable assurance and verify the truth and fairness of the financial statements. The detection of fraud is, however, still a hot topic in the debate on the auditor's responsibilities, and typically after events where financial statements frauds have been revealed, the pressure increases on increasing the responsibility of auditors in detecting fraud.

7 The Lending Credibility Theory

This theory of auditing regards the primary function of auditing to be the addition of credibility to the financial statements. In this view the service that the auditors are selling to the clients is credibility. Audited financial statements are seen to have elements that increase the financial statement users' confidence in the figures presented by the management (in the financial statement). The users' are perceived to gain benefits from the increased credibility, these benefits are typically considered to be that the quality of investment decisions improve when

they are based on reliable information.

Akinbuli (2010) states that audited financial statements can enhance stakeholders' faith in management's stewardship.

8 Theory of Inspired Confidence/Theory of Rational Expectations/:

This theory states that stakeholders demand accountability from the management in return for their contribution to the organization. Limpeg (1932) addresses both the demand and supply for audit services. The demand for audit services is the direct consequence of the participation of third parties (interested parties of a company) in the company. These parties demand accountability from the management, in return for their investments in the company.

Accountability is realized through the issuance of periodic financial reports. However, since this information provided by the management may be biased, and outside parties have no direct means of monitoring, an audit is required to assure the reliability of the information. With regard to the supply of audit assurance, Limperg (1932) suggests that the auditor should always strive to meet the public expectations.

9 The Moderator of Claimants Theory

This theory states that it is important that all vital participants in an organization continue to contribute. In order to continue these contributions, it is important that each group believes it receives a fair share of the organization's income. According to Salehi (2011), under this theory, it is important that all vital participants in an organization continue to contribute. In order to continue these contributions, it is important that each group believes it receives a fair share of the company's income by giving an opinion on the various interests represented in the amounts shown therein.

The audit profession is crucial to current economies because of the assurances that auditors provide to users of financial statements. Auditing increases the reliability of financial information provided to investors, owners, creditors and other users because fraudulent activities very affect to entity and auditors play an important role in detection and prevention fraud (Arens and Leobbecke 2000).

In addition to that, Audit is defined as the examination of accounting documents and of supporting evidence for the purpose of reaching an opinion concerning their propriety. It is an

examination intended to serve as a basis for an expression of opinion regarding the fairness, consistency, and conformity with accepted accounting principles of statement prepared by a corporation or other entity for submission to the public or to other interested parties. Tax audit is therefore a means of ensuring compliance with the tax laws. The primary purpose of tax audit is to maintain the confidence in the integrity of the self-assessment system. It helps to improve voluntary compliance by detecting and bring to book those who do not pay the correct amount of tax (Adesina 2005).

Moreover, tax audit is a critical and significant component of the compliance activities of tax administration by means of proper use of enforcing tax laws; it is the conduct by audit staff of appropriate verification of selected taxpayer's whether he/she has been correctly declaring the tax liabilities including a review of taxpayer's systems, books of account and other related information. It may include crosschecks of taxpayer's records with those of taxpayer's supplier's or with other government departments and agencies source of information and its effectiveness and efficiency must be guaranteed by means of proper procedures and application of modern audit tools and techniques (OECD, 2006).

The development of any nation depends on the amount of revenue generated and applied by the government on public infrastructure for the benefits of members of that society. No economy can grow without adequate resources for infrastructural development and provision of power and public utilities and services. Taxes, and tax systems, are fundamental components of any attempts to build nations, and this is particularly the case in developing or transitional nations (McKerchar and Evans, 2009).

As Brautigam (2008) stated that taxes underwrite the capacity of states to carry out their goals; they form one of the central arenas for the conduct of state-society relations, and they shape the balance between accumulation and redistribution that gives states their social character. In line with this, taxes build capacity (to provide security, meet basic needs or foster economic development) and they build legitimacy and consent (helping to create consensual, accountable and representative government) (McKerchar et.al, 2009).

2.1.4 Meaning and Concepts of Tax

Tax has been defined by various authorities and professionals in various ways. Conceptually, tax can be defined or seen as a compulsory transfer of resources from the private to the public

sector (Uremadu, 2000). According to Adesola (1998), tax is a compulsory levy which a government imposes on its citizens to enable it to obtain the required revenue to finance its activities. And the other scholars Lymer and Oats (2009) tax is defined as „a compulsory levy, imposed by government or other tax raising body, on income, expenditure, or capital assets, for which the taxpayer receives expenditure, or capital assets, for which the taxpayer receives nothing specific in return’.

Types of tax audit

There are different types of Tax Audit which are implemented in different countries. Ebrill(2001), Grandcolas (2005), Harrison and Krelove (2005), and Biber (2010) noted that, there are different tax audit program. These are desk audit or verification, field audit, registration check, advisory audit, record keeping audit, refund audit, issue- oriented audit, comprehensive or full audit and fraud investigation.

a) Desk audit or verification

Desk audit usually carried out annually and primarily based on: (1) a review of income tax and VAT returns, or basic ratios comparing with previous periods or other taxpayers in similar industries, and (2) the crosschecking of information included in the taxpayer files. It involves basic checks conducted at the tax office when the auditor is confident that all necessary information can be ascertained through in-office examination. Information technology (IT) systems should provide strong support for these verifications (Ebrill,2010).

b) Field Audit

According to OECD (2006), field audit is a types of audit focuses on detailed examination of taxpayers’ books and records to determine whether the correct amounts were reported on the tax returns. The auditor may also obtain information from other sources such as banks, creditors and suppliers, to confirm items on returns. The audit is conducted at taxpayers’ place of business, home, or at the office of their accountant, attorney, or other person who may represent them. The auditor tries to select the place that is most appropriate under the circumstances and most convenient for them.

c) Registration check

Registration check is a form of unannounced visits to taxpayer's premises for new enterprises (mainly small and medium sized) to detect businesses operating outside the tax system and a quick check on businesses to establish that they are correctly registered. It should not take more than half a day (OECD, 2006) According to Ebrill (2001) in this visit, the tax officer ensures that the taxpayer: (1) has a basic understanding of their obligations; (2) keeps appropriate records (book keeping review should be mandatory in case of voluntary compliance when the turnover of the taxpayer is below the registration threshold); and (3) issues proper invoices when required by law.

d) Advisory audits

It involves the auditors visit to newly established businesses. They advise them regarding tax types, filing of returns, payment of amounts due, record keeping to be maintained, refund claims, risk of audit and sanctions of noncompliance. These visits are very appropriate when introducing new tax laws.

e) Record keeping audit

It is unannounced visits to the taxpayers' business premises to check whether the appropriate records are kept and VAT invoices are issued. The visit points out the obligations of the taxpayer regarding the keeping of records and followed up with penalties if the taxpayer continues to disregard record keeping requirements (OECD,2006).

f) Refund audit

Refund audit should focus only on the period covered by the claim. A pre-refund audit should be undertaken to verify the taxpayer's entitlement to a refund prior to processing a first refund claim particularly for new registrants. It is also carried out where the refund claim varies significantly from established patterns and trends. Audits of further claims should be carried out selectively Grandcolas (2005).

g) Issue-oriented audit

According Grandcolas (2005), issue oriented audit focus on a single tax type and covers no more than one or two reporting periods. It should be directed at verifying items for which errors have been detected in the returns (atypical ratios, gross revenues, comparison of gross

sales to imports). Single-issue audits are confined to one item of potential noncompliance that may be apparent from examination of a taxpayer's return. Given their narrow scope, single-issue audits typically take less time to conduct and can be used to review large numbers of taxpayers involved in similar schemes to conceal non-compliance (OECD, 2006).

h) Comprehensive or full audit

Ebrill (20011) defined comprehensive audit as comprehensive examination of all information relevant to the calculation of a taxpayer's tax liability for a given period. This audit may cover all tax obligations over a number of tax periods, or extended to several years up to the limit provided for in the law. All cases where serious underreporting or evasion has been detected under any of other audits should be forwarded to a unit responsible for undertaking comprehensive audits of all tax liabilities. The objective is to determine the correct tax liability for a tax return as a whole. As this audit is usually time consuming and costly to undertake, it should only be applied to those taxpayers if there is an indication of under reporting that may impact across taxes. It requires considerable resources and reduces the rate coverage of taxpayers that could otherwise be achieved by a more varied mix of audit types.

i) Fraud investigation

Fraud investigation is a type of tax audit that investigates criminal which arises from where the most serious cases of noncompliance. It helps to detect fraud, evasion, and criminal activity Krelove (2005). Fraud investigation requires special skill including meeting evidentiary requirements, seizure of evidences or records, testimony from key witnesses and preparing briefs for courts. Hence, it should be undertaken in accordance with criminal procedure laws. OECD (2004a) stated that, Revenue authorities should maintain a dedicated organizational unit responsible for the handling of serious cases of tax fraud or evasion.

According to OECD 2006 the types of tax audit is categorized in different based on the scope and its intensity of the audit performed. Based on the scope and intensity there are different types of audit activities. Full audits: The scope of a full audit is all encompassing. It typically entails a comprehensive examination of all information relevant to the calculation of a taxpayer's tax liability for a given period. The objective is to determine the correct tax liability for a tax return as a whole. Limited scope audits: Limited scope audits are confined to specific issues on the tax return and/or a particular tax scheme arrangement employed by the taxpayer.

The objective is to examine key potential risk areas of noncompliance. These audits consume relatively fewer resources than full audits and allow for an increased coverage of the taxpayer population. **Single issue audits:** Single issue audits are confined to one item of potential noncompliance that may be apparent from examination of a taxpayer's return. Given their narrow scope, single issue audits typically take less time to perform and can be used to review large numbers of taxpayers involved in similar schemes to conceal non-compliance

2.1.4 Assessment of Tax Audit Activities

2.1.5 Relationship between Information System and Tax Audit Effectiveness

According to Drogalas et al. (2015), the information technology system impact on public administration needs a further academic research. Danziger and Andersen (2002) in their analysis of previous studies shows that there is a significant positive relationship between information technology and public administration effectiveness for the improvement of decision process, planning and services. In addition to this the implementation of information technology in governmental sectors plays a vital role for performance and productivity of the internal management functions of the organization (Moon et al. 2014). Similarly concerning tax audit effectiveness, in June 1991 Ho and Lau (1999) discussed about the new changed audit system known as field audit, and the results of their discussion show that the new field audit system was effective in tax auditing in the case of detecting tax evasion and maximize the governmental revenues by collecting taxes and penalties. Moreover Flotopoulos et al. (2010) concluded that the new tax information system in Greek plays a vital role for tax audit effectiveness that the employees of the tax agency of Greek believe that employees' job performance in the tax audit activity is

improved by using this system.

Thus the above literature reviews show that having a tax information system in tax authorities helps to tax audit effectiveness by increasing performance of the employees in audit activities, which assists to examine the validity of the taxpayers' reports.

2.1.6 Relationship between Tax Legislation and Tax Audit Effectiveness

Complexity in the tax code should be thought of as the extent of variation in possible tax treatments of economically related activities. This kind of complexity naturally creates

opportunities for tax avoidance, and it also causes difficulties for otherwise honest taxpayers. As a result, it leads to confusion and mistakes that are often hard to distinguish from dishonesty.

Consequently, penalties become a less appealing approach to enforcement while, simultaneously, detection becomes more costly (Kopczuk, 2006).

One of the essential things affecting governments' ability in tax collection is the existence of proper tax laws and their correct performance. Having tax laws which are consistent and stable in enactment and performance will make the tax system to be less complex and can encourage tax compliance (Reza et al., 2011). Simplicity is the most important determinant of tax compliance in his study. Tax system should be as simple as possible for the reason that taxpayers come from various background, with different level of education, income level, different culture and different tax knowledge. In helping taxpayers to complete the tax returns accurately, the tax authority should have come up with a simple, but sufficient, tax return. The information required in the return must be at minimum level and be readily available from taxpayers' business and personal records (Mohd & Ahmad, 2011). It is importance to have a simple tax return and system. Although the word 'simple' carries multiple interpretations, at least the majority of taxpayers require that the tax return should be as simple as possible. The tax authority may assume its tax return is simple and easy to complete but it may not be from the taxpayers' point of view.

According to Drogalas et al. (2015) cited to Aaron and Slemrad (2004) there has been extremely association of effective tax administration and a good tax policy. The complexity of tax legislation is considered as one of the factors that affects noncompliance.

Hence audit effectiveness may be adversely affected by complicated tax legislation complexity. And simplicity of a tax system has important attribute for it. Thus simplify is considers as an important attribute for tax system and it helps for tax audit effectiveness by increasing tax compliance.

2.1.7 Auditors' Training

According OECD (2006) tax education can be the informal or informal organized program by the tax authority which used for the taxpayers in the correct tax return completing and develop

awareness of the taxpayers' responsibility of the tax system.

For considering any human resource relating with auditing, auditors must have a high level of education (Bou-Raad, 2000). The diversity of skills required, according to Bou-Raad, represents a major challenge to professional bodies, territory institution and managements

Increasing of the level of tax compliance, having tax knowledge is very crucial (Palil 2013). Thus, it is very important having knowledgeable and competent taxpayers to make the tax audit process be effective. The above literature reviews suggest that tax education is one of the effective tools to induce taxpayers to comply more.

2.1.8 Auditors' Experience

According to Gabella and Ning (2011) in the area of the experiences of accounting and auditing professional, researches are increasing in the recent time. Audit experience is refers to the auditors' capabilities and knowledge which are obtained in the time of job practices in the auditing professions. Auditors have responsibilities to apply their experiences in order to be effective in auditing Performance (Intakhan & Ussahawanitchakit, 2010). In the recent times studies have been conducted on audit experience some (Chi et al, 2010; Gaballa & Ning, 2011; Intakhan & Ussahawanitchakit 2010; Ussahawanitchakit, 2012; Ussahawanitchakit & Intakhan, 2011; Wang et al, 2012). However, even though the above studies conduct researches on internal audit effectiveness, the relationship between effectiveness and internal audit is not investigated at the local government level. Consequently, Intakhan and Ussahawanitchakit (2010) and Ussahawanitchakit (2012) recommend that future research is needed to conduct research

on audit experience.

Also according to Barada and Saidin (2014) in their study they conclude that the relationship between audit experience and internal audit effectiveness is significantly related in governmental public sectors in Nigeria. This shows the important of audit experience, due to the fact that auditors that have well experience enable the provision of good quality audit findings and thereby enable good recommendations and play an important role on audit effectiveness.

Training is an important factor to upgrade skills of auditors. New audit techniques need to be

learnt to make audit effective. Training institutes are developed to train auditors, but they are not up to the mark (Masood & Lodhi, 2015). So according to Masood and Lodhi, training for auditors has a positive effect on audit effectiveness.

According to OECD (2006) in order to maintain standards of auditing it is essential that auditors are given both initial training (classroom and on-the-job instruction) to bring auditors up to the required level, and continued training so that their skills are kept up to date and relevant. The extent and nature of this training and the balance between the two varies according to need, and relates to the recruitment and development policies adopted this varies depending on the level of qualifications and experience expected of new recruits. For example, those revenue bodies that recruit staff that are already professionally qualified provide much shorter initial training and new auditors are effective in their job very quickly. This can lead to new staff carrying out audit work within as little as three months of joining the organization. However, revenue bodies that recruit staff without professional qualifications need to provide much more extensive initial training in tax law and auditing.

OECD (2006) describes that any competency assessments and testing methods are also affected by the recruitment policy adopted. Those bodies that employ people with recognized accounting qualifications and experience generally do not use an in-house exam system. Their training is more focused on orientation and procedures for public sector work, rather than tax and auditing theory. Where there are no exams, trainees may have to collect a portfolio of evidence showing that they have used the techniques and methods, which they will need as auditors. Revenue bodies that recruit staff without professional auditing qualifications (and so provide tax and audit training) generally use in-house testing to confirm that trainees reach the required standard. This is not usually geared towards external professional qualifications, but some bodies have a process by which auditors can study for them or count internal training as credit, even up to degree standard. Continuing professional development is important to all revenue bodies as a means to ensure that auditor's skills are kept up to date.

All bodies offer training or development activity to address specific business needs such as the introduction of new software, legislation or practices, and to address the general training needs of individual auditors to make them more effective in their posts (OECD, 2006). A multitude of methods are used to deliver ongoing training and development, including training courses,

computer based training packages, memos, guidance notes, self-study packs, facilitated workshops and discussion forums, on-the-job training, coaching and mentoring and virtual university and learning tools. As a rule, continuing professional training is not normally examinable and the amount of training undertaken varies between countries and over time.

Therefore, based on the above literature reviews appropriate staffing of audit department and good management of that staff are keys to the effective operation of a tax audit. An audit requires a professional staff that collectively has the necessary education, training, experience and professional qualifications to conduct the full range of audits required by its mandate

2.1.9 The Efficiency and Effectiveness of Tax Audit

Audit effectiveness is measured by examining the amount of evidences selected for examination in relation to the total availability evidence and an optimal level of evidence. Audit efficiency is then defined as audit effectiveness per unit of time by taking the audit effectiveness measure divide by minutes spent on the task (Kangave, 2005). And according to Arena and Azzone (2010) an audit is an independent examination of an entity by an auditor who delivers reports about facts observed the best of his best knowledge. Audit is exercised to hold an organization accountable to their deeds. Audits are effective if they are strongly enough to transparency highlight performance lags of government entities. Audit can be made effective if problems and issues are resolved.

Effective audits are outcomes of auditors' efforts which are directly affected by best human resources practices training, career development, knowledge sharing and management, performance appraisals, promotion systems and job security have a positive impact employee performance (Campbell, 1990). In addition to this, knowledge, skill, and education level are important to affect performance of auditors. Training of auditors is another important factor for effective audit. There is positive relationship between training and employee performance. If auditors are trained to conduct audits with help of new auditing a method, effectiveness of audit can be increased

Measurements of tax audit effectiveness

Measuring tax audit effectiveness is complicated by the lack of consensus on the indicators/ dimension of effectiveness and the methodology for assessing it. In some cases, subjective

dimensions have been used, for example, Drogalas et al. (2015) used indicators measured on a five-point Likert scale as per tax infringements, tracking form in Greece. The subjective questions captured items such as the difference between turnover submitted and that given on financial statements, differences in expenses, in stock quantity, as well as differences in the inventory valuation methods. Moreover, it included tracking fake invoices, differences in customer and supply records, differences in net profits, differences in value-added tax (VAT) values, differences in transfer amounts, differences in bad debt provision, differences in expenses, which are not deducted from the total turnover and differences in other current taxes. Hasseldine and Bebbington (1991) investigated whether, if tax audit is effective, undetected evasion should decline, that is to say, the “ripple effect” may occur and compliance may increase. This effectiveness on tax compliance will be a function of a carefully designed tax audit for specific taxpaying groups. While Hasseldine and Bebbington (1991) looked at psychological measurement of tax audit effectiveness, Beron et al. (1988) expressed effective tax audit in terms of accurate reporting of deductions reflecting proper matching principles, as well as checking for errors. Using taxpayers’ financial statements as a measure of effective tax audit is also seen in the study conducted by Samuel and De Dieu (2014), which assessed the impact of financial statements audit on tax revenue growth in Rwanda. They found that tax audit helped to increase revenue in the country.

On the other hand Kastlunger et al. (2009), measured tax audit effectiveness in terms of influencing taxpayers’ behavior towards tax compliance. They recognized that there are debates about the effect of tax audit on deterring tax evasion, with some studies suggesting that tax audit can deter evasion, while others show only a weak relationship as noted by From this perspective, considered compliance (no tax evasion) as an indicator of tax audit effectiveness. Therefore, Kastlunger et al. (2009) are supported by views provided by Davos (2014) that in a self-assessment tax system, it is important for tax audits to operate effectively because they are drivers of compliance behavior of taxpayers. Tax audits are believed to convince taxpayers to be more careful in the preparation of returns and to reduce risks (Devos, 2014).

Therefore, Devos (2014) then argued that an effective tax audit is one which can improve deterrence measures by increasing the probability of apprehension, rather than imposing sanctions. Ayalew (2014) argued that one measurement of tax audit effectiveness has

sufficient specific deterrent effect to enhance voluntary compliance. For Ayalew (2014), an effective tax audit is one which can not only allow tax auditors to educate taxpayers on the application of tax laws as well as improving record keeping, but also detect tax, recover more tax and penalize noncompliance. Isa and Pope (2011) conducted a study to examine the extent of taxpayers' perceptions of the tax audit experience and argued that if a tax audit is carried out effectively, it can improve the administration of a tax system, hence increasing voluntary compliance. Generally, based on the reviewed literature, it can be argued that although measuring the effectiveness of tax auditing may be considered to be a simple task, there is little consensus about which type of measurements to apply. In this study, we used different types of measurements to express tax audit effectiveness. As such, we combined items such as transparency in the tax audit to minimize complaints from tax payers, promotion of voluntary tax compliance, proper documentation of tax audit findings, a decline in the number of taxpayers evading tax, as well as producing reports which are clear, concise and well presented.

Factors for tax audit effectiveness

Based on the extant literature about factors influencing tax audit effectiveness, it can be observed that there are mixed results and different variables which express factors for tax audit effectiveness. We, therefore, separated the factors into four categories, namely, organizational, tax auditor, taxpayer and regulatory.

Organizational-related factors influencing tax audit effectiveness.

The first category of factors in this study related to organizational settings, i.e. tax authorities themselves. The organizational factors which are linked to organizational theories are important to ensure that performance of the organization is improved. As argued by Hansen and Wernerfelt (1989), organizational factors which are internal to organizations are major determinants of organizational success. Hansen and Wernerfelt (1989) considered that, for the organization to succeed there is a need to match organizational factors to the organizational environment. In this aspect, the organizational factors are linked to contingency theory, which states that there is no universal way to manage organizations and that an effective organization must have a proper fit between its environment and its subsystems (Emmanuel et al., 1990; Galbraith, 1973; Lawrence and Lorsch, 1967). The application of contingency theory in this

study assumed that, for tax authorities to be successful in conducting a tax audit there would be some internal and external factors which have to be taken into consideration.

However, one limitation of contingency theory is the availability of many variables, hence reducing consistency (Weill and Olson, 1989). Tax authorities, when designing and developing tax audit functions, need to consider the relationship between internal and external organizational variables. As such, contingency theory regards a tax audit as task oriented and loosely structured, depending on a number of factors, such as an adequate financial budget for the tax audit unit, top management giving significant importance to the audit function, as well as providing support in terms of training, clear division of labor, sufficient manuals and so on. While we found no work which had applied contingency theory to tax audit effectiveness per se, there are a number of studies which have applied variables that can be found in contingency theory with regard to tax compliance (Collins et al., 1992; Devos, 2014; Riahi- Belkaoui, 2004), as well as in the auditing literature (Gupta et al., 1994; Jokipii, 2010).

Tax-auditor-related factors influencing tax audit effectiveness.

The second category of factors in this study was related to tax auditors. The tax-auditor- related factors were grounded under agency theory, as recognized by Jackson and Milliron (1986). According to Jackson and Milliron (1986), tax preparers may be viewed as agents of the government, with the goal of maximizing revenue while minimizing effort. At the same time, taxpayers are considered to have the wish to minimize tax costs in terms of tax paid, the cost of time spent in record-keeping, the amount of preparation fees paid and the costs associated with tax audit. It is not easy to directly identify the tax auditors' and taxpayers' relationship in terms of agency theory (Pentland and Carlile, 1996) because agency theory is concerned with the principal-agent relationship, with reference to a management-owner relationship.

However, using the traditional auditing perspective, agency theory can be useful to understanding the influence of tax auditor-related factors on tax audit effectiveness. From the auditing perspective, agency relationship exists when one or more principals engage another person as their agent to perform a service on their behalf (ICAEW, 2005). This is necessitated by information asymmetries and self-interest because the principals will have limited trust in their agents, hence putting in some mechanisms to align their interests and reduce the scope of information asymmetries and opportunistic behavior (ICAEW, 2005; Watts and Zimmerman,

1983). This brings in auditors as agents of the principals to ensure supply of reliable and relevant information. This situation is comparable to that of tax auditors, who are used as agents of the government to monitor the operation of taxpayers, who may have an incentive not to disclose the full information about their operations, to reduce tax liability.

As noted by Jackson and Milliron (1986), on the one hand, tax auditors are the primary agents of the government because they have a relationship with the government but, on the other hand, responsibilities also exist between tax auditors and tax payers. At the same time as this double relationship may seem to complicate the role of tax auditors in terms of independence and trust, in this study we have argued that this relationship can be strengthened to increase tax compliance by increasing the professionalism of tax auditors. It is our view that if tax auditors use professional skepticism, they can plan their auditing properly to ensure that they detect significant malpractices and deter future non-compliance. Muhammad (2013) stated that tax auditors need to understand taxpayers' businesses and use appropriate audit strategies to ensure that the correct amount of tax is paid by taxpayers. These views are also consistent with traditional auditing practices, as provided by the International Auditing and Assurance Standards Board (IFAC, 2015).

Taxpayer-related factors

The third category of factors was related to taxpayers. Taxpayers are crucial for tax audit effectiveness because they are supposed to comply with tax laws and regulations. Al Frijat (2014) argued that if taxpayers provide accurate and correct information, it will help build and restore bridges of trust between taxpayers and tax authorities. The factors that Al Frijat (2014) identified to help taxpayers contribute positively towards improved effectiveness of the tax audit included expanding and increasing the support for group in charge of collecting information about taxpayers, and consolidating cooperation between tax authorities and other institutions. In our view, this can be achieved if tax auditors are able to understand the taxpayers' perspective, as well as the nature of their business operations, including their accounting systems (Muhammad, 2013).

Understanding the taxpayers' perspective will help tax authorities to understand those factors relating to taxpayers that may influence the effectiveness of the tax audit. We believe that understanding taxpayer-related factors for tax audit effectiveness can be appropriately

achieved by using deterrence theory. The basic assumption of deterrence theory is that people choose to obey, or to violate, the law, based on the gains and consequences of their actions. In other words, deterrence theory assumes that people comply with laws after finding that the benefits of complying outweigh those of not complying. At the same time as this view has been supported by a number of proponents, there are others who have opposed it on the basis that it is not about the severity of punishment which forces people to comply, but the certainty of punishment when it is reasonably guaranteed (Onwudiwe et al., 2005).

On the other hand, Onwudiwe et al. (2005) argued that the certainty of punishment is more effective than its severity, Earnhart and Friesen (2014), as well as Githige et al. (2014), found that the effectiveness of both severity and certainty depended on the enforcement mechanisms. These perspectives of deterrence theory also have an influence on taxation issues, particularly tax compliance (Devos, 2014). According to Devos (2014), the deterrence measures include both aspects of certainty and severity, together with enforcement and the probability of detection, when investigated. Deterrence is understood to have two purposes: a general purpose (general deterrence), which is concerned with the deterrent effect of potential sanctions, and a specific purpose, which deals with the deterrent effect of the actual sanctions imposed (James, 2002).

In a simplified form, general deterrence is concerned with discouraging potential offenders, while specific deterrence aims to dissuade actual offenders towards repeating their offences (Devos, 2014). Here, tax audit becomes crucial because it helps to detect and deter tax fraud to improve the economy, efficiency and effective administration of the tax system (Hopkins, 2011). Tax audit in this situation is considered to be a mechanism to deter tax evasion and avoidance, thus increasing voluntary compliance (Birskyte, 2013). In this case, tax audit is considered to have all the measures of certainty, severity, enforcement and the probability of detection. However, studies using deterrence theory have assessed the influence of tax audit on compliance, and not on the influence of taxpayers' behaviour on tax audit effectiveness.

Regulatory-related factors influencing tax audit effectiveness.

The fourth, and final, category of factors in this study was regulatory-related factors based on the laws and regulatory frameworks for tax auditing. In our view, this category could be based on game theory and the theory of economic regulation. According to game theory, tax auditing

has two types of players: tax authorities and taxpayers. Satpathi et al. (2013) argued that the players in tax auditing are the government and taxpayers, whereby the government has two options: to audit or not to audit. At the same time, the taxpayers have two options as well: to be honest or to cheat.

Game theory helps in understanding the strategic interactions between the taxpayers and tax auditors (representing the tax authorities), as argued by Allen and Morris (2002), that game theory allows asymmetric information and strategic interaction to be used in the analysis. While the asymmetric information can be captured by agency theory, as we have seen in relation to tax auditors, in this case it is not about the information flow between the principal and the agent, or possession of it; rather, it is about the nature of interaction

between the principal and the agent, given the information asymmetric settings.

As put by Kanodia (2014), using a game theoretical perspective in accounting data helps us understand that the data affects, and is also affected by, the strategic interactions of organizations. In this study, we believed that using a game theoretical perspective would help to understand how a tax audit represents the interactions between tax authorities and taxpayers, with both parties affecting each other and, at the same time, affecting the auditing process. Pentland and Carlile (1996) considered the tax auditing process to be like the generic tools which tax auditors and tax payers use to negotiate facts and to come up with results. While Pentland and Carlile (1996) were interested in the interaction between tax auditors and taxpayers per se, in this study the focus was more on the rules of the game which ensure that the negotiation between tax auditors and taxpayers is fair. This is consistent with Pentland and Carlile's (1996) argument that uniform applications of laws during the auditing process, for tax authorities to catch cheaters, is considered to be essential. Hence, the focus here was the rules and standards for tax auditing to regulate the interactions.

2.2 Empirical Review

This section provides an overview of the previous research on the factors that affect the effectiveness of tax audit. There are different study are available inside and outside the country that were made by different researchers. Therefore in this will give more emphasis on the relevant literature that relates to this research objective. According to Masood and Lodi (2015), the empirical study shows that government auditors in Pakistan are suffering from several

restraining factors. which include lack of technology, financial resources and human resources, restricted access to records of audit, limited time available for audit, lack of staff competency, ineffective training institutes and qualified trainers, weak applicability of new auditing methods, high need of learning materials, audit size, massive corruption, resistance to new computerized auditing techniques, lack of powers to take actions against malpractices and deviations, full operational independence and lack of financial independence, political pressures and lack of top management support, lack of auditee cooperation to accept audit findings, heavy reliance on auditee for audit, lack of promotions, follow up of auditee, and massive corruption are affecting government auditors of Pakistan to conduct effective audits. Thus, based on the findings of this empirical study lack of staff competence, ineffective training institutes, and qualified trainers are the factors that affects the audit effectiveness which are related with this study.

In the case of tax legislation, Drogalas et al. (2015) in their findings in Greek, complexity and constant changes in tax legislation makes it difficult for auditors to be effective in their work. In their conclusion the relationship between tax legislation and audit effectiveness is negative.

According to Badara (2012), among the empirical findings of his research the effectiveness of tax audit is the issue of the skilled possessed personnel conducting the audit and it contributes to be tax compliance for the taxpayers. So this empirical study shows that skilled possessed personnel in terms of education, training, and experience are affecting the audit effectiveness.

The empirical finding of Badara and Saidin (2014) on their study in related on governmental public sectors in Nigeria showed that audit experience has a significant effect on audit effectiveness.

Also Niu (2010) on his research in New York State of Finance Department concluded that there is a positive relationship between the tax audit and voluntary compliance. The researcher said that this finding suggests that the audit productivity may be underestimated in many studies in the literature. It reminds us that when considering the productivity of the audit work, besides the direct audit collections, we should also take the audit impact on the voluntary compliance into consideration. For this reason, the findings may provide tax professionals and tax authorities with incentives to strengthen the audit power to better structure the audit organizations to generate more revenue to the state.

changing in most countries worldwide (Colon and Swage man, 2015), while tax audit is currently at a crucial stage, as there is a growing demand for audit services (Carmichael et al., 1996; Karagiorgos et al., 2006). Auditing of taxpayers has been defined as “the activities conducted by the tax authorities in order to detect whether there is under reporting of tax basis” (Das-Gupta and Gang, 1996). Specifically, tax audit has been described as the procedure of examining the degree to which the taxpayer has properly prepared the financial statements according to the existing tax legislation (Pantelidis, 2009; Grampert, 2002) and whether he has correctly reported tax liabilities (Pantelidis, 2009; Arenas del Buey Torres, 2004). Finally, tax audit examines the accuracy of the submitted tax documents, so that the auditors can confirm the amount of tax due (Koromilas, 2013).

In Greece, authorities for many years have avoided a radical reform of the country’s tax system (Bronchi, 2001). On the other hand, a series of extensive amendments in tax legislation has taken place in the last twenty years, leading to “a nebulous system of conflicting laws, court and ministerial decisions, which clearly panders to special interests” (Ballas, 1994). Additionally, the complexity in the tax auditing procedures, as well as the perception that taxes are extremely high, has led to the increase of tax evasion in Greece (Baralexis, 2004). Panas (2011) conducted a survey in order to examine the behavior and the characteristics of taxpayers. The results revealed that 25% of respondents would hide part of their income from tax authorities, while 70% of the respondents believed that most people do not comply with tax laws because there is small possibility of being detected. Moreover, Artavanis et al. (2012), demonstrate that the existence of a semiformal economy as well as the lack of political power, willing to implement clear and effective tax legislation and tax procedures, are the reasons for a high tax evasion degree. Finally, a survey by Chatzipanagiotou (2010) suggests that tax authorities should implement simple and direct practices regarding tax auditing. Suggested public policy intervention should focus on four areas which include effective use of human resources, provision of education to public employees, positive change of the public opinion regarding tax payments and use of modern technology.

Regarding the use of modern technology, information systems (IS) can enhance the typical procedure of recording, processing and organizing accounting activities and accounting information and include a set of expanded opportunities to support effective tax audit. The valuable information generated by information systems is essential to the auditors in order to

track any possible tax infringements and tax offenders. Moreover, the concept of tax audit also includes all the necessary actions for the collection of information that allow us to properly evaluate an enterprise's financial statement (Sen and Bala, 2002). Therefore, in order to address the problem of tax evasion it is essential for Greek authorities to design a flexible and effective tax audit system, with straight forward and efficient procedures, supported by easy-to-use control systems as well as educated and qualified auditors.

In this study, we examine the relationship between tax audit information system effectiveness and tax audit effectiveness. We propose that the use of a highly effective tax audit information system is positively related to increased tax audit effectiveness. In this study we will use a tax auditor's ability to track tax infringements as a measure for tax audit effectiveness. To our knowledge, little empirical research on the tracking of tax infringements has been conducted within Greek context. Taking into account the fact that taxes contribute significantly to Greece's revenue growth, the present paper aims to provide insights into the significant factors that are associated with tax infringements tracking.

Finally, complexity of tax legislation is examined as having a direct effect on tax infringements tracking. The complexity of tax legislation is difficult to measure objectively. Frequent amendments in tax legislation lead to increased ambiguity, regarding the decision of tax authorities for tax violation. This results in high uncertainty in a country's tax system and negatively affects economic activity, since the lack of stability in tax legislation inhibits companies from making accurate revenue forecasts

The study conducted by Gebeyehu (2008) was attempted to trace out the basic concepts of tax audit, and analyze the significances and role of tax audit in increasing tax revenue and in strengthening tax administration capacity. The results of the study indicated that, the highest ratio of tax to GDP in Ethiopia was 13 percent, which is registered in 2003/04. Most of the country's revenue is from non-tax sources such as grants. Revenue derived from taxes is dominated by indirect taxes. The study stated that personal income tax does not need critical assessment other than checking whether the amount withhold by the employer is forwarded to the respective tax authority. Whereas, business profit tax needs much effort to levy and collect due to the high-risk of understatement and evasion since most taxpayers use all mechanisms that could understate their tax liability. So far, there is no field audit although the problem of

tax evasion bothers revenue agencies at different levels. On the other hand, the research made by Getaneh (2011) focused on key problems in tax audit operation regarding the appropriateness of audit type used, audit rate, aptness of audit case selection methods, audit examination techniques used, and the experience and capability of audit staff resources at Federal Government level. The result of the study indicates that, tax audit program remains undeveloped with slight range of tax audit activities performed targeting aptly specific risks. Further, low audit coverage, absence of compliance risk-based audit case selection strategy, scarcity of audit resources, and absence of proficient and experienced tax auditors are revealed as major problems in this study.

The research made by Elias Ayalew (2014) on the title of factors affecting tax audit effectiveness on category “A” taxpayers’ and tax auditors. The study was aimed to examine the statistical significance between factors and tax audit effectiveness. The study was study adopted quantitative method of research approaches to test a series research hypothesis. Specifically, the study used survey of questionnaire analysis of revenues offices’ tax auditors and taxpayers’ response. He employed simple random sampling design was employed based on nature of target population. Data was then analyzed by quantitative basis using Pearson’s correlation, linear regression analysis and descriptive statistics. The results the study showed that there is no statistical significance negative relationship between audit attributes and tax audit effectiveness. Besides, the results showed that there is no statistical significance positive relationship among organizational setting, top management support and tax audit effectiveness. The researcher found that there is strongly significant positive relationship among audit quality, organizational independence and tax audit effectiveness.

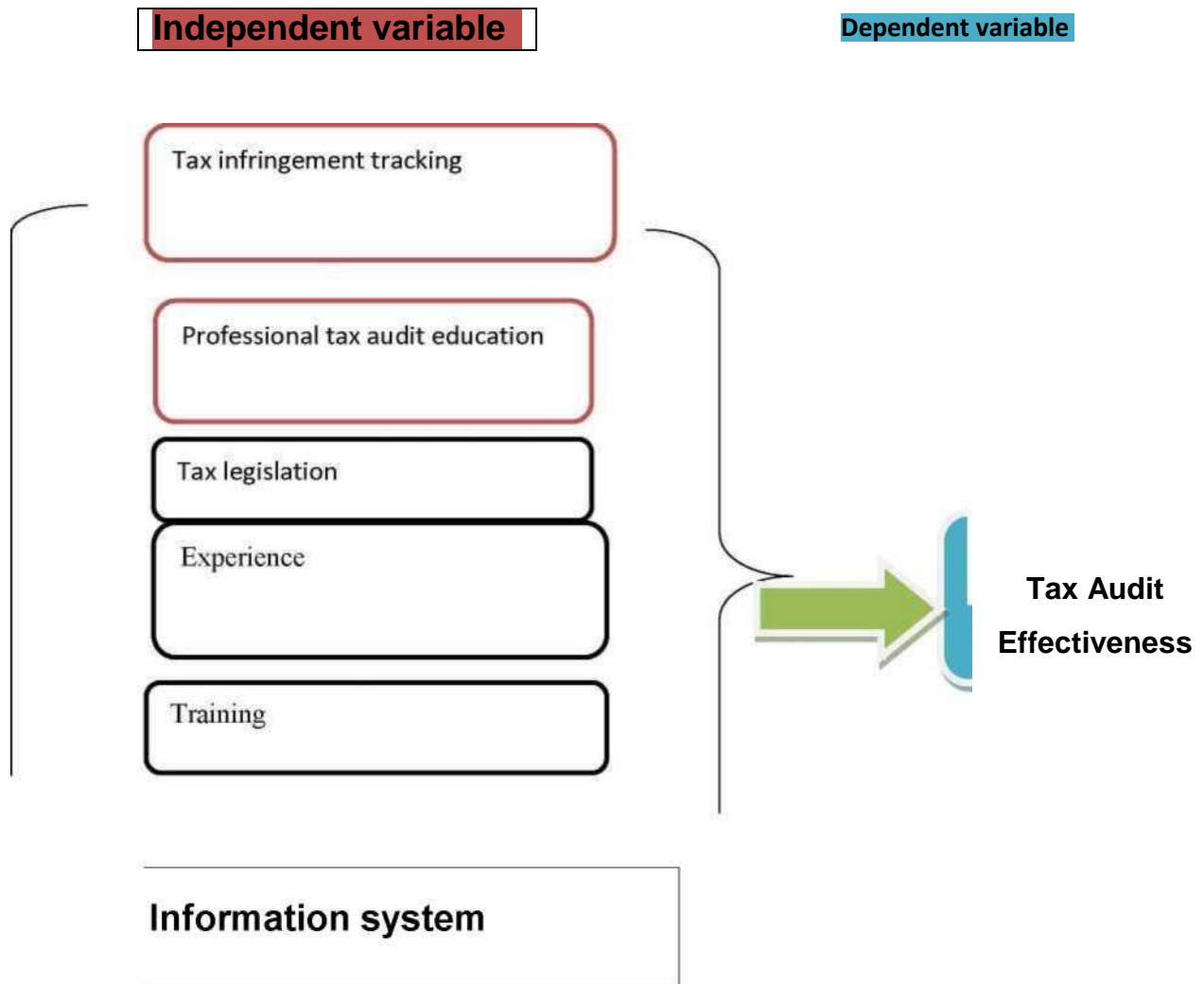
According to the research made by Melat Abera (2016) ON the title of investigate factors affecting tax audit effectiveness on large tax payer’s office. The study stands to answer the following research question “How do audit quality, management support, organizational setting, audited attributes, organizational independence and the interplay among them, influence audit effectiveness in LTO?” In light of this objective the study adopted mixed research method of research approaches to test a series research hypothesis. Specifically, the study used survey of questionnaire analysis offices’ on tax auditors and interview analysis on team leaders and process owners. Then tax auditors and team leaders were selected based on simple random sampling method of census method. Because, the target population to be

studied is small. In large tax payer's office there are 62 tax auditors supervised and lead by 10 team leaders managed by two process owners. Then the researcher distributes those questioners to the 62 tax auditors, only 59 of them are returned. Consequently, Data was then analyzed on quantitative basis using Pearson's correlation, linear regression analysis and descriptive statistics. Qualitatively interview and documentary evidences summarized and presented. The results showed that there is no statistical significance negative relationship between auditee attributes and tax audit effectiveness. Besides, the results showed that Tax Audit Effectiveness of Large tax payer's office is highly affected by audit quality of the department, managements support and the organizations independence from unethical practices. While as auditors perception it doesn't be affected by organizational setting and auditees attribute.

2.2.1 Research Gap

As we can refer from the empirical part of this and other study, there are a dozen of researches that were carried out as national outside the country and with federal levels within the country. But still now there is a limitation on the existing research study since they could not incorporated different variables that affect the effectiveness of tax audit. For instance the researcher Elias Ayalew has been taken only five factors (Audit attributes, tax audit effectiveness, audit quality, organizational independence, organizational setting and Top management support). But there are numbers of factors that affect tax audit. To sum up the researcher is motivated to confirm the consistency of the existing study results and providing a supplementary result by including the factors that affect effectiveness of tax audit that were not included by the existing researchers like, Tax infringement tracking for the tax audit and special professional training. Additionally the way how to measuring tax audit effectiveness is complicated by the lack of consensus on the indicators/dimension of effectiveness and the methodology for assessing it and in some cases, subjective dimensions have been used ,for example, Drogalos et.al(2015) used indicators. Why I exclude those variables considered by Elias namely organizational independence, top management support and organizational setting is that because of I have information about organizational independence, top management support and organizational setting of this office through investigation and tax police analysis being the problem was existed when I have study tax audit policy analysis in 2011E.C.

Conceptual framework



CHAPTER THREE

RESEARCH DESIGN AND METHODOLOGY

This Chapter was described the appropriate research design, methodology, research method that will be suitable for the topic. It is also describe the sources of data, Instruments and data collection method, population, data sources, data collection methods, data analysis, interpretation and ethical consideration.

3.1 Research Design

A research design is the arrangement of condition and analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedure (Kothari, 2004). The researcher applied analysis using the fact that explanatory research design used to describe the data and characteristic about what was been studied .Explanatory survey method focuses on investigating the status, investigate and problem related to tax audit of Ababa City Government Revenue Authority, No. 2 .

3.2 Research Method Adopted

This study incorporated both quantitative and qualitative research approaches (used mixed method) in order to generate the advantage of both approaches like; to address different objectives of the study, which cannot be achieved by a single method and to enable one approach to inform another approach, either in design or in interpretation. These approaches are different in terms of their philosophical assumptions as well as techniques used to data collection; analysis and interpretation have discussed in the subsequent paragraphs (Corbin, 2008).

Qualitative research approach explores attitudes, behaviors and experiences through methods such as in-depth interview and/or focus group discussion. The second approach, quantitative research, generates statistical data using large-scale survey research, using methods such as close-ended questionnaires and/or structured interviews (Dawson 2002). Quantitative approach employee's strategies of inquiry such as experiments and surveys, and collect data on predetermined instruments that yield numeric data that can be analyze using statistical

procedures. It is a means for testing objective theories through examining the relationship among variables. On the other hand, mixed methods approaches will combine both qualitative and quantitative approaches. It employs strategies of inquiry that involves collecting data either simultaneously or sequentially to best understand the research problem. Mixed approach characterized by its time-intensive nature of analyzing both numeric and text data (Creswell, 2009).

Research methods are the techniques used to collect data. In this study, the researcher adopted mixed methods approach (qualitative and quantitative method), as discussed in the previous section, which has employed concurrently in collecting and analyzing data.

3.3 Source of Data

The data used in this study consists of both primary and secondary data. through questionnaire to draw out responses regarding the tax audit effectiveness of the tax audit department in Addis Ababa City Government Revenue Authority, No. 2 . Who have responsible to adequate information on tax audit? The researcher used distribute questionnaire with close ended and open ended questions to the total population of the tax audit department; for all tax auditors, audit team leaders, and the audit process owner in the department.

The primary data were collect through questionnaire and interview. The questionnaire comprised of both closed and open-ended questions. Closed ended questions are quicker and easier for both respondents and researcher. Most of the closed ended questions are designed on an ordinal level of measurement basis, and others are designed as multiple choice, some of the closed ended questions were a five scored likert scales (Kothari, 2004) to provide respondents a wider range of alternatives with end points where the statement strongly agree to the statement refer to strongly disagree. Adding open-ended questions allows respondents to offer an answer that the researcher did not include in the questions.

In addition, interviews were used for those most related tax officials. Secondary source of data are Journal articles, textbooks, periodical collections, newspapers, ERCA annual reports and other scholarly write

3.4 Population and Sampling Technique

Target Population

The target populations of the study are auditors at the tax audit department of the Addis Ababa City Government Revenue Authority, No. 2. The total population of this department is 76 (that was 67 auditors, 8 Audit Team Leaders and 1 Audit Process Owner) from the tax audit department. Since the target population was small in number, the data collection cost for these respondents was very low, and make more reliable on the data; and hence the researcher chosen the census method for data collection than sampling technique

In addition to Questionnaire, attention given for the interview and observation because of reducing biased and the possibility of getting unreliable answer. Finally, to come up with sound, concrete and credible research findings, interviews used for concerned person in the area of the tax audit Sub-process Head. Observation and visiting also done in the area of tax audit office, getting more practical knowledge about Structures, Design and outlay of the office and helpful for the findings of research.

3.5. Data Collection Methods

In conducting researches, researchers use different data collection methods. For primary data, researchers will uses questionnaires, seconder data interviews, observations, and focus group discussion to collect the data. In this study the researcher used questionnaires that are designed in the close and open ended forms based on the research questions and taken from Drogalas et al., (2015) with some modifications for gathering appropriate information to achieve the research objectives and testing the hypothesis

The questionnaires are designed in six main categories: the first one was emphasized on the education level, experience and training of tax auditors; the second one was focused on concepts of information system of the tax audit; the third one was examined the concepts of tax legislation; the fourth one checked infringements of tracking of the auditors, and the fifth one was about the general questions which were assessed all independent variables; information system, tax legislation, education level of auditors, experience of auditors and trainings given to the auditors. The tool to measure the variables that the researcher are uses is a 5 point Likert scale ranging from (1) “strongly disagree” to (5) “strongly agree”

> Interview:-An interview is a purposeful discussion and/or conversation with two or more people, and helps the researcher to gather valid and reliable data that are relevant to achieve research questions and objectives. This study applied in-depth interview to explore the data that is unclear for the researcher on its questioners that explains its variables and the information that have not been collected through questioner and document analysis by allowing the interview to remain flexible. The reason for the use of interview with team leaders and process owners is summarized reports are prepared by them and also they are involved on the risk selection, supervision and monitoring of the audit process.

Secondary Data Sources

Documentary analysis: the purpose of using quantitative aspect of the research is to support the study by making documentary analysis on tax audit process performance on the last 4 years to measure the audit effectiveness based on audit coverage, number of company's during the year and the amount of audit adjustment. Data collected from document review and interview was interpreted qualitatively. This study used multiple sources of data including document review, interview and questionnaire that helps to cross validate the data.

3.6. The Pilot Study

The pilot study was conducted 1 revenue authority official to see whether the intended instruments could work as planned. The study suggested that certain items of the questionnaires and interviews need to be modified. Accordingly, some inconsistencies among the items were avoided and the ambiguous questions were corrected and then the questions were distributed.

3.7. Data Analysis and Interpretation

In order to analyze and interpret the data, researchers should be develop a model or adopt from previous researches and specify the dependent variable and the independent variables. Accordingly, the researcher was specified one /1/ dependent variable and five /6/ independent variables based on the previous. Thus the researcher is used to the model that Drogalas et al. (2015) used in their research. Because the variables that the researcher used are the same as they used in their research; this model helped to test the hypothesis and answer the research questions designed by the researcher.

The researcher was applied explanatory analysis and multiple regressions statistical tools by

using Statistical Package for the Social Sciences (SPSS) Version 20 and Eviews-6 to analyze and interpret the detailed information about each variable quantitatively based on the model and the open ended responses that are to be analyzed using qualitative method to support or reject the hypothesis.

Dependent Variable: Tax Audit Effectiveness forms the dependent variable. Each item of Tax Audit Effectiveness is measured on a 5-point Likert scale ranging from (1) “strongly disagree” to (5) “strongly agree”.

Independent Variables: Information System (IS) and Tax Legislation (TL) is examined having a direct effect on Tax Audit Effectiveness. In order to create an appropriate measure of information systems is to be used for tax auditing, each item of the Information System (IS) and Tax Legislation (TL) is measured on a 5-point Likert scale ranging from (1) “strongly disagree” to (5) “strongly agree”.

Control Variables: The effect of Information System (IS) and Tax Legislation (TL) on Tax Infringements Tracking (TIT) is controlled by Education level (EDU), Experience (EXP) and Training (TR) of the auditors.

Model: Multiple regression analysis is performed to estimate the magnitude of the effect of the “Information System (IS)” and “Tax Legislation (TL)” on “Tax Audit Effectiveness”. Therefore, the model that the researcher adopts from Drogalas et al. (2015) and used in this study is:

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + \beta_6 X_6 + \mu$$

Where,

TIT = Tax Infringements Tracking

IS = Information System

TL = Tax Legislation

EDU = Education

EXP = Experience

TR = Training

$\beta_0, \beta_1, \beta_2, \beta_3, \beta_4, \beta_5, \beta_6$ & β_0 is the intercepts of the equation, mean value of information system, mean value of tax legislation, mean value of education, mean value of training, and error term of the equation respectively; and $\beta_1, \beta_2, \beta_3, \beta_4, \beta_5, \beta_6$ are the parameters of the equation.

3.8. Literature Driven Hypothesis

Several statements of supposition can be made in view of the factors affecting tax audit effectiveness in Addis Ababa City tax auditors' perceptions in Ethiopian Revenues and Customs authority (ERCA) Eastern Addis Ababa Branch Office.

Drogalas et al. (2015) in their research they tested that there is a positive relationship between information system and tax audit effectiveness. According to this the researcher formulated the first hypothesis for this study as follow:

H1: The extent of information system (IS) effectiveness has a positive and statistically significant effect on tax auditing effectiveness.

Concerning the tax legislation, Drogalas et al. (2015)) in their research they tested that there is a negative relationship between information system and tax audit effectiveness. Based on this the researcher designed the second hypothesis for this study as follow:

H2: The extent of tax legislation has a negative and statistically significant effect on tax audit effectiveness.

According to Badara (2012), among the empirical findings of his research the effectiveness of tax audit is the issue of the skilled possessed personnel conducting the audit and it contributes to be tax compliance for the taxpayers. Also For considering any human resource relating with auditing, auditors must have a high level of education (Bou-Raad, 2000). According to the above literature, the researcher intended the third hypothesis.

H3: Education level of tax auditors' is positively related and statistically significant with tax audit effectiveness.

Barada and Saidin (2014) in their study they proved that the relationship between audit

experience and internal audit effectiveness is significantly related in governmental public sectors in Nigeria. Moreover, OECD (2006) explained that education and training have a positive contribution for audit effectiveness. Therefore, based on the above researchers' findings the researcher formulated the fourth and fifth hypotheses as follow.

H4: Experience of tax auditors' is positively and statistically significant related with tax audit effectiveness.

H5: Training of tax auditors' is positively related and statistically significant with tax audit effectiveness.

4.9. Measurements

Dependent variables

Tax audit effectiveness: This variable was measured by tax infringements tracking of six items (numbers 16,17,18,19,20,21). All these items dealt with the ability of auditors to track the tax infringements for tax audit effectiveness.

Independent variables

It should be noted that the data for the five independent variables were collected from the tax audit staffs in Addis Ababa City Government Revenue Authority, No. 2

Therefore, the independent variables represent the perceptions of the tax auditors regarding these concepts.

Information system: This variable was measured by six items (numbers 8, 9, 10). All the items dealt with the information system of Addis Ababa City Government Revenue Authority, No. 2

Tax Legislation: This variable was measured by five items (numbers 11, 12, 13, 14, 15,). All the items dealt with the tax legislation that the tax audit staff of Addis Ababa City Government Revenue Authority, No. 2

Education: This variable was measured by 2 items (numbers 1, 2). All of these items dealt with the education level of tax auditors.

Experience: This variable was measured by one item (number 4).

Training: This variable was measured by 3 items (numbers 5, 6, and 7). All these items dealt with the trainings that have given for tax auditors.

Track the tax infringements: This variable was measured by tax infringements tracking of six items (numbers 16,17,18,19,20,21

Note the difference between Training and education are as follows

- **Training** is an activity that is designed and implemented to help employees acquire and apply knowledge, skills , abilities and attitudes in their respective organization by providing the required skills for a short period (Desimoreetal, 2002)
- **Education** is defined as activities which aim at developing the knowledge, skills, moral , values and understudying required in all aspects of life rather than a knowledge and skill reating to only a limited field of activity(manpower services commission 1981)

3.9. Ethical Considerations

The researcher has an Authorized letter from Addis Ababa University to all the concerned organization crucial to the research topic. The researcher was approach the research participants first by requesting their willingness to participate in the research. Then, the researcher will introduce his/her name and where he is from and the informants was assured that the objective of the research is only for academic purpose and they was assured the protection of their identities and the guarantee of their safety of whatever information received in the course of the research. Moreover, the researcher was valued and appreciated for knowledge of the issues. In all cases, names are kept confidential thus collective names like discussants and informants were used in the presentation and analysis of data. The researcher was tried as much as possible not to be biased and avoid prejudice in the process of collecting and interpreting data.

CHAPTER FOUR

4. DATA ANALYSIS AND INTERPRETATION

This section deals with data analysis and interpretation. The data was obtained through questionnaires, interview and seconder data. The sample techniques were purposive sampling technique. The researcher distributed 76 questionnaire (8 teamleaders,1 process owner. Of which 76 questionnaire were properly filled and returned back. Moreover, interview was conducted from team leader, process owner and Auditors .The result from field survey summarized as follows.

4.1 Socio Demographical Characteristics of Respondents

Under this section socio-demographic characteristics of respondents which include education, field of study, current job occupation and work experience was included. The result from field survey presented as follows.

Table 4.1 Socio-Demographic characteristics of respondents

Item	Response	Freq	%
Education	12 complete	-	-
	Certificate	-	-
	Diploma	-	-
	Degree	70	92.1
	Master	6	7.9
	Total	76	100
Field Study	Accounting & Finance	61	80.3
	Economy	6	7.9
	Merchant	6	7.9
	Other	3	39
Total		76	100
Current Job description	Tax Auditor	62	81.6
	Tax Audit Assistance	4	5.3
	Tax Audit team leader	8	10.5
	Audit process	1	1.3
	Other	1	1.3
	Total	76	100

Table 4.1 data with socio-demographic characteristics of respondents. In this regards, the first item was education. Concerning education of respondents, to (92.1%) of the respondents were

first degree holders while 6(7-9%) of the respondents were second degree holders. The second item was field of study of the respondents. Regarding to field of study, 61(80.3%) of the respondents were graduate with accounting and finance, then 6(7.9%) of the respondents were graduated with economics. Finally, 6 (7.9%0 of the respondent were graduated with management. From the above information it is possible to say that the majority of respondents were graduated in accounting and finance. The third item was current job/occupation. Regarding to current job/occupation 62(81.6%0 of the respondents were tax auditor for while 8(10.5%) of the respondents were tax audit team leader. From the above information it is possible to conclude that the majority of respondents were tax auditors. The implication of the above background information tell us the office have multidisciplinary subjects so it is good.

4.2 Training

One of the determinants of tax Audit effectiveness was training. Regarding to training the result from field survey summarized as follows.

Table 4.2 Respondents report on Training

Item	Response	F	Percent
Did you attend any special training with current position	Yes	37	48.7
	No	39	51.3
	Total	76	100
Type of training attended	Investigation and intelligence	26	34.2
	Preparation of Audit finding	38	50.0
	Audit selections Techniques	7	9.2
	Others	5	6.6
	Total	76	100
Duration of training	<16 days	68	89.5
	16-30 days	4	5.3
	31-60 days	2	2.6
	> 60 days	2	2.6
	Total	76	100

Source: Field Survey,2019

Table 4.2 deals with respondent report on training. The first question presented to the respondents was whether the respondents attended any special training with current respondents attended any special training with current position. Regarding to this, 39(51.3%)

of the respondents replies as they did not attended any special training with the current position. The second question presented to respondents was types of training they attended. In this regards 38(50.0%) of the respondents said preposition audit findings while 26(34.2%) of the respondents says investigation and intelligence. The other questions asked to the respondents was about duration of training. In this regards 68(89.5%) of training. In this regards, 68(89.5%) of the respondents reported the duration of training was below 16 days while 4(5.3%) of the respondents replied 13-20 years. From the above information it is possible to conclude that Respondents were not attended special training with current position, but they have reviewed training on less than 16 days. From the above information all auditors as the same time couldn't take the necessary traing therefore the implication is all auditors not have the same attitude on tax audit effectiveness .

4.3. Information System

Information system is one of the determinant factors that determine the tax audit effectiveness. To describe this statement were designed and the result summarized as follows.

Table 4.3 Respondents report on information system

Item	Response	F	Percent
Standard Integrated Government tax administration system is simple and easy to use	SD	2	2.6
	D	8	10.5
	N	9	11.8
	A	47	61.8
	SA	10	13.2
	Total	76	100
SIGTAS helps auditors in audit process (procedures)	SD	2	2.6
	D	1	1.3
	N	8	10.5
	A	55	72.4
	SA	10	13.2
	Total	76	100
SIGTAS provides appropriateness and accurate information	SD	2	2.6
	D	5	6.6
	N	10	13.2
	A	50	65.8
	SA	9	11.8
	Total	76	100

Source: Field Survey, 2019

Table 4.3 showed that respondents report on information system. Regarding to information system statements were designed and the result summarized as follows. The first item was standard integrated government tax system (SIGTAS TAS) is simple and easy to use regarding to this, 47(61.87%) of the respondent said supply agreed. From the above information it is possible to say the standard integrated government tax system is simple and less to use.

The second item was SIGTAS helps auditors in audit process (procedures). In this regards, 55(85.6%) of the respondents said agree while 8(10.5%) of the respondents said neutral. From the above information it is possible to say that SIGTAS helps auditors in Audit process (procedures).

The third item was SIGTAS provides appropriateness and accurate information. Regarding to this, 59(77.6%0 of the respondents said agreed while 10(13.27%) of the respondents said neutral. From the above information it is possible to conclude that SIGTAS provides appropriate and accurate information.

4.4. Tax Legislation System

Tax legislation system is one of the determinant of tax Audit effectiveness regarding to tax Audit effectiveness the following statements were designed and the result summarized as follows.

Table 4.4 Respondents report on tax Legislation System

Item	Response	F	Percent
The tax legislation can be interpreted in different ways	SD	5	6.6
	D	-	-
	N	11	14.5
	A	48	63.2
	SA	12	15.8
	Total	76	100
Tax legislation is not easily accessible	SD	4	5.3
	D	14	18.4
	N	10	13.2
	A	42	55.3
	SA	6	7.9
	Total	76	100
The tax directives and regulations are not in accordance with the proclamation	SD	10	13.2
	D	28	28.9
	N	5	6.6
	A	33	43.4
	SA	6	7.9
	Total	76	100

Source: Field Survey, 2019

Table 4.4 deals with tax legislation system. The first statement was the tax legislation can be interpreted in different way. In this regards 560(79.0%) of the respondents said agreed while 11(14.5%) of the respondents sad neutral. From the above information it is possible to conclude that tax legislation can be interpreted in different ways.

The second statement was tax legislation is not easily accessible. In this regards, 48(63.2%) of the respondents said agreed while 18(23.7%) of the respondents said disagreed. From the above information it is possible to conclude that tax legislation is not easily accessible. The third statement was the tax directives and regulations are not in accordance with the proclamation. In this regards, 39(51.3%) of the respondents said agreed while 32(41.1%) of the respondents said disagreed. From the above information it is possible to conclude that the tax directives and regulations are not in accordance with the proclamation.

The implication of tax legislation is not easily accessible can be confuse the third part because

of this might be create the probability of loop broken the tax audit rule and regulation

4.5. Tax Infringement Tracking

Tax infringement is one of the determinants of tax audit effectiveness. In this regards statements were designed and the result presented as follows.

Table 4.5 Respondents report on tax infringement

Item	Response	F	Percent
Tax auditor tracks differences between total sales submitted in VAT report and sales reported on financial statements	D	3	3.9
	N	1	1.3
	A	59	77.6
	SA	13	17.1
	Total	76	100
The tax auditor tracks differences in the expenses submitted in VAT report and expenses reported on financial statements	D	5	6.6
	N	6	7.9
	A	53	69.7
	SA	12	15.8
Tax auditor tracks difference in stock quantity on stock card and book keeping recording	Total	76	100
	D	2	2.6
	N	7	9.2
	A	55	72.4
	SA	12	15.8
The tax audit tracks difference in the inventory valuation method used and allowed by the proclamation	Total	76	100
	D	5	6.6
	N	22	2.6
	A	56	78.7
	SA	13	14.9
The tax auditor tracks fake in voices	Total	76	100
	D	3	3.9
	N	4	5.3
	A	52	68.4
	SA	17	22.4
the tax auditor for track differences in VAT amount in VAT reported and on financial statement reported	Total	76	100
	D	3	3.9
	N	5	6.6
	A	53	69.7
	SA	15	19.7

Table 4.5 showed that respondents report on tax agreement. To this statements were designed presented as follows.

Statement 1: Tax auditor tracks differences between total sales submitted in VAT report and sales reported on financial statement. In this regards, 72(94.7%) of the respondents said agreed while 3(3.9%) of the respondents said disagreed from the above information it is possible to include that tax auditor tracks differences between total sales submitted in VAT report and sales reported on financial statement.

Statement 2: the tax auditor tracks difference in the expenses submitted in VAT report and expenses reported on financial statements. In this regards, 65(85.5%) of the respondents reported that the tax auditor tracks differences in the expenses submitted in VAT report and expenses reported on financial statements.

Statement 3: tax auditor tracks difference in stock quantity on stock card and book keeping recoding. In this regards 67(88.2%) of the respondents said agreed while 7(9.2%) respondents said disagreed. From the above information it is possible to conclude that tax auditor tracks difference in stock quantity on stock and book keeping recording.

Statement 4: the tax audit track differences in the inventory valuation method used and allowed by the proclamation. In this regards (69(90.8%) of the respondents said agreed while 5(6.6%) of the respondents said disagreed. From the above information it is possible to conclude that the tax audit tracks differences in the inventory valuation method used and allowed by the proclamation.

Statement 5: the tax auditor tracks take invoices 69(91%) of the respondents said agreed while 3(3.9%) of the respondents said disagreed. From the above information it is possible to conclude that the tax auditor track fake invoices.

Statement 6: the tax auditors tracks difference in VAT amount in VAT reported and on financial statement reported. In this regards 68(89.4%) of the respondents reported agreed while 5(6.6%) of the respondents reported neutral. From the above information it is possible to conclude that the tax auditors tracks difference in VAT amount and in VAT reported and on financial statement reported.

The implication of tax infringement tracking it showed the capacity of the auditors ,accordingly the abouve information tell us the capacity of the auditors are different therefore it has negative impacts on tax audit effectiveness.

Table 4.6 Correlation Analysis

		Correlations						
		Tax Audit Effectiveness	Education	Experiences	Training	Information	Tax	Tax Infringement Tracking
Tax Audit Effectiveness	Pearson	1						
	Sig. (2-tailed)							
	N	76						
Education	Pearson	.138	1					
	Sig. ^-tailed)	.234						
	N	76	76					
Experiences	Pearson	.303**	.096	1				
	Sig. l^-tailed)	.008	.407					
	N	76	76	76				
Training	Pearson	.138	.145	.257*	1			
	Sig. l^-tailed)	.234	.211	.025				
	N	76	76	76	76			
Information System	Pearson	.196	.161	-.024	.173	1		
	Sig. l^-tailed)	.090	.163	.835	.135			
	N	76	76	76	76	76		
Tax legislation	Pearson	.241*	.116	.082	.133	.743**	1	
	Sig. l^-tailed)	.036	.318	.483	.251	.000		
	N	76	76	76	76	76	76	
Tax Infringement Tracking	Pearson	.269*	-.122	-.228*	-.145	-.127	-.231*	1
	Sig. l^-tailed)	.019	.292	.047	.213	.275	.044	
	N	76	76	76	76	76	76	76

** . Correlation is significant at the 0.01 level (2-tailed).
 * . Correlation is significant at the 0.05 level (2-tailed).

Source: Field Survey, 2019

Table 4.6 showed that correlation analysis. Education is positively related (associated with) tax audit effectiveness at .138. The calculated P- value was .234 which was greater than 0.05. From the above information it is possible to conclude that education is positively associated and not statistically significant relationship with tax audit effectiveness. Experience is positive relationship or association with tax audit effectiveness at .303 and p-value was .008 which was less than 0.05. This implies that experience has positive and statistical significance relationship (association) with tax audit effectiveness training is positive relationship or association with tax audit effectiveness at .138 and p-value was .234 which was less than 0.05. This implies that training has positive and not statistical significance relationship with tax audit effectiveness.

Information system is positively related (associated) with tax audit effective was at .196. The p-value was .090 which was greater than 0.05. This implies that information system is positively related and not statistical significance association with tax audit effectiveness.

Tax legislation is positively related (associated) with tax audit effectiveness at .241. The p-value was .036 which was less than 0.05 this implies that tax legislation was positive and statistical significant relationship with tax legislation. Tax agreement tracking is positively related (associated) with tax audit effectiveness at .269 the p-value was .019 which was less than 0.05. This implies tax infringement tracking has positive and statistical relationship between tax infringement taxing and tax audit effectiveness.

Table 4.6 models showed that model summery in this regards, R was .320. Thus, this study is explained at 32.0%. The remaining, 68% need for this study and investigation.

Table 4.7 ANOVA Analysis

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.566 ^a	.320	.261	.22171
a. System	Predictors: (Constant), Tax Infringement Tracking , Education , Training , Information i , Experiences , Tax legislation			

Source: Field Survey, 2019

Table 4.8 Model Summary

ANOVA ^a						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	1.595	6	.266	5.408	.000 ^b
	Residual	3.392	69	.049		
	Total	4.987	75			
a. Dependent Variable:		Tax Audit Effectiveness				
b. Predictors:		(Constant), Tax Infringement Tracking , Education , Training , Information System , Experiences , Tax legislation				

Source: Field Survey,2019

Table 4.8 showed ANOVA analysis. In this regards the calculated F-value was 5.408 at df (6,69) which was greater than 0.05. Moreover, the calculated p-value was .000 which was less than 0.05. It is statistically significant. Thus, the model is statistically significant.

Table 4.9 Regression Analysis

Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.820	.238		7.658	.000
	Education	.062	.056	.113	1.11	.270
	Experiences	.107	.032	.358	3.368	.001
	Training	.026	.053	.051	.488	.627
	Information System	.012	.053	.034	.226	.822
	Tax legislation	.110	.063	.267	1.749	.085
	Tax Infringement Tracking	.097	.023	.438	4.159	.000

a. Dependent Variable: Tax Audit

Effectiveness

Source: Field Survey, 2019

Table 4.8 showed at regression analysis. The regression model established was $Y =$

$\beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + \beta_6 X_6 + \mu_e$ Thus, from the data the regression equation become

$$Y = 1.820 + 0.62(\text{education}) + 1.107(\text{experiences}) + 0.026(\text{training}) + 0.012(\text{information system}) + 0.110(\text{tax legislation}) + 0.097(\text{tax infringement tracking}).$$

Thus, a unit increase of education would lead to .062 increases in the effectiveness of tax audit. A unit increase of experiences would lead to .107 increases in the effectiveness of tax audit. A unit increase of training would lead to .026 increase of effectiveness of tax audit. A unit increase of information system would lead to increase the effectiveness and tax audit. A unit increase of tax legislation would lead to .110 increases in the effectiveness of tax audit. A unit increase of tax implement tracking would lead to .097 increased of effectiveness of tax audit. Thus, tax audit effectiveness determined by tax legislation followed by experiences.

4.6 Discussion with the reviewed work

Based on the regression analysis of the above model, the information system has a positive effect or correlation on tax audit effectiveness was at .196. the p-value was .090 which was greater than 0.05. Hence, the first hypothesis was supported. It implies that information system has a positive influence on tax audit effectiveness. The previous study has presented there was positively related to information system and tax audit effectiveness (Drogalas et al., 2015). Also the tax audit staffs of Addis Ababa city administration revenue authority for open ended questions responded that the information system of Addis Ababa city administration revenue authority (SIGTAS) had a vital role for tax audit effectiveness in a positive manner for audit process. The respondents responded that the information system of Addis Ababa city administration revenue authority is simple and easy to use; it increases for the tax audit effectiveness. So, the respondents' responses supported the first hypothesis.

Based on the regression analysis of the above model, education is positively related (associated with) tax audit effectiveness at .138. The calculated P- value was .234 which was greater than 0.05. From the above information it is possible to conclude that education is positively associated and not statistically significant relationship with tax audit effectiveness.. Hence,

hypothesis three was rejected, Even though by the previous studies presented a positive relationship with tax audit effectiveness (OECD, 2006, & Palil, 2013), it is not significant. But hypothesis three was supported by the tax audit staffs of Addis Ababa city administration revenue authority responses on the open ended questions that the education level of the tax auditors increases, then effectiveness of tax audit also increases.

In addition this there is a positive (direct) relationship between experience and tax audit effectiveness at .303 and p-value was .008 which was less than 0.05), providing support for hypothesis four. The previous study has presented there were positively relationship between auditors' experience and internal audit effectiveness (Barada & Saidin, 2014). It indicates that more experienced auditors have a positive influence on tax audit effectiveness. This also strengthened by the respondents' responses they responded as year of experience increases the tax audit staffs' abilities for tax auditing increases and hence tax audit effectiveness becomes effective.

Moreover, there is a positively (directly) relationship between training and tax audit effectiveness at .138 and p-value was .234 which was less than 0.05), providing supports the fifth hypothesis. Also the previous studies presented there was a positive relationship between training and audit effectiveness (Masood & Lodhi, 2015 & OECD, 2006). Also as the tax audit staffs responded that having an appropriate training for tax audit, tax audit effectiveness becomes more effective. This implies giving relevant training for tax auditors helps to tax audit effectiveness improvement. Besides the above relationships, Tax legislation is positively related (associated) with tax audit effectiveness at .241. The p- value was .036 which was less than 0.05 this implies that tax legislation was positive and statistical significant relationship with tax audit effectiveness), thereby the second hypothesis is rejected due to not negative of tax legislation. The previous study presented that there was a negative relationship between tax legislation and tax audit effectiveness (Drogalas et al., 2015). Additionally, on the responses of tax audit staffs; the complicated tax legislation affects the tax audit effectiveness. Also some directives and regulations which are not accordance with tax proclamation negatively affect the tax audit effectiveness. The reasons that are responded by tax auditors are tax auditors waste their time to understand and interpret the tax legislation, directives and regulations instead of doing their auditing activities properly. Besides the time consuming for understanding the tax legislation, directives and regulations, these problems also create the tax

audit effectiveness in terms calculating the estimated tax receivable from the taxpayers. Hence the responses of tax audits staffs strengthen the second hypothesis.

4.6.1 Classical Linear Regression Model assumption test

Post estimation test:

- The **error term** of the model is normally distributed as shown on the annex of this study. So, it is possible to inter the result.
- As it can be observed from the annex of this study the **error Variance** is constant at 5% significance level.
- No problem of **auto correlation** between error terms at 5% significance level as it is displayed on the annex of this study.
- NO problem of **multi collinearity** because the variance inflation factors less than 10 for all explanatory variables as it can be seen on the annex of this study.
- The annex of this classical assumption taste is to be attached at the end of this research study reference it can be seen .

4.7. Discussion of Interview and Document Review Results

This section presents the discussion of data from interview and review of relevant documents. Semi structured interview with team leaders and audit process owners of the function was conducted. It includes 5 semi structured questions for each of the variables.

The interviewee reported that

There is secret relationship between the traders and auditors. There are also influenced auditors with experience who are able to identify the fault of less experienced auditors and they share this fault with trader and show the line how to defend the correct the fault Because of this they enjoy some commission from traders which is known as blackmail. The all practice of auditors creating problem in the process of auditing.

Auditors reported that

When auditor report the finding to concerned body, the finding will not enforced as it is rather than made some modification by higher official in accordance communication with traders.

This show that the policy, rule and regulation of tax audit always broken. The rules and regulation are there in office but not implemented. Government has been trying to promote interested (volunteered) based tax paying system. But the practice of a group of Auditors violating the system which is established by government for the seek of personal gain.

Team leader who were participated in interview said that

When we appear trader work area for Auditing the representative or the manager of the company inform to us the owner is not around, he and / or she is aboard. The is creating set back of tax Auditing Moreover, the system of financial recording of traders is dark figure Most of the time audit crimes were not reported; in accordance with interviewee reported that some of the reasons why crimes are not reported to the police include the following: victims themselves might be at fault and therefore they fail to report because investigations might implicate them; to avoid unfavorable publicity and embracement, or they may be scared of further reprisal by offender, if they report; some crimes as petty theft and burglary may not be reported because victims may not be aware of their losses. On the other side auditors who participated in the interviewee reported that crimes like bribery, blackmail (getting money by threatening to make known unpleasant facts),influencing of someone's actions by threats, causing anxiety) white collar crimes (embezzlement or fraud) are not readily visible to the general public or even to law enforcement agencies and are not reported; victims and witnesses may not report criminal violations because of lack of knowledge of criminal law and its procedures; law enforcement agencies may not wish to reveal certain offenses for reasons of their own or due to political pressure; and relatives and friends may want to protect the offender and therefore will not report the offence. At times, they may go to a great length to shield the offender. Owner challenges of Measuring Crime (The Issue of the Dark Figure). Crime statistics suffer from dark figure of crime, that is, some crime data may 'disappear' from the official statistics and not be recorded officially. The process owner reported that in other words, not all crimes appear in police statistics due to the dark figures; hence, official data may can be seen as following

Table 4.10. Timing Implementation

The following table shows the collateralized losses arising out of the agreed upon decision:

No.	Months	Taxes	Interest	Punishment	Total
1	July 2008	6,397,399.30	4,148,038.01	1,944,494.59	12,489,931.90
2	August 2008	7,628,128.55	3,392,040.41	2,511,291.13	13,531,460.09
3	September 2009	8,508,363.24	3,408,284.90	3,037,535.31	14,954,183.45
4	October 2009	9,245,843.14	4,641,527.87	2,165,687.57	16,053,058.58
5	November 2009	8,048,806.46	5,547,596.97	1,899,517.65	15,495,921.08
6	December 2009	9,619,822.95	7,673,738.69	2,418,839.01	19,712,400.65
7	January 2009	8,709,344.36	5,369,389.21	1,575,706.86	15,654,440.43
8	February 2009	15,505,060.16	8,137,471.81	2,509,273.11	26,151,805.08
9	March 2009	14,644,755.19	10,279,709.17	2,771,431.82	27,695,896.18
10	April 2009	15,655,343.01	9,997,011.17	4,310,897.18	29,963,251.36
11	May 2009	14,390,470.33	6,927,202.04	2,924,310.90	24,241,983.27
12	June 2009	16,802,266.74	6,469,137.81	3,094,864.41	26,366,268.96
	Sum	135,155,603.4	75,991,148.06	31,163,849.54	242,310,601.03

Table 4.11. Fiscal year implementation of Fiscal Year 2009 fiscal year

Function	Unit	Budget year		
		Plan	Performance	Performance
Auditing	By number	1005	793	78.91
Additional Income (Millions)	By number	790	1163.63	129
Identify and include exceptions	By number	1005	815	81.09

Table 4.12. Complaints conducted by the Complaints Committee

Complaints filed by the Tax Declaration from July 1, 2007 to June 30,

Column	Group	Count	Fry	Interest	Penalty	Total
The number of complaints transferred to July		1 1	5,340,110.45	3,503,343.92	6,707,507.91,	15, 550,962.28
From July 2007 to March June 2008 Number of new complaints		274	146,213,764.97	85,431,088.42	136,049,020.42	367,693,873.73
General Claims		285	151,553,875.42	88,934,432.34	142,756,528.33	383,244,836.01
From July 2007 to March June 2008 Number of Claims	Specific groups 1 and 2 have been modified	152	77,657,117.56	48,293,978.83	76,295,578.92	202,246,675.31
From July 2007 to March June 2008 Number of Claims	Determining Groups 1 and 2	81	28,905,583.91	18,754,967.89	27,502,715.49	75,163,267.29
From July 2007 to March June number of complaints	Aborted	9	63,562.09	1,076.11	331,645.67	396,283.87
From July 2007 to March June number of complaints	Limited parsed	1	662,569.24	676,138.77	1,147,344.50	2,486,052.51
From July 2007 to March June number of complaints	Make their complaint	1 1	3,473,939.62	1,694,509.05	2,917,059.15	8,085,507.82
Total Specific Claims	TOTAL TOTAL	254	110,762,772.40	69,420,670.65	108,194,343.70	288,377,786.80
The number of complaints that have been transferred to June 2008		31	40,791,103	19,513,761.69	34,562,184.6	94,867,049.29

Unless otherwise agreed to July 2008, Birr 94,867,049.29 birr Taxes Birr 40,791,103-interest Birr 19,513,761.69 Birr 34,562,184.6.

Regarding return of performance

Table 4.13. The return of individual tax payers from July 1, 2007 to June 30,

In 2008 taxpayers Refunded Funded	In 2008, a tax return was requested	In 2008, tax returns Determine! to be	In 2008, tax returns Earn money to fix it	In 2008, tax returns Done / paid / scaled	In 2008, tax return Countless payed payments that hav not been paid ye	In 2008, tax returns Keep it toed
182	500,418,692.80	153	312,533,625.92	243528019.06	29	69,005,606.86

In this fiscal year, 125 taxpayers totaled 268,668,650.62 birr. Of this figure, 4 taxpayers have birr 25,366,215.35 in 2007 budget year. The remaining 121 chapters submitted a return of Birr 243,528,019.62 during this fiscal year.

On the other hand, due to the shortage of cash, due to the shortage of money due to lack of funding, Birr 69,005,606.86 for 5 taxpayers and 11 for Addis Ababa Housing Development Project Office (11 Refunded) birr 178,136,591.86 at Pay247,142,198.72. A problem has occurred.

Table 4.13. Tax information for 2009 tax payers from July 1, 2009 to October 30, 2010

Notify them	The number of tax payers of the office	Make an Take their annual account register income					Inaccurate inaccuracies "Assumptions and information Announce their annual goals				Notify them in full	Not informed Taxpayers
		Payme nt	Refun d	Empty	Loss	Total	Transport	Rent	Others	Total		
July	5010	25	6	4	28	63	6	13	5	24	87	4923
August		120	21	14	54	209	13	23	3	39	248	4675
Sep.		190	35	11	27	263	5	21		26	289	4358
October		2708		57	256	3021	28	210	8	246	3267	1119
Total		3043	62	86	365	3556	52	267	16	335	3891	1119

The 2009 Annual Tax Credit is estimated to have been estimated to be 5,010 but is not estimated to be 5,010, of which taxpayers who reported it from July 2009 to October 30, 2010 reported that 1,119 taxpayers were not reported to the public (77.6%) Has not notified the rest of the community, and it is expected that the tax payers will be aligned with the tax authorities.

CHAPTER FIVE

5. SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 Summary

The purpose of this study was to examine the factors affecting tax audit effectiveness using statistical analysis; both descriptive and Explanatory. The research instruments were survey questionnaires developed with censuses and, interview with higher officials of the audit process and documentary review .The performance of the audit process are applicable constructs. Before questioners were sending to respondents they were test for reliability by 5 team leaders of the audit process. A total of 76 copies of questionnaire were distributed to tax auditors and the copies were found to be returned and used for analysis. Since each construct was affected by other constructs, regression analysis was conducted by the models, using tax audit effectiveness as dependent variables, this was basically done to get the best linear combinations of the constructs as well as to get predictive value of individual predictors for testing the hypotheses proposed. A tax audit is an investigation made by the tax authority in order to verify the accuracy of tax returns and attempt to detect non-compliance behavior and activities. The study applied mixed approach to get advantage on draw backs of using one approach. In the chapter four, the data instruments (questioner, interview and documentary analysis) has been analyzed and interpreted in relation with the statement of the problem and objectives of the study. Then in this chapter conclusions are made by summarizing the results stated on the data collection instruments on chapter 4 and finally make recommendations on the possible findings.

Based on the regression analysis of the above model, the information system has a positive effect or correlation on tax audit effectiveness was at .196. the p-value was .090 which was greater than 0.05. Hence, the first hypothesis was supported. It implies that information system has a positive influence on tax audit effectiveness. The previous study has presented there was positively related to information system and tax audit effectiveness (Drogalas et al., 2015). Also the tax audit staffs of Addis Ababa city administration revenue authority for open ended questions responded that the information system of Addis Ababa city administration revenue authority (SIGTAS) had a vital role for tax audit effectiveness in a positive manner for audit

process. The respondents responded that the information system of Addis Ababa city administration revenue authority is simple and easy to use; it increases for the tax audit effectiveness. So, the respondents' responses supported the first hypothesis.

In addition the regression analysis of the above model, education is positively related (associated with) tax audit effectiveness at .138. The calculated P- value was .234 which was greater than 0.05. From the above information it is possible to conclude that education is positively associated and not statistically significant relationship with tax audit effectiveness.. Hence, hypothesis three was rejected, Even though by the previous studies presented a positive relationship with tax audit effectiveness (OECD, 2006, & Palil, 2013), it is not significant. But hypothesis three was supported by the tax audit staffs of Addis Ababa city administration revenue authority responses on the open ended questions that the education level of the tax auditors increases, then effectiveness of tax audit also increases.

In the same way a positive (direct) relationship between experience and tax audit effectiveness at .303 and p-value was .008 which was less than 0.05), providing support for hypothesis four. The previous study has presented there were positively relationship between auditors' experience and internal audit effectiveness (Barada & Saidin, 2014). It indicates that more experienced auditors have a positive influence on tax audit effectiveness. This also strengthened by the respondents' responses they responded as year of experience increases the tax audit staffs' abilities for tax auditing increases and hence tax audit effectiveness becomes effective.

Moreover, there is a positively (directly) relationship between training and tax audit effectiveness at .138 and p-value was .234 which was less than 0.05), providing supports the fifth hypothesis. Also the previous studies presented there was a positive relationship between training and audit effectiveness (Masood & Lodhi, 2015 & OECD, 2006). Also as the tax audit staffs responded that having an appropriate training for tax audit, tax audit effectiveness becomes more effective. This implies giving relevant training for tax auditors helps to tax audit effectiveness improvement. Besides the above relationships, Tax legislation is positively related (associated) with tax audit effectiveness at .241. The p- value was .036 which was less than 0.05 this implies that tax legislation was positive and statistical significant relationship with tax audit effectiveness), thereby the second hypothesis is rejected due to not negative of

tax legislation. The previous study presented that there was a negative relationship between tax legislation and tax audit effectiveness (Drogalas et al., 2015). Additionally, on the responses of tax audit staffs; the complicated tax legislation affects the tax audit effectiveness. Also some directives and regulations which are not accordance with tax proclamation negatively affect the tax audit effectiveness. The reasons that are responded by tax auditors are tax auditors waste their time to understand and interpret the tax legislation, directives and regulations instead of doing their auditing activities properly. Besides the time consuming for understanding the tax legislation, directives and regulations, these problems also create the tax audit effectiveness in terms calculating the estimated tax receivable from the taxpayers. Hence the responses of tax audits staffs strengthen the second hypothesis

5.2 Conclusions

Based on the regression output experience and tax legislation were positively (directly) and statically contributed for the tax audit effectiveness of Addis Ababa city administration medium number 2 branch office at 1%, and 5% level of confidence respectively . In addition to this the, experience, tax infringement and tax legislation were the major determinants of tax audit effectiveness in Addis Ababa city administration medium number 2 branch office . Although education, training and information system were statically not significant they are positively important contributed for tax audit effectiveness Addis Ababa city administration medium number 2 branch office Moreover this study found that the composite measure of information system, tax legislation, education, experience and training accounts for the 32% ($R = 0.32$) variance for the tax audit effectiveness identifying noncompliance tax audit activities and added contributions to the tax authority. That means the impact of these six independent variables contributed for the dependent variable tax audit effectiveness were 32% and the remaining 68% were other variables that are not included in this study.

The final portion of this research aims to conclude the findings of the study focusing on the tax audit effectiveness provide recommendations based on the research findings of the study. These conclusions and recommendations are drawn from the findings of the study specifically related to the information system, tax legislation, education, experience, tax legislation, tax infringement and training in Addis Ababa city administration medium number 2 branch offices. Since tax audit is very crucial for revenue collection process for any tax authority, tax

audit effectiveness is the main means to ensure growth and development of a country. The existence of tax audit effectiveness in the tax authority reduces tax evasions and increases obedience taxpayers, hence improves the revenue collection process. Giving attention of this aspect, this study was investigated the tax audit effectiveness in Addis Ababa city administration medium number 2 branch office so as to examine the tax authority position in which Addis Ababa city administration medium number 2 branch office should carry out to improve the tax audit effectiveness. The following conclusions were drawn based on the tested hypotheses which were proposed initially.

The tax audit effectiveness of Addis Ababa city administration medium number 2 branch office increases, when more supports from the Tax legislation and Tax infringement tracking having skillful tax auditors in the tax authority. Table 4,5 of regression analysis showed that the Tax legislation , tax infringement tracking and experience have very strong at 1% level of confidence ($P < 0.01$) contributions to tax audit effectiveness .Also experience of auditors has almost a strong contribution to tax audit effectiveness. Even though training, education and information system have not statistically significance for the contribution of tax audit effectiveness, these variables are important for the tax audit effectiveness

In addition, the correlation analysis as shown on table 4.5 all the independent variables have the direct effect of the tax audit effectiveness and the regression results as shown on table 4.5 also all the independent variables have a positive sign of coefficient with tax audit effectiveness in Addis Ababa city administration medium number 2 branch office. However, the traing, information systems and the education level of tax audit staffs were statistically not significant enough at 5% level of confidence to contribute for the tax audit effectiveness; therefore, this conclusion requires future research should consider for obtaining the impact of information systems , education level of tax audit staffs on the tax audit effectiveness. In addition to this from secondary data analyses and dip interview showed that Tax audit effectiveness and their perception come from quality of audit, its implication is as the audits are done from risk selection through planning till working paper preparation as per the audit manual of the organization it significantly affects audit effectiveness of the organization being studied. The result is consistence with the study of (Ayalew, 2014) and (Yismaw, 2007).On the other hand result of organizational independence shows; the organizations reputation in relation with unethical things especially with corruption significantly influences audit

effectiveness of the branch. This result is consistent with (Sayag, 2010). In relation to top management support results implies that due attention and support of the management to the audit process has increased the audit effectiveness of the branch. Findings of the research indicated that majority of the respondents replied that, most taxpayers may not cooperate to the tax system and the tax auditors without knowledge of sufficient tax laws and regulations, according to this perception, auditors penalize taxpayers instead of educating them, low level encourage honest taxpayers, and also deliberately some taxpayers do not support the tax auditors during the audit. It can be concluded that most taxpayers are noncompliance as result they impeded the tax audit effectiveness.

5.3 Recommendations

The finding of this research proved that the Tax legislation, Tax infringement tracking and experience were statistically significant and positively related with the tax audit effectiveness in Addis Ababa city administration medium number 2 branch office. Thus, Addis Ababa city administration medium number 2 branch office should highly support the Tax legislation, Tax infringement tracking and experience are more appropriate, simple and easy to use for the tax auditors by investing on it. So should work on tax law and experience sharing facilitate and also should place particular attention when the developing experience sharing that can be easily accessible by tax audit staffs.

5.4 Future Research Implications

The results will have important implications and is believed to be helpful for Addis Ababa city administration medium number 2 branch offices. While this study has revealed some interesting results, one should be careful of its limitations related essentially to its sample size and scope of the study.

Although the researcher believes that this study is deep, it is still believed that it can be further extended to include more respondents from externals to make it more realistic and more reliable.

Finally, due to different factors I couldn't touch other dimensions of tax audit effectiveness.

Thus, further research needs to contain more desirable dimensions, in order to gain better insight.

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APPENDICES

APPENDIX I

ADDIS ABABA UNIVERSITY

COLLEGE OF BUSINESS & ECONOMICS

DEPARTMENT OF ACCOUNTING & FINANCE

Addis Ababa City Government Revenue Authority, No. 2 (DPA **Census Questionnaire Dear participant,**

This study is entitled “**factors determinant Tax Audit Effectiveness in category tax paye A: Tax Auditors' Perception in** Addis Ababa City Government Revenue Authority, No. 2 (DPA ”. The researcher is Motuma Negeri Geje’a who is currently an MSc (in accounting and Auditing) student at the Addis Ababa University.

The purpose of this study is to investigate the long run relationship between tax audit effectiveness and determinants of tax audit effectiveness in Addis Ababa, particularly in Addis Ababa City Government Revenue Authority, No. 2 (DPA). To supplement the data obtained from tax auditors by means of questionnaire, the researcher seeks to gather relevant information from total staffs in the tax audit department Addis Ababa City Government Revenue Authority, No. 2 (DPA using a self-administered questionnaire.

Participation in this study is completely voluntary. Results will be recorded anonymously; and strict confidentiality will be maintained. Individual responses will not be directly reflected in the researcher’s MSc thesis.

Responding this questionnaire may not take much time. Any information provided would only will be used for academic purpose only. As a result, it would be kept confidential and utmost secrecy would be maintained.

I thank you in advance for your kind cooperation.

Motuma Negeri Geje’a

DO NOT WRITE YOUR NAME ON THE QUESTIONNAIRE!!!

The questionnaire has five parts: **Part I:** Respondents' profile, **Part II:** Information System of ERCA, **Part III:** Tax Legislation and **Part IV:** Infringements /Violations/ of tracking, and **Part V:** General questions.

Part I: Questions related to profile of Addis Ababa City Government Revenue

Authority, No. 2 (DPA tax audit staffs

Please read each item carefully and give your honest response to each item and please provide your response by circling the relevant best choice.

1. Education

A) 12 Complete B) Certificate C) Diploma D) Degree E) Master F) PhD

2. Field of study (multiple answers are possible)

A) Accounting & Finance B) Economics C) Management D) Other, please specify

3. Current job occupation

A) Tax Auditor B) Tax Audit Assistance C) Tax Audit Team Leader D) Audit Process Owner

E) Other, please specify

4. How long is your experience?

A) Less than 2 years B) 2-5 years C) 5-10 years D) Above 10 years

5. Did you attend any special training with your current position?

A) Yes B) No

6. If your answer is 'Yes' for question No 5 above, from the following which one did you attend? (multiple answers are possible)

A) Investigation & Intelligence B) Preparation of Audit Findings C) Audit Selection

Techniques D) Other, please specify

7. How long was the duration of the training?

A) Less than 16 days B) 16-30 days C) 31-60 days D) more than 60 days

Part II: Questions regarding Information System of Addis Ababa City Government Revenue Authority, No. 2 (DPA tax audit staffs)

Please indicate whether you strongly disagree, disagree, neutral, agree, or strongly agree with the following statements by placing a tick (■/) inside the appropriate box.

No	Statements	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
8	Standard Integrated Government Tax Administration System (SIGTAS) is simple and easy to use.					
9	SIGTAS helps auditors in audit process /procedures /.					
10	SIGTAS provides appropriateness and accurate information.					
11	The tax legislation can be interpreted in different ways.					
12	The tax legislation is not easily					
13	The tax directives and regulations are not in accordance with the					
14	Auditors do not performing the audit work as per general audit standards					
15	The audit manual cannot give detailed explanation for the interpretation of tax laws and regulations.					

Part III : Questions Regarding Tax Legislation System

Please indicate whether you strongly disagree, disagree, neutral, agree, or strongly agree with the following statements by placing a **tick (S)** inside the appropriate box.

Please indicate whether you strongly disagree, disagree, neutral, agree, or strongly agree with the following statements by placing a **tick (S)** inside the appropriate box.

No	Statements	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
16	The tax auditor tracks differences between total sales submitted in VAT report and sales reported on financial					
17	The tax auditor tracks differences in the expenses submitted in VAT report and					
18	Tax auditor tracks differences in stock quantity on stock card and bookkeeping recording.					
19	The tax auditor tracks differences in the inventory valuation method used and allowed by the proclamation.					
20	The tax auditor tracks fake invoices.					
21	The tax auditor tracks differences in VAT amount in VAT reported and on financial statement reported.					

Part V: General Questions

22. How does tax legislation of Addis Ababa City Government Revenue Authority, No. 2 tax audit staffs affect tax audit effectiveness?
23. How does an information system of Addis Ababa City Government Revenue Authority, No. 2 tax audit staffs affect tax audit effectiveness?

Part IV Question regarding to infringement/violation of tracing

24. How does auditors' education level affect tax audit effectiveness?
25. How does auditors' experience affect tax audit effectiveness?
26. How does auditors' training affect tax audit effectiveness?
27. What are the factors that affect tax audit effectiveness in Addis Ababa City Government Revenue Authority, No. 2 tax audit staffs? And describe how they affect please.
28. Is there anything to add in relation to tax audit effectiveness Addis Ababa City Government Revenue Authority, No. 2 tax audit staffs? And describe how they affect please.

ANNEX II

[DataSet1] C:\Users\Vostro 3558\Desktop\Research output\data on audit (completed)_1.sav

Model Summary^b

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics					Durbin-Watson
					R Square Change	F Change	df1	df2	Sig. F Change	
1	.533 ^a	.284	.222	.28717	.284	4.561	6	69	.001	1.891

a. Predictors: (Constant), Tax Infringement Tracking , Educational status of the respondents, special training for your current position, Work experiance in years, Information System , Tax legislation

b. Dependent Variable: Tax Audit Effectiveness

ANOVA^a

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	2.257	6	.376	4.561	.001 ^b
	Residual	5.690	69	.082		
	Total	7.947	75			

a. Dependent Variable: Tax Audit Effectiveness

b. Predictors: (Constant), Tax Infringement Tracking , Educational status of the respondents, special training for your current position, Work experiance in years, Information System , Tax legislation

Coefficients^a

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	95.0% Confidence Interval for B		Correlations			Collinearity Statistics	
	B	Std. Error	Beta			Lower Bound	Upper Bound	Zero-order	Partial	Part	Tolerance	VIF
(Constant)	.996	.662		1.505	.137	-.324	2.317					
1 Educational status of the respondents	.202	.133	.169	1.517	.134	-.064	.468	.127	.180	.155	.841	1.189
Work experiance in years	.084	.041	.223	2.049	.044	.002	.166	.327	.239	.209	.879	1.138
1 special training for your current position	.090	.071	.135	1.261	.212	-.052	.232	.020	.150	.128	.909	1.101
Information System	.246	.105	.461	2.340	.022	.036	.456	.419	.271	.238	.267	3.747
Tax legislation	-.008	.104	-.016	-.079	.938	-.216	.199	.337	-.009	-.008	.258	3.876
Tax Infrigement Tracking	-.003	.060	-.006	-.056	.956	-.124	.117	.128	-.007	-.006	.847	1.180

a. Dependent Variable: Tax Audit Effectiveness

Coefficient Correlations^a

Model		Tax Infrigement Tracking	Educational status of the respondents	special training for your current position	Work experiance in years	Information System	Tax legislation
1	Correlations						
	Tax Infrigement Tracking	1.000	-.064	.033	-.059	.066	-.257
	Educational status of the respondents	-.064	1.000	.172	-.306	.200	-.050
	special training for your current position	.033	.172	1.000	-.058	.027	.117
	Work experiance in years	-.059	-.306	-.058	1.000	-.188	.096
	Information System	.066	.200	.027	-.188	1.000	-.820
	Tax legislation	-.257	-.050	.117	.096	-.820	1.000
Covariances	Tax Infrigement Tracking	.004	-.001	.000	.000	.000	-.002
	Educational status of the respondents	-.001	.018	.002	-.002	.003	-.001
	special training for your current position	.000	.002	.005	.000	.000	.001
	Work experiance in years	.000	-.002	.000	.002	-.001	.000
	Information System	.000	.003	.000	-.001	.011	-.009
Tax legislation	-.002	-.001	.001	.000	-.009	.011	

a. Dependent Variable: Tax Audit Effectiveness

Collinearity Diagnostics^a

Model	Dimension	Eigenvalue	Condition Index	Variance Proportions						
				(Constant)	Educational status of the respondents	Work experience in years	special training for your current position	Information System	Tax legislation	Tax Infringement Tracking
1	1	6.720	1.000	.00	.00	.00	.00	.00	.00	.00
	2	.134	7.088	.00	.00	.65	.24	.00	.00	.00
	3	.105	8.001	.00	.00	.25	.48	.01	.01	.01
	4	.023	17.104	.01	.04	.01	.12	.08	.06	.12
	5	.014	22.255	.02	.06	.01	.05	.00	.00	.82
	6	.004	43.222	.01	.01	.01	.02	.78	.92	.04
	7	.002	66.276	.96	.89	.07	.09	.13	.01	.01

a. Dependent Variable: Tax Audit Effectiveness

Residuals Statistics^a

	Minimum	Maximum	Mean	Std. Deviation	N
Predicted Value	2.4406	3.4087	3.0263	.17347	76
Residual	-.85224	.99958	.00000	.27545	76
Std. Predicted Value	-3.376	2.204	.000	1.000	76
Std. Residual	-2.968	3.481	.000	.959	76

a. Dependent Variable: Tax Audit Effectiveness

Model Description

Model Name		MOD_1
	1	Tax Audit Effectiveness
	2	Educational status of the respondents
	3	Work experiance in years
Series Name	4	special training for your current position
	5	Information System
	6	The tax legislation can be interpreted in different ways
	7	Tax Infrigement Tracking
Transformation		None
Non-Seasonal Differencing		0
Seasonal Differencing		0
Length of Seasonal Period		No periodicity
Maximum Number of Lags		16
Process Assumed for Calculating the Standard Errors of the Autocorrelations		Independence(white noise) ^a
Display and Plot		All lags

Applying the model specifications from MOD_1

a. Not applicable for calculating the standard errors of the partial autocorrelations.

Case Processing Summary

	Tax Audit Effectiveness	Educational status of the respondents	Work experience in years	special training for your current position	Information System	The tax legislation can be interpreted in different ways	Tax Infringement Tracking
Series Length	76	76	76	76	76	76	76
Number of Missing Values	0	0	0	0	0	0	0
User-Missing	0	0	0	0	0	0	0
System-Missing	0	0	0	0	0	0	0
Number of Valid Values	76	76	76	76	76	76	76
Number of Computable First Lags	75	75	75	75	75	75	75

Tax Audit Effectiveness

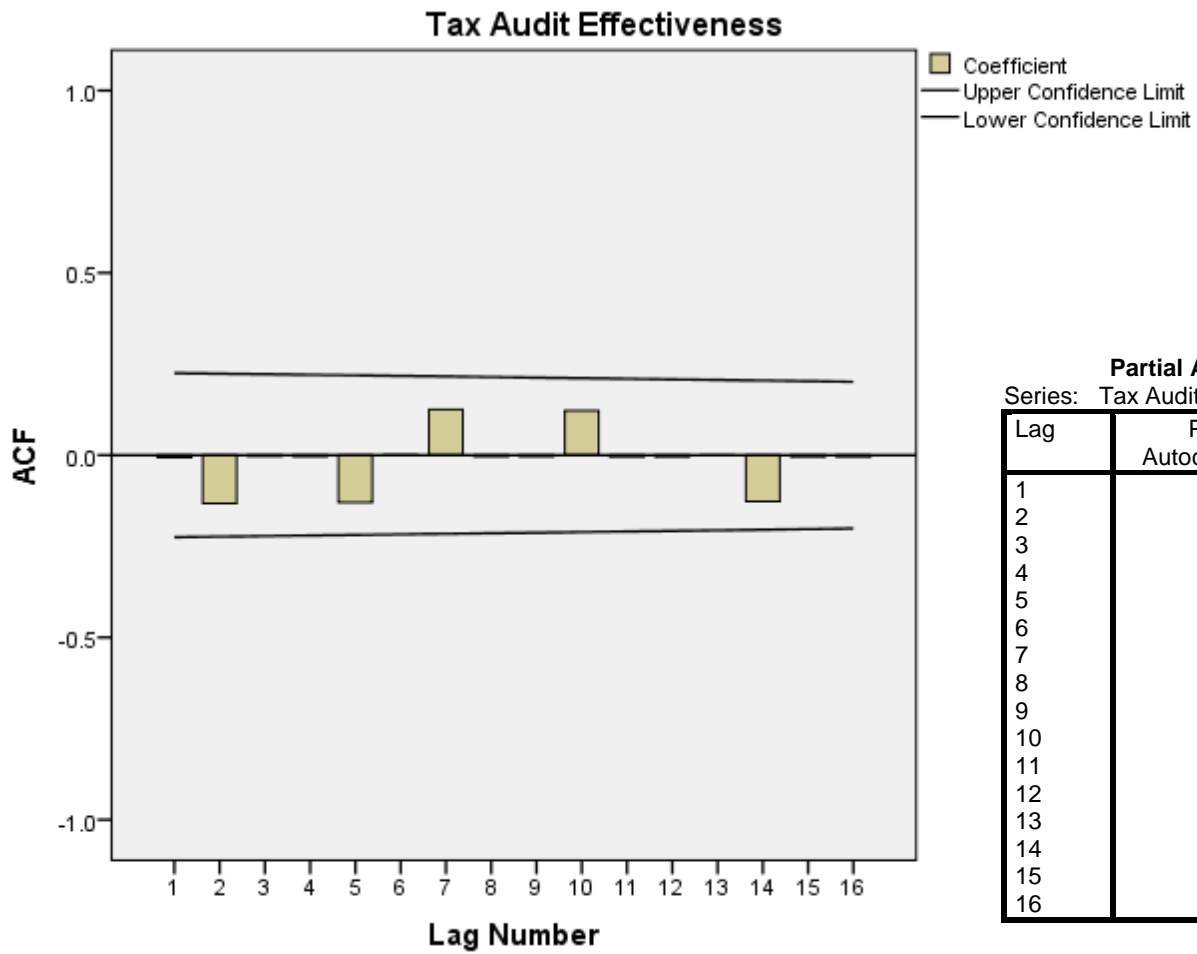
Autocorrelations

Series: Tax Audit Effectiveness

Lag	Autocorrelation	Std. Error ^a	Box-Ljung Statistic		
			Value	df	Sig. ^b
1	-.007	.112	.004	1	.952
2	-.133	.112	1.413	2	.493
3	-.004	.111	1.414	3	.702
4	-.004	.110	1.415	4	.842
5	-.130	.109	2.817	5	.728
6	-.001	.109	2.817	6	.831
7	.125	.108	4.164	7	.761
8	-.004	.107	4.165	8	.842
9	-.004	.106	4.167	9	.900
10	.122	.106	5.496	10	.856
11	-.004	.105	5.497	11	.905
12	-.004	.104	5.499	12	.939
13	-.001	.103	5.499	13	.963
14	-.127	.102	7.042	14	.933
15	-.005	.101	7.045	15	.956
16	-.005	.101	7.047	16	.972

a. The underlying process assumed is independence (white noise).

b. Based on the asymptotic chi-square approximation.



Partial Autocorrelations

Series: Tax Audit Effectiveness

Lag	Partial Autocorrelation	Std. Error
1	-0.007	.115
2	-.133	.115
3	-.006	.115
4	-.022	.115
5	-.133	.115
6	-.007	.115
7	.093	.115
8	-.006	.115
9	.021	.115
10	.113	.115
11	.003	.115
12	.055	.115
13	.005	.115
14	-.136	.115
15	.023	.115
16	-.042	.115

