



SEEK WISDOM, ELEVATE YOUR INTELLECT AND SERVE HUMANITY!



**ASSESSMENT OF TAX AUDIT ON TAX COMPLIANCE
AND REVENUE IN ETHIOPIAN REVENUE AND
CUSTOMS AUTHORITY
(THE CASE OF EAST ADDIS ABABA BRANCH
OFFICE)**

BY; -MULUGETA BEKELE WOLDTSADIK

GsE/9790/09

A Thesis Submitted to Addis Ababa University Department of Accounting and Finance
in Partial Fulfillment of the Requirement for the award of the Degree in Master of
Science Program in Accounting and Finance

November 2019
Addis Ababa, Ethiopia

Declaration

I, Mulugeta Bekele Woldtsadik declare that, this paper prepared for the partial fulfillment of the requirements for MSC. Degree in Accounting and Finance entitled “*assessment of tax audit on tax compliance and revenue in Ethiopian revenue and customs authority (The Case of East Addis Ababa Branch Office)*” is prepared with my own effort. I have made it independently with the close advice and guidance of my advisor.

Mulugeta Bekele Woldtsadik

Signature _____

Date _____

Certification

This is to certify that Ato Mulugeta Bekele has carried out this research work on the topic entitled “*assessment of tax audit on tax compliance and revenue in Ethiopian revenue and customs authority (The Case of East Addis Ababa Branch Office)*” under my supervision. This work is original in nature and it is sufficient for submission for the partial fulfillment for the award of MSc. in Accounting and Finance.

Dr. Alem Hagos

Signature _____

Date _____

Approval

ADDIS ABABA UNIVERSITY

COLLEGE OF BUSINESS AND ECONOMICS

ACCOUNTING AND FINANCE (MSc PROGRAM)

**Assessment of tax audit on tax compliance and revenue in Ethiopian revenue
and customs authority (The Case of East Addis Ababa Branch Office)**

By

Mulugeta Bekele Woldtsadik

Advisor:

Name Dr. Alem Hagos

Signature _____

Date _____

Board of Examines:

1. Name _____ Signature _____ Date _____

2. Name _____ Signature _____ Date _____

3. Name _____ Signature _____ Date _____

Acknowledgments

My sincere gratitude goes to almighty God who gives me courage, hope, power, and tolerance at any moment that face me risk. Next, I would like to thank my advisor Dr. Alem Hagos for his invaluable comments and suggestions. He granted me far-reaching advices and eternal supports sacrificing his precious time. I would be thankful for Addis Ababa University for this chance.

I extend my deepest thanks to all tax audit officials of East Addis Ababa Middle Taxpayers Branch office who provide available information, especially, those team leaders who co-operate me to collect all questionnaires from tax auditors and themselves.

I would also like to thank all my friends for their supports and assistances during data collections process. Furthermore, I would like to be grateful about the encouragements and comments supplied by my friend, Dr. Terefe Zeleke.

Table of Contents

Content	Page
Declaration	i
Certification	ii
Approval	iii
Acknowledgments.....	iv
Table of Contents.....	v
List of Tables	viii
List of Figure.....	ix
Acronyms and Abbreviations	x
Abstract.....	xi
CHAPTER ONE.....	1
INTRODUCTION	1
1. Introduction	1
1.1. Background of the Study	3
1.3 Statement of the Problem.....	4
1.4 Research Questions	6
1.5 Objectives of the Study	6
1.5.1 General Objectives.....	6
1.5.2 Specific Objectives	7
1.6 Significance of the Study	7
1.7 Scope and Limitations of the Study	7
1.8 Organization of the Study	7
1.9 Limitations of the Research.....	8
CHAPTER TWO; LITERATURE REVIEW.....	9
1.1. Theoretical Review	9

1.1.1.	Introduction.....	9
1.1.4	Definition of Tax Audit.....	10
1.1.5	Objective of Tax Audit	11
1.1.7	Role of Tax Audit	12
2.1	Empirical Literature Review	15
2.2	Gap in the Literature	19
I.	Comprehensive Audit	21
II.	Issue Audit	21
c)	Desk Audit	22
a)	Special Audit Projects.....	22
b)	Advisory Visit Audits	22
c)	Refund Audits	23
d)	Investigation Audit.....	23
IV.	De-Registration Audits	23
CHAPTER THREE; RESEARCH DESIGN AND METHODOLOGY		26
3.1	Research Approach	26
3.2	Research Design.....	27
3.3	Sample Sampling and techniques.....	27
3.3.1	Population, sampling frame and sampling technique	27
3.3.2	Sample size	28
3.4	Source and instruments of Data collection.....	28
3.4.1	Procedure of Data Collection.....	29
3.4.2	Method of Data analysis.....	29
3.5	Scope of the Study.....	30
3.6	Organization of Research Report	31
3.7	Ethical in research reports	31
CHAPTER FOUR; RESULTS AND DISCUSSIONS.....		32

4.1	Introduction	32
4.2	Results and findings of the study	32
4.2.1	Description of Sample.....	32
4.2.2	Demographic Profile of the Respondents	32
4.2.4	Reliability of the instrument used	37
4.4.1	Relationship between Tax audit and tax compliance and revenue.....	37
4.4.1.1	Correlation Analysis	37
4.4.2	Multiple Regression Analysis	39
	CHAPTER FIVE: CONCLUSIONS AND RECOMMENDATIONS.....	43
5.1	Introduction	43
	References.....	46
	Appendices-1	53
	Appendices-2 Annual Report of Revenue Minister.....	57
	Appendices-3 Revenue Collected and Audit in Branch Level.....	58
	Appendices-4 Reliability Statistics.....	59
	Annex-B Correlations	59
	Annex-D- Regression.....	60
	Annex-D- Histogram	61
	Annex-E- Normal P-P Plot of Regression Standardized Residual	61
	Annex-E- Scatterplot	61

List of Tables

Table 4.1 Questionnaire Distribution and Response Rates.....	32
Table 4.2 Personal Background of Tax Auditors and Managers	33
Table 4.3 Descriptive statistics for independent variables.....	35
Table 4.4 Cronbach's Alpha Coefficients	37
Table 4.5 Correlation table	38
Table 4.6 Model Summary	40
Table 4.7 Relationship between Tax audit, Tax compliance and revenue	41
Table 4.8 Coefficients a	41

List of Figure

Figure 1.1 Types of tax audit. Source: researchers' design based on ERCA audit manual (2014)	20
Figure 1.2 Conceptual framework. Source: Researcher's compilation	25

Acronyms and Abbreviations

AACA	Addis Ababa City Administration
AICPA	America Institute of Certified Public Accountant
CAAT	Computer Assigned Audit Techniques
DTRD	Domestic Tax Revenue Division
EAAMTPBO	East Addis Ababa Middle Taxpayer Payer Branch Office
ERCA	Ethiopia Revenue & Customs Authority
ETB	Ethiopian Birr
EWZRA	East Wollega Zone Regional Authority
GAAS	Generally Accepted Audit Standard
GDP	Gross Domestic Product
GRA	Ghana Revenue Authority
KRA	Kenya Revenue Authority
NGO	Non-governmental Organization
NRA	Nigeria Revenue Authority
OECD	Organization for Economic Co-operation and Development
OLR	Order Logistic Regression
PAYE	Pay after Year end.
PhD	Doctor of Philosophy
PLC	Private Limited Company
RRA	Rwanda Revenue Authority
SIGTAS	System Integrated Governmental Tax Administration System
TOT	Turn Over Tax
VAT	Value Added Tax
WHT	Withholding Tax

Abstract

Low tax compliance and revenue limit the capacity of government to raise revenue for developmental purposes because the higher the revenue, the more likely government will put in place developmental plans for the enhancement of the living standard of the people. Based on this, the study examined the effects of tax audit on tax compliance and revenue of tax revenue in ERCA east Addis Ababa branch office. It specifically investigated the effect of comprehensive audit, issue audit, back duty audit and de-registration audit on tax compliance and revenue of tax revenue in ERCA east Addis Ababa Branch office. A close-ended questionnaire was used to gather the needed data and an analysis was carried out through correlation matrix and multiple regression. It was discovered that desk audit, field audit, back duty audit and registration audit had a positive significant effect on tax compliance and revenue in ERCA east Addis Ababa Branch office with the p-value of 0.001, 0.000, 0.000 and 0.000 respectively. Worthy of note was that field audit was the most significant predictor out of all the predictor variables. It was concluded that tax audit could engender tax compliance and revenue in east Addis Ababa branch office. It was therefore recommended that east Addis Ababa Branch office should intensify tax audit through the employment of more competent staffs and intermittent training in order to increase in tax compliance level in the branch office. Also, Audited files that reveal criminal act should not be taken slightly and tax evaders and avoiders should be seriously dealt with to deter others from plodding the same criminal path.

Key words: *Tax, Tax Audit, Tax Compliance and Revenue, ERCA*

CHAPTER ONE

INTRODUCTION

The chapter presents the research problems, the objectives of the study, its significances, scope and limitations, and the organization of the paper. Accordingly, research problems are discussed; the objectives of the study are shown further the significances, and the scope and limitations are explained in their respective sections.

1. Introduction

All over the world, governments embark on huge public expenditure to provide basic amenities and other social services for their citizens that constitute the major tasks of an elected public officer. To achieve these tasks, governments require huge funds to fulfill its obligations and among the various sources that government generates revenue, taxes are the most important and most reliable means, contributing much more than any other sources (Modugu, & Anyaduba, 2014). From this perspective, tax is therefore, a compulsory levy imposed by the government on the income, profit or wealth of an individual, family, community, corporate or unincorporated bodies etc., for the purposes of financing public expenditures which centered on providing social amenities for her citizens. It is a tool used by the government to generate revenue needed to provide basic amenities or infrastructures in the State (Lymer & Oats, 2009, World Bank, 2011).

However, usually tax is vulnerable for evasion and fraud, which has become the concern of many countries. As Baurer (2005) noted, tax fraud is a deliberate misrepresenting or concealing the true state of their affairs to the tax authorities to reduce their tax liability. It typically includes underreporting profits, overstating deductions, underreporting employee wages, failure to register or file tax declarations, hiding of taxable receipts coming from the production and distribution of real products and services, and abuse of tax return through fictitious transactions and trades. Thus, tax audit is needed to increase tax revenue and taxpayer compliance.

Tax audit is a detailed exploration into the activities of a taxpayer to determine whether he/she has been correctly declaring the tax liabilities (OECD 2006a). Tax audit play a critical role in the administration of tax laws through their detection of non-compliance and by serving as a

deterrent to the wider population of taxpayers who might otherwise engage in noncompliant behavior (Keen and Smith 2007).

A Tax Audit would serve to ensure that the books of accounts and other records are properly maintained; faithfully reflect the income of the tax payer and claims for deduction correctly made by him/her; help in checking fraudulent practices; and facilitate the administration of tax by a proper presentation of accounts before the tax authorities and considerably saving the time of assessing officers in carrying out routine verifications like checking correctness of totals and verifying whether purchases and sales are properly vouched or not, thereby their time could be utilized for attending to more important investigational aspects of the case (Reagan,2015). Since tax audit is an investigation into the background of tax returns submitted by an individual or business to a tax agency, the idea of a tax audit normally conjures up feelings of anxiety even in persons who believe their tax documents are perfectly in order. While it is true that a tax audit may be called due to some perceived irregularity in one or more returns, it is also true that an audit may be done simply as part of a random sampling (Alemu and Deressa 2009).

In Ethiopia, the modern tax system is a product of more than half a century of experimentation in legislation and tax reform. Since its humble beginnings in the 1940s, the modern Ethiopian tax system has developed and evolved by fits and starts as the needs for revenue arise, as governments change and as the economy and international situations shift (Tadesse,2012, cited in Worku 2016). The constitution of Federal Democratic Republic of Ethiopia (FDRE) 1994, pursuant to decentralized government structure, the power to levy and collect taxes from income is assigned to both the federal and regional states. The ERCA, previously called Revenue Minister, is responsible to levy and collect taxes at the federal level.

ERCA consists of mainly three active branches namely Large Taxpayer Branch Office, East Addis Ababa Middle Taxpayers Branch Office and, West Addis Ababa Middle Taxpayers Branch Office. Even though, it's not well organized and active there is new branch called Middle Taxpayer Branch Office. Accordingly, East Addis Ababa Middle Taxpayers Branch Office is one of the branch of ERCA currently called Minister of revenue and most of the taxpayers enroll in this branch are private limited company in Addis Ababa, particularly, Yeka sub city, Bole sub city, Arada sub city, Akaki Kaliti sub city and Nifas Silk sub city. These taxpayers are obliged to prepare annual financial statements both Income statement and Balance Sheet. In addition,

according to proclamation no. 979/08, they are required to hold all source documents and record for five years. Thus, the study assesses the effect of tax audit on tax compliance and payment of tax in ERCA, east Addis Ababa branch middle taxpayers branch office.

1.1. Background of the Study

Tax is central for the development a nation through the provision of resources that is helpful to finance the project intended by government. The government of Ethiopia has several options to fiancé its public expenditures and pursue its fiscal policy which are tax and non- tax sources. Among others, tax with customs collections is an importance source of revenue for every government and is a heart to a country's well-being (Damme *et al.*, 2008). In Ethiopia, however, total tax revenue performance has been relatively poor that accounts an average of 10.9 percent of gross domestic product (GDP) during 1990-94 and 12.9 percent of GDP during 2000-06 (McKinley and Kyrili, 2009).

The proper amount of tax must be collected on a timely manner for successfully improving and maintaining steady economic progress of a nation. To do this, the enforcement powers of the tax administration including tax audit, must be applied judiciously and in an evenhanded fashion (Baurer,2005). The primary role of tax audit is to promote voluntary compliance by taxpayers with tax law. The tax audit plays this role by reminding taxpayers of the risk of non- compliance and by engendering confidence in the broader community that serious abuses of the tax law will be detected and appropriately penalized (OECD,2006). Voluntary compliance is the foundation of tax revenue collection for modern tax system (Mikesell and Birstyite, 2007).

On January 2011, onwards the revenue office has reorganized itself in five core process and three supporting process as result of Business Process Reengineering (BPR) study. The five core processes namely: Audit & Enforcement, Revenue assessment & collection, Tax Education and Communication, Information Technology and Human Resource Management and the three supporting process are financing & procurement, planning & Budgeting and Internal Audit. East Addis Ababa Middle Taxpayers Branch Office is authorized by the law to collect tax and to make an assessment the accuracy of declared tax liability by the taxpayers in respect to the stated tax laws and regulation. If the taxpayers have submitted a declaration of income within the time

and the manner as prescribed in the proclamation, the revenue office has power to amend the assessment.

Depending on the degree of the participants of the revenue office and a taxpayer the determination of tax liability, an assessment can be an official or self-assessment. An assessment is basically an initial review by the tax official of the tax declarations and information provided by the taxpayer and verification of arithmetic and technical accuracy of the declared tax liability shortly after the submission of the declaration. An audit is selected verification of taxpayers declared tax liabilities which always involves a review of taxpayers business related transaction recording system like books of accounts and its supporting documents, information obtained from third party concerning purchases, sales, expense which are backed with objective evidence, general compliance pattern of the taxpayer the income tax law and etc (ERCA, 2014).

ERCA Internal audit manual stipulates that the main vehicle used by tax audit section that gives effect to their audit plan is through the application of the collective experience and knowledge of the process owner. An auditor will assess the declaration of taxpayers for all taxes and will select taxpayers for audit to test compliance with the law. When the analysis of taxpayers' compliance patterns justifies for the audit and investigation of taxpayers file, the revenue office either applies spot or comprehensive audit to test the reliability of the tax affairs dealt with. The choice and preference of the one to another is dependent on the magnitude of tax risk associated with the case and the number and qualification of the existing audit staff. Finally, the assessment made will be prepared in assessment notification and be delivered to the taxpayer. A taxpayer, who objects to an assessment, may appeal to the tax appeal committee up on fulfilling certain requirements.

1.3 Statement of the Problem

Tax audit ensure that satisfactory return are submitted by the tax payers, organize the degree of tax avoidance and tax evasion, ensure strict compliance with tax laws by tax payers, improve the degree of voluntary compliance by tax payers and to ensure that the amount due is collected and remitted to government (ERCA, 2014). However, in Ethiopia where tax revenue is the major source of internally generated revenue, tax compliance and revenue have been relatively low (Olaoye,& Ogundipe,2018). Total tax revenue performance accounts an average of 10.9 percent

of GDP during 1990-94 and 12.9 percent of GDP during 2000-06. From 2010/11-2016/17 on average accounted for 12.11 percent of GDP and given the current low collection rate, achieving the target of 17.2 percent of GDP by 2019/20 will be challenging (IMF 2018).

Thus, tax compliance and revenue mean the willingness of taxpayers to remit accurate, satisfactory and complete returns in conformity with tax laws and regulations for adequate revenue of the expected tax return accurately and truthfully as and when due peculiar to a particular tax jurisdiction without being forced or coerced to remit returns. In other words, failure to comply with tax laws and regulations breed low revenue or outright evaders (Ojo, O.D.,2016). However, revenue level in east Addis Ababa middle taxpayers branch office is relatively low, which is always reflected in the total internally generated revenue every year. Looking at 2013/14-2017/2018 tax period, registered taxpayers was 13,510 of which only 8,103 (60%) taxpayers reported their annual tax return to the branch office. Corroborating this fact, it can be observed that low tax revenue in the branch office reinforced excessive evaders and avoiders that engulfed the country. Since it is the paramount desire of every patriotic citizen to uplift his society, one expects that tax compliance ordinarily should not demand any form of coercion. But the volume of literature that has solely been dedicated to this subject for ages suggests that deliberate default in tax compliance remain a major issue in every human society, especially in Ethiopia (Modugu, & Anyaduba, 2014; Mohd, 2013).

Low tax compliance and revenue limit the capacity of government to raise revenue for developmental purposes because the higher the revenue, the more likely government will put in place developmental plans for the enhancement of the living standard of the people (Mohd, 2013). Hence, tax audit is therefore considered instrumental in the quest of the government to generate tax revenue in contrast, from 2013/14 to 2017/18 among 8,103 (60%) taxpayers in east Addis Ababa middle taxpayers branch office, only 809 (10%) taxpayers are audited during that tax period resulting the branch tax audit practice contribution less than 1 % from total branch office revenue collection. Furthermore, based on the annual appraisal report of branch office for a period of 2006-2010, the actual revenue contributions of tax audit were 8%, 2%, 8%, 5% and 8% while the plan was 10%, 29.55%, 23.52% and 26.38% in each year respectively. non-compliance with tax payment is a betrayal of the tax administration and revenue system. Therefore, a well implemented tax compliance strategy that can safeguard tax administration is

required to sustain the confidence of taxpayers and the branch tax audit programs need to be embraced in order to monitor and detect the non-compliance traits of taxpayers.

In fact, Ladi & Henry,2015 noted that the role of an audit program in a modern tax administration must extend beyond merely verifying taxpayers reported obligations and detection of discrepancies between a taxpayer's declaration and supporting documentation. Tax audit may increase tax revenue in two ways: directly through assessment of additional taxes, and indirectly by improving taxpayer compliance with the tax laws and regulations. In light of this, the study in this area constitutes a vacuum in academics, which must be filled to enhance tax audit policy formulation strategy that will enhance compliance and revenue level additionally the researcher have a direct experience in tax audit area for the past 12 years at ERCA, that's why the study focuses on basically asseses the effects of tax audit on tax compliance and revenue of tax revenue at the branch office .

1.4 Research Questions

The study attempted to shed some light primarily on what should be done to make tax audit practice effective to achieve the primary objective of promoting taxpayer's compliance. Hence, based on the identified problem above the study address the following research questions,

- What is the relationship between tax audit and tax compliance and revenue?
- What is the perception of tax auditors towards tax compliance and revenue at east Addis Ababa middle taxpayers' branch office?
- What is the effect of tax audit on tax compliance and revenue at east Addis Ababa middle taxpayers' branch office?

1.5 Objectives of the Study

1.5.1 General Objectives

The main objective of this study is to assess the effect of tax audit on tax compliance and revenue at east Addis Ababa middle taxpayers branch office?

1.5.2 Specific Objectives

Based on the general objective stated above, the study addresses the following specific objectives:

- To assess the relationship between tax audit and tax compliance and revenue
- To evaluate the perception of tax auditors towards tax compliance and revenue at east Addis Ababa middle taxpayers' branch office
- To identify the effect of tax audit on tax compliance and revenue at east Addis Ababa middle taxpayers' branch office?

1.6 Significance of the Study

The study result is expected to be useful for east Addis Ababa middle taxpayers branch office mainly by identifying the effect of tax audit on tax compliance and revenue in the branch office to decrease tax evasion that causes serious amount of tax loss for the country and increasing tax compliance so that the tax branch office strive to transfer taxes to state budget and to ensure tax control. In addition, it helps the revenue office tax auditors to see the level and performance of tax audit activities in relation to tax compliance and revenue in the branch office .Moreover, it may serve as a source of information and may give some highpoints for stakeholders who would like to know more about the issue and for scholars who are interested in undertaking further and detail studies in the future in the topic .

1.7 Scope and Limitations of the Study

The study attempted to assess the effect of tax audit on taxpayers' compliance and revenue in the case of east Addis Ababa middle taxpayers' branch office based on the feedback received from the branch office tax auditor and tax audit managers. therefore, the study focuses on the east Addis Ababa head office and excludes other branches of Ministry of Revenue. Moreover, the study is conceptually limited to investigate the effect of the tax audit on taxpayers' compliance and tax revenue in the branch office mainly using survey instrument

1.8 Organization of the Study

This study is structured to have five chapters. The first chapter deals with introduction. The second chapter presents review of the related literature. The third chapter concentrated on methodology of the study. In the fourth chapter, the data collected for the study were organized

and presented in Tables; followed by detailed analysis and discussions. Finally, the fifth chapter presents conclusions and recommendations based on major findings of the study.

1.9 Limitations of the Research

The major limitations encountered in the course of this study were data collection took some time from few selected sampled respondents since the nature of the job requires travel. Similarly, the study measurement was gathered in the field that tax audit was not the only means through which tax compliance level could be improved. Proper sanitization on the need for tax payment and eradication of multiple taxation could also improve taxpayer's compliance in the branch which is not included under the study.

CHAPTER TWO; LITERATURE REVIEW

This chapter is organized in three sections. The first section reviews theoretical studies on tax audit in a tax administration system while the second section presents the empirical evidence on tax audits and related issues. The final section provides conceptual issues directly related to the study and concluding remarks on the review of the literature and identifies the knowledge gap that has been addressed in the study.

1.1. Theoretical Review

1.1.1. Introduction

Tax administrations strive to transfer taxes to state budget and to ensure tax control. However, tax administrations have great difficulties in collecting duties all around the world. People who make less tax payment than they should and who do not make any tax payment, cause serious amount of tax loss for the states. Tax evasion affects the efficiency of tax systems and behavior of taxpayers by causing serious revenue loss, by restricting application capacity of economic and social policies and by increasing the tax burden of honest taxpayers. Therefore, decreasing tax evasion and increasing tax compliance are among main objectives of public finance policy (Bariş,2019).

In order to overcome these problems, three different solutions such as i) generating increase in resources provided to tax administrations, ii) development of communication with regards to social costs of tax evasion and iii) improvement of audit procedures efficiency of tax evasion are suggested (Casagrande *et.al.*,2015). The most significant argument used in fight against tax evasion is tax auditing. However, standard tax audits are not able to decrease tax evasion activities by themselves. In this case, tax compliance appears as a more significant concept. The objective of the study, which was conducted by taking monetary and economic negative effects produced by tax evasion into consideration, is to interpret tax auditing and tax compliance that have important place in prevention and decrease of tax evasion activities and to try and analyze the determinants affecting aforementioned effects.

1.1.2 Tax Revenue

Agumas, A.L. (2016) argued that revenue is an income collected by public authorities (Federal, State and Local Government) from persons or body to finance expenditure. It is an income required by government to finance its growing expenditure. According to Ojo, O.D. (2016), tax revenue is a levy imposed by the government on the income and profit of individuals and companies respectively. According to Fave & Dabari (2017) cited in Agumas, A.L. (2016), taxation is the most important source of revenue for modern governments, typically accounting for ninety percent or more of their income. This reflects that tax revenue is a compulsory levy imposed by the government through its agencies on the income, consumption and capital of its subjects. These levies are made on personal income, such as salaries, business profits, interests, dividends, discounts and royalties. It is also levied against company's profits petroleum profits, capital gains and capital transfer (Ojo, O.D. 2016). Tax is a compulsory levy imposed on a subject or upon his property by the government to provide security.

1.1.3 Nature and Objectives of Audit

Gupta, *et.al* (2004) generally, auditing involves examination of books accounts, and financial statements with the main objective of determining whether this information reflects the economic events that occurred during the accounting period. Similarly, Basu (2006) explained that the original objective of an audit was principally to see whether the personal involved in accounting had properly accounted for the receipts and payments of cash. In other words, the objective of audit was to find out whether cash had been embezzled and if so, who embezzled it and what amount was involved. Thus, it was only an audit of cash book. But, at present, the main aim of audit is to find out, after going through the book of accounts, whether the balance sheet and profit and loss account are drawn up accordingly and whether they represent a true and fair view of the state of the affairs of the concern. This is possible when the auditor verifies the accounts and the statements while performing his duties, the auditors also must discover errors and frauds.

1.1.4 Definition of Tax Audit

As per the Domestic Tax Audit Manual of ERCA, (2014), tax audit is a systematic examination of business's 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 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.

1.1.5 Objective of Tax Audit

ERCA tax audit manual (2014) stated that the overall objective is to improve the compliance of taxpayers, whether they declare the correct amount of tax and paid at the right time. The expectation by a taxpayer on audit should have a deterrent effect and encourage the taxpayer to declare as far as possible a credible tax return. It also improves the taxpayer's understanding and awareness of the relevant taxes.

Results of tax audits may be additional duty burden, dues, fees and cash penalties. However, even cash penalties are applied in the correct way, they must be acceptable legally. Imposing a heavy penalty on small mistakes may lead to weakening of fiduciary tax convention. Therefore, it is crucial for tax offices to research how taxpayers perceive different tax levels (Mendoza *et.al.*, 2017).

1.1.6 Tax Auditing Mechanism

Tax auditing is one of the most significant tools of tax system regarding financial, social, regulatory and control variables (Gubar *et.al.* 2015). Tax audits may be carried out in various forms. For example, in Austria audit is composed of two parts as introductory visit made to the company following the tax number application of the taxpayer and continuous audit of the company for the first year. In this stage tax auditor gives advice regarding tax acts and rights and obligations of the taxpayer, provides informative brochures and states that company may ask her questions to the auditor (Gangl *et.al.*, 2014).

Although tax offices may count on taxpayers to a certain degree, applying tax auditing to all taxpayers is not reasonable neither technically nor economically. Therefore, tax administrators carry out selective tax audits by controlling only a certain part of tax returns each year.

A significant part tax audits is site-audit. The first thing that shall be done for this is the flawless selection of government auditors, who use independent risk assessment for taxpayers and who are employed by tax administration. However, not all the criterion generated for on-site survey of taxpayers are effective. For example, although findings stating that the data of any company is different than sector average may be used as a criterion, this condition does not necessarily mean that they have tax evasive attempts. As a result, attention shall be paid that the criteria to be used to choose taxpayers efficiently on the purpose of planning the site-audit may not always be enough (Salmina, *et.al.*2015).

Frequency and meticulousness of tax audits may encourage taxpayers to be more precautionous regarding all their responsibilities. None the less, taxpayers who never undergo audit may refrain from reporting their real revenues. When considered in general, increase in the audit probability of the taxpayers may also increase tax revenues (Richardson, 2008). However, it is also expressed that even a friendly version of deterrence may decrease tax compliance and damage internal motivation (Gangl *et.al.*, 2014).

1.1.7 Role of Tax Audit

As per OECD (2016), the primary goal of a revenue body's compliance activity is to improve overall compliance with their tax laws, and in the process instill confidence in the community that the tax system and its administration are fair. Instances of failure to comply with the law are inevitable whether due to taxpayers' ignorance, carelessness, recklessness and deliberate evasion, or weakness in administration. Historically, most taxpayer-driven failure or compliance risk has been addressed nearly exclusively in terms of regulatory enforcement through an audit-based approach. In more recent time, revenue administration have come to realize that the factors underlying taxpayers' compliance behavior in any specific risk area are varied and often complex, and are unlikely to be treated successfully with a 'single action' strategy, particularly one based exclusively on regulatory enforcement action such as audits. Nevertheless, audits remain a major tool for tackling non-compliance. Tax audit is an examination of whether a taxpayer has correctly assessed and reported their tax liability and fulfilled other obligations. Tax audits are often more detailed and extensive than other types of examination, such as general desk checks, compliance visits/reviews or document matching programs.

The roles of the taxpayer audit program.

Promote Voluntary Compliance: The primary role of the audit program is to promote voluntary compliance by taxpayers with the tax laws. It seeks to achieve this by reminding taxpayers of the risks of non-compliance and by engendering confidence in the broader community that serious abuses of the tax law would be detected and appropriately penalized.

Detect Non-compliance at the individual taxpayer level: By concentrating on major areas of risk and those individual taxpayers most likely to be evading their responsibilities, audits may bring to light significant understatements of tax liabilities, and additional tax revenue collections.

Gather information on the “health” of the tax system: The results of normal audit activity may provide information on the general well-being of the tax system. Audit conducted random basis can assist:

Overall revenue administration by gathering critical information required to form judgments on overall levels of tax compliance.

- together more precise information that can be used:
- to inform decision making on future compliance improvement strategies,
- to refine automated risk-based case selection process, and even support change to tax legislation.

Gather intelligence: Audits may bring to light information on evasion and avoidance schemes involving large numbers of taxpayers that can be used to mount major counter-abuse projects.

Educate taxpayers: Audits can assist clarify the application of the law for individual taxpayers and to identify improvements required to record keeping and thus may contribute to improved compliance by taxpayers in the future.

Identify area of the law that require clarification: Audits may bring to light areas of the tax law that are causing confusion and problems to large numbers of taxpayers and thus require further efforts by the revenue body to clarify the laws’ requirements and/or to better educate taxpayers on what they must do to comply into the future.

1.1.8 Tax Compliance

Standard tax compliance theory is based on the study of Allingham and Sandmo (1972) and comprises of equality, efficiency and ratio concepts (Gangl et.al., 2014: 379). Tax compliance means to completely fulfill the tax liability during the period tax return is submitted and to submit the tax return in the correct manner at the related place. Tax non-compliance arises as the liabilities are declared over or under the real value. Paying lower tax by structuring the financial transactions legitimately may not be considered as tax noncompliance (Tunçer, 2005).

1.1.8.1 Tax Compliance Determinants

Tax compliance comprises of three main factors as correct reporting, timely reporting and timely payment in accordance with USA International Revenue Service (Gangl et.al. 2014: 379). Richardson and Sawyer (2001:145) express that the study conducted by Jackson and Milliron (1986) is among the most known studies most value is attributed to determine the factor affecting tax compliance. In accordance with Jackson and Milliron (1986: 125-126) although there are many variables affecting tax compliance, they predominantly focus on 14 variables (age ,sex education, level of income, source of income, profession, Peer Effect (such as friends, relatives, same occupational group), Ethics (Tax Ethics), Justice, Complication, Communication with revenue authority, Sanctions, Probability of Detection, Tax rate, and Other variables).

Engida and Baisa (2014: 439) drew a theoretical frame of factors determined for tax compliance level as individual, social, economic, corporate and demographic and control variables. Social factors are the perception of equality and justice and changes in the current government policy. Economic factors are audit probability and perception of state expenditures. The role of tax authority is related with corporate factors. Demographic and control variables are expressed as factors such as sex, age, education and income level.

Accordingly, this study is supported by the theory of reasoned action (TRA) developed by Fishbein and Ajzen (1975) and the theory of planned behavior developed by Ajzen in (1988). The theory of reasoned action predicts behavioral intentions where behavioral intentions are a function of an attitude toward the behavior and subjective norms surrounding the performance of the behavior. Attitude toward the behavior is defined as the individual's positive or negative feeling about performing a behavior. It is determined by assessing one's belief regarding the consequences of performing the behavior. Subjective norm is defined as an individual's

perception of whether people important to the individual think the behavior should be performed. These people may include supervisors, co-workers, community leaders, family members, friends, and other significant persons. While the TRA has been applied in many areas, it has limitation of assuming when people form an intention to act then they will be free to act. In practice, environmental constraints will limit the freedom to act. To overcome the limitation of TRA, the theory of planned behavior (TPB) was proposed. As an extension of TRA, TPB posits that a given behavior is directly influenced by behavioral intentions, which are in turn can be predicted by attitude toward the behavior, subjective norm regarding the behavior and perceived behavioral control. This theory is relevant to this study in explaining the relationship between the taxpayers and the tax authority. The compliance level of the taxpayers is always contingent on the activities of the tax authority. This theory underpins that awareness of tax audit goes a long way to predict the compliance level of taxpayers.

2.1 Empirical Literature Review

Many studies have been conducted on tax administration in developed and developing countries with various conclusions. Onoja & Iwarere, (2015) undertook a study to examine the effects of tax audit on revenue generation: Federal Inland Revenue Service, Abuja experience. It was a survey study and questionnaire were used to generate the data. The hypotheses were tested using Analysis of Variance (ANOVA). Finding revealed that: tax audit has significant effects on revenue generation in Federal Inland Revenue Service and tax audit has a positive relationship with the revenue generation in Federal Inland Revenue Service.

Similarly, Onuoha & Dada (2016) examined ax audit and investigation as imperatives for the achievement of an efficient tax administration in Nigeria. The study adopted an expository approach using content analysis of existing literatures. The doubt and sociological theories were used to firm up the conceptualization of the topic. The study revealed that tax audit and investigation are inevitable to improve on the collection of tax revenues in Nigeria. The study also confirmed that there is a high prevalence of non-compliance currently among individuals and companies in the country. The paper, therefore, called on the government to provide an enabling legislation to make non-compliance with tax laws a more serious offence with stiffer penalties.

Agumas, A.L. (2016) undertook a study to examine the impact of tax audit on improving taxpayers' compliance in Ethiopia by using secondary macro data. Assessment of relevant documents of ERCA was used as a secondary data source. The data collected for the key variables of the studies were analyzed using bivariate regression and partial coefficient regression analysis and the result also reveals that there is a strong association between the number of audited files and the level of tax compliance. Pearson Correlation and partial regression coefficient result shows that there is a strong association between probability of audit detection and the number of audited files with the level of tax compliance. The partial coefficient regression result shows that the joint effect of probability of audit detection and number of audited files highly improves the level of taxpayer's compliance over the individual effect.

Jemaiyo & Mutai (2016) analyzed the determinants of tax compliance and their influence on the level of tax compliance in the real estate sector, Eldoret town-Kenya. Using ex-post facto research design, the study targeted a population of 605. A sample size of 68 respondents comprising of real estate investors, tax audit and tax compliance officers were drawn from the target population using snowball sampling and purposive sampling methods. Data was collected using a structured questionnaire and analyzed using chi-square. This study found that tax compliance cost, tax knowledge, tax penalties and tax audit had significant effect on level of tax compliance.

On the other hand the study conducted in Nigeria by Modugu & Anyaduba (2014) on the impact of tax audit and other qualitative attributes on the tax compliance level of companies in Nigeria. It was a descriptive research of a survey design and the needed was elicited through a close-ended questionnaire administered on the 500 staff of the State Board of Internal Revenue of the selected States. The data generated was analyzed using the ordered Logistic Regression technique to determine the significance of the independent variables has on tax compliance and it was discovered that that the probability of being audited, perception on government spending, penalties and enforcement, the joint effect of tax audit and penalties have a tendency to significantly influence tax compliance in Nigeria.

Mebratu, (2016) studied impact of tax audit on improving taxpayer's compliance evidenced on empirically from ERCA at Federal level. The researcher used secondary data through reviewing

and detail investigation of ERCA data from 2001/02 to 2014/15. Besides, the researcher applied inferential statistic methods to analyze the collected data. The result of the study showed that there is strong association between probability of audit detection and the level of tax compliance. The researcher also revealed that there is a strong association between number to audited files and the level of taxpayer's compliance in Ethiopia. The last but not the least, the researcher wanted to examine the combined effect of probability of audit detection and number of audited files on the level of tax compliance. Thus, the study revealed that there is a strong association between probability of audit detection and higher number of audited files, the higher tax compliance level.

Engida and Bisa (2014) studied factor influencing taxpayers' compliance with the tax system based on an empirical study in Mekelle city, Ethiopia. The researchers identified nine determinants which are probability of being audited, perception of government spending, perception of equity and fairness, penalty, financial constraints, changes to current government policies, referral group, the role of tax authority and tax knowledge. The researchers applied a cross sectional survey method of research design. A structured questionnaire was distributed to 102 category "C" taxpayers in three sub-cities of Mekelle, namely semen, Hawilitu and Adi-Haki. The finding indicated that tax compliance was influenced by the probability of being audited, financial constraints of being audited, financial constraints and changes on current government policy. Other variables were not significantly correlated with tax compliance at the time of this study. The researchers also concluded that the low compliance and non-compliance was influenced by the frequency of the tax's authority tax audit activities and the practice of imposing penalties.

Samuel and De Dieu (2014) studied the impact of taxpayers' financial statements audit on tax revenue growth in Rwanda in the broader perspective. Survey questionnaires as primary data collection instruments were distributed to all audit officers of RRA equaling to 100 staff and followed both analytical research design and secondary data included reports from RRA from 2006 to 2010. The researchers also examined preliminary results on the relationship between financial statements audit and tax growth. Finding indicates that the tax audit increases the compliance rate which would impact positively the tax revenues to be collected by RRA. In addition, The researchers' finding revealed that, tax audit discourages and helps to identify

evasion and fraud in taxation procedures due to deep investigation and analysis of taxpayers' financial statements until they find out the taxpayers who underreport their income thus, this lead to tax revenues growth because non-compliance taxpayers pay penalties and fines in addition to the principal amount of taxes due. Finally, the researchers concluded that if there are the payments of penalties and fines in the case of noncompliance, all taxpayers in general try to conform to tax laws even those who are not audited.

Mirera (2014) studied the effects of tax audit on revenue collection on the case of KRA. The researcher adopted research design of descriptive approach and the study carried out among the 58 taxpayers audited in 2010 located in Nairobi West area which used as a sample. The data collection instrument used during the study was secondary data only and analyzed through descriptive statistics. The finding of the study showed that after the audit the companies are more informed about their tax obligations and they know better in terms of tax computation hence higher taxes collected from the companies. The researcher concluded that tax audit has an effect to revenue collection. That means the more the tax audit conducted, the more revenue is collected. Thus, it is right to say that tax audit is directly related to revenue collection.

As per Sarfo (2015), the study focused on the role of tax audit in revenue mobilization in GRA based on Ashanti Region, in Ghana. The research approaches used were both qualitative and quantitative case study approaches. Sixty auditing staff from all the offices of Ashanti Region of The DTRD of GRA acted as a case in the study. The quantitative study involved primary data collection through a field survey and secondary data collection from the DTRD of the GRA. And the qualitative research method was considered as a means of gaining access to unquantifiable facts. The result of the study showed that all the respondents' admitted tax audit is very essential in improving revenue generation and has a most important part to play in tax administration in Ghana. Even though the employees that the tax audit unit have the necessary skills which enable them to perform their duties and responsibilities, it is recommended that there must be adequate short term and refresher training to keep them abreast with current trends of auditing and investigation and also the numerous amendments to the tax laws. In conclusion, an improved and well-equipped tax audit unit can aid the nation in pursuit to be self-sufficient in domestic revenue generation through taxation. However, the study didn't test the effect of tax audit on

taxpayer compliance. Therefore, the current study is based on private limited company and it deal with effect of tax audit on taxpayer compliance and revenue collection.

2.2 Gap in the Literature

Obviously, there is a general agreement on the need to improve tax compliance through tax audit, thus helping the government to maximize the expected tax revenue needed to defray expenditures. However, as per the researcher knowledge there is scarcity of study on the possible impact of tax audit on tax compliance in Ethiopia and none in ERCA. In the same manner, no single study has been able to predict the compliance and revenue level with predictors' variables like desk audit, field audit, back duty audit and registration audit; thereby creating a gap this study intends to fill. With the east Addis Ababa middle taxpayers branch office regarded as a branch with low internally Generated Revenue (IGR), it is hoped that when the importance of tax audit is revealed and fully carried out on taxpayers in the branch, it would increase tax revenue and thereby expand the internally generated Revenue base of the country. With this end, the next chapter discusses the researcher design and specific research methods that are applied for the study along with proper justification for the selection of appropriate research methods.

2.4 Conceptual Review

Tax Audit Literature affirmed that tax audit is always triggered by suspicion of fraud, evasion and related offences. According to Adams, C. (2001), tax audit is a level of enquiry aimed at determining what level of fraud or willful default or neglect a taxpayer perpetrated and to obtain evidence for possible prosecution of the culprit. This implies that tax audit centers on determining some unrevealed sources of revenue, pointing to gross non-compliance, or it may be about proof of underpayment and fraud. Supporting this view, Ojo, O.D. (2016) defined tax audit and investigation as an inspection of taxpayers' business records to ensure that law and regulation were maintained in the amount of tax reported. This reflects that the so aim of tax audit is to ensure that laws and regulations regarding tax revenue are maintained by taxpayers with the aim of increasing the revenue pool of the government.

Bassey, O.U. (2013) observed that tax audit is an essential compliance tool in most tax jurisdiction all over the world as it maximizes the expected tax revenue to the government both in

developed and in developing countries. Expanding this notion, Okonkwo, A.I. (2014) cited in Ojo, O.D. (2016) revealed that tax audit revolves 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. Tax audit is necessary because it help the government to collect taxes paramount in financing budget and maintaining economic and financial order and stability. Similarly, Kircher, E.E. (2008) submitted that ax audit ensure that satisfactory returns are submitted by the taxpayers, to organize the degree of tax avoidance and tax evasion, to ensure strict compliance with tax laws by tax payers, to improve the degree of voluntary compliance by tax payers and to ensure that the amount due is collected and remitted to government. Onoja & Iwarere, (2015); Onuoha & Dada (2016) revealed that the following types of tax audit are relevant in ensuring tax compliance. Figure 1 below show the types of tax audit and their interrelatedness.

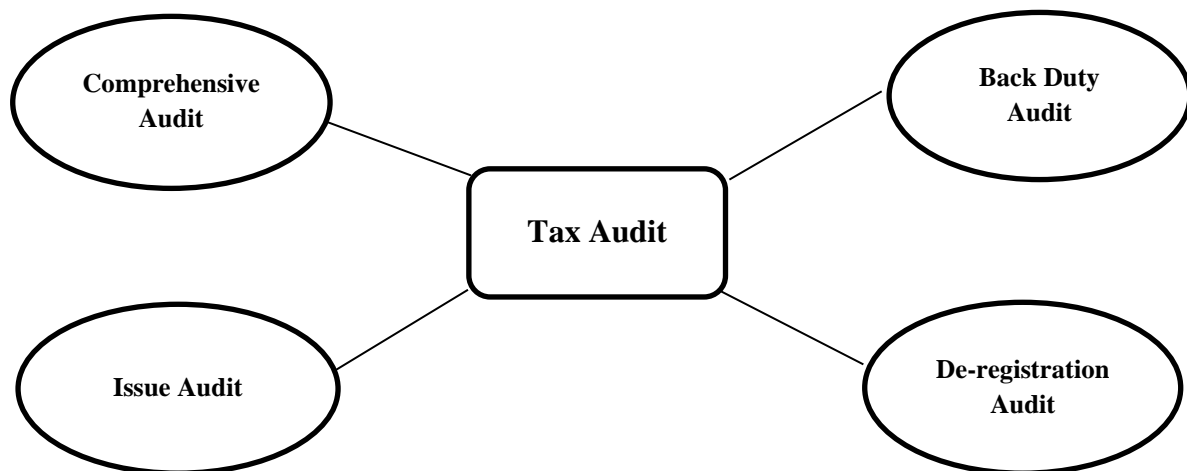


Figure 2.1 Types of tax audit. Source: researchers' design based on ERCA audit manual (2014)

As indicated on ERCA domestic tax audit manual (2014), which governs tax audit process procedure, there are three major factors that classify audits are: -

- a) The audit **scope** and **intensity**
- b) The **period(s)** under examination
- c) The **location** of the audit activity

The major types of audit in ERCA are described below: -

I. Comprehensive Audit

a **comprehensive audit** is all-encompassing in scope and entails an **in-depth examination** of all information relevant to the calculation of a taxpayer's tax liability for all tax type for a given period. Given the broad scope, comprehensive audit is typically **costly** to undertake in terms of **time** and **resources**, and thus **reduces the rate coverage** of taxpayers that could otherwise be audited.

Comprehensive audit is classified into **Very Complex, Complex and simple**. This classification would depend on a number of factors ranging from size, group, trade or profession, volume of records or transactions, nature of business to location. In practice, the scope and nature of any comprehensive audit activity to be undertaken would depend on the available evidence pointing to the likely risks of non-compliance and a taxpayer's history. An audit may also be classified and justified as complex or very complex because of the taxpayer's financial and/or business activities which are unusually complex.

II. Issue Audit

This is a limited scope audit that may be confined to specific issues in a tax return and/or a particular tax type. The objective here is to examine key potential risk areas of non-compliance. This type of audit is recommended because it consumes relatively fewer resources than comprehensive audits and allows for an increased coverage of the taxpayer population. The audit would normally focus on a single tax type, period or item. Where a field issue audit escalates the case into a comprehensive audit, the team coordinator's concurrence must be sought and the procedures prescribed for comprehensive audits adhered to. Issue audits may be conducted either on the desk or in the field.

a) Desk Issue Audit

Ibid, this can be conducted in relation to specific issue(s) of a taxpayer or enterprise when the auditor is confident that all the necessary information can be ascertained by conducting an examination in the office. All the required or relevant information or data may be accessed from internal sources or official reference without the need to contact the taxpayer.

b) Field Issue Audit

Ibid, this is the escalation of a desk issue audit into a field activity or exercise. It is important to remember that the audit is limited to key issues of compliance or to a tax type or period. Field issue audit is commonly used in examining whether a taxpayer has met his/her obligations in respect of PAYE, VAT/TOT and Excise tax, Withholding Tax or Income Tax normally for a specified tax period. Care should always be taken to guard against being derails and thus progressing field issue audits into comprehensive audits. The objective of the field issue audit is to focus on a shorter period for a single tax item for a faster and effective outcome. This audit type should therefore be the commonest and most effective audit type to be utilized for faster results.

c) Desk Audit

A Desk audit is used as a preliminary examination of declarations analyzing accuracy, completeness, ratios and crosschecking information to determine if further audit or investigation is warranted. By implication, returns which are stated on certain level of risk.

III. Back duty audits

a) Special Audit Projects

Audits can be organized as a separate project for a targeted or specific group of taxpayers in a given period to verify compliance in the sector. These audit projects may cover an industry, trade, profession or a line of businesses. They would consist of specific checks and are used to address a particular risk or to establish the degree of non-compliance in a sector, industry or trade. For this audit type to be effective, all taxpayers in the targeted sector must be considered and handled within the shortest time possible.

b) Advisory Visit Audits

All registered taxpayers or businesses need to be visited with the aim of offering advice on tax obligations and the taxpayer's rights, and any other developments pertinent to the tax system and administration. It is highly recommended that auditors carry out these audits to keep abreast with compliance trends of their taxpayers and offer timely advice to improve compliance. These audits are expected to be spontaneous and hence should not take more than a day.

c) Refund Audits

This is the verification of a taxpayer's claim for a tax refund prior to processing the refund. The predominant claim for refund is VAT and/or WHT which is submitted monthly. The details are specified in the Refund Guidelines.

d) Investigation Audit

involve the most serious cases of non-compliance with Criminal implications. Require special skills in investigation and evidentiary requirements as they often involve seizure of records, taking testimonies from witnesses and preparing briefs for courts.

IV. De-Registration Audits

In order to establish outstanding obligations or liabilities, a de-registration audit would be conducted for all reported cases of cessation of business, winding up or uncertainty. The audit would focus on determining taxes due and any other pertinent issues. The objective of de-registration audit is to ensure orderly exit from the tax register with the attendant obligations and liabilities sorted out.

2.4.1 Tax Compliance and Revenue

The non-compliance of tax laws and regulations by taxpayers is a major concern for tax administration in developing countries and obviously beacons an urgent solution because of the indispensability of tax revenue to states' development. Verboon & Van Dijke, (2014) reported that the willingness of individuals to comply with tax laws and regulations without force is known to be tax compliance. Confirming this, Badara (2012) cited in Ojo, O.D. (2016) defined tax revenue and compliance as the willingness of taxpayers to submit accurate, satisfactory and complete returns in conformity with tax laws and regulations peculiar to a tax jurisdiction. This implies that tax compliance revolves the readiness of taxpayers to cooperate with tax laws and regulations without being forced or coerced.

Tax compliance is the degree to which a taxpayer obliges to tax rules and regulations willingly without any use of force (Olaoye *et.al.*,2017). Corroborating this, Palil & Mustapha,(2011) described tax revenue and compliance as taxpayers' willingness to comply with tax laws, declare the correct income, claim the correct deductions, relief and rebates and pay all taxes on time. Similarly, tax compliance and revenue mean the ability and willingness of taxpayers to

comply with tax laws, declare the correct income in each year and pays the right amount of taxes on time. This implies that tax compliance and revenue is the taxpayers' ability and willingness to comply with tax laws that are determined by ethics, legal environment and other situational factors at a time and place

2.4.2 Relationship between Tax Revenue, Tax Audit, Tax Compliance and Tax Revenue

Undoubtedly, tax revenue constitutes the major source of Internally Generated Revenue in Ethiopia. Like many other ERCA offices, tax revenue generated in east Addis Ababa middle taxpayers branch office is used to cover expenses and push forward the frontiers of infrastructural development. However as shown in the statement of problem that tax revenue in east Addis Ababa middle taxpayers branch office is plagued by many challenges. This underlines the low tax compliance and revenue in the State. As earlier explained, tax compliance and revenue are the process whereby taxpayers comply with the stipulated laws and regulation by remitting the expected tax return accurately and truthfully. Looking at 2013/14-2017/2018 tax period, registered taxpayers was 13,510 of which only 8,103 (60%) taxpayers reported their annual tax return to the branch office reflecting that the operational and strategic basis on which tax administration is built is either weak or managed by un-patriotic workers.

This challenging situation denying the branch office tax revenue needed to improve the living standard of the populace underpins the significance of tax audit. As earlier pointed out, tax audit ensures that satisfactory returns are submitted by the taxpayers to reduce the degree of tax avoidance and tax evasion, to ensure strict compliance with tax laws by taxpayers and to ensure that the amount due is collected and remitted to government. This implies that the compliance level of taxpayers in east Addis Ababa middle taxpayers branch office and the whole nation at large is contingent on the structure and activities of tax audit office. Through desk audit, field audit, back duty audit and registration audit, it is expected that tax compliance level will increase and consequently increase the revenue level. Put differently, tax audit is a compliance tool capable of improving tax revenue accruing to the State Government and the federation at large.

2.4.3 Penalties for Defaulting on Tax

There are various penalties for not paying tax under tax administration proclamation number ፱፻፹፫/፪፻፳ ; every single tax evaded carries its own punishment. Generally, under section 90 of ERCA the tax administration proclamation ERCA has the power to penalize defaulting taxpayers to recover monies owed. So, it is perfectly legal for the authorities to penalize default on taxes; it is the law. Section 95 of the 2006 ERCA tax administration proclamation deals with ‘late tax revenue and compliance’ states that.

Any person who being obliged to deduct any tax under this proclamation or the laws listed in the this Act, but fails to deduct, or having deducted fails to pay to the Service within 30 days from the date the amount was deducted or the time the duty to deduct arose, commits an offence, and upon conviction be liable to pay the tax withheld or not remitted in addition to a penalty if 10 percent of the tax withheld or not remitted per annum at the prevailing rate .

2.4.4 Conceptual Framework of the study

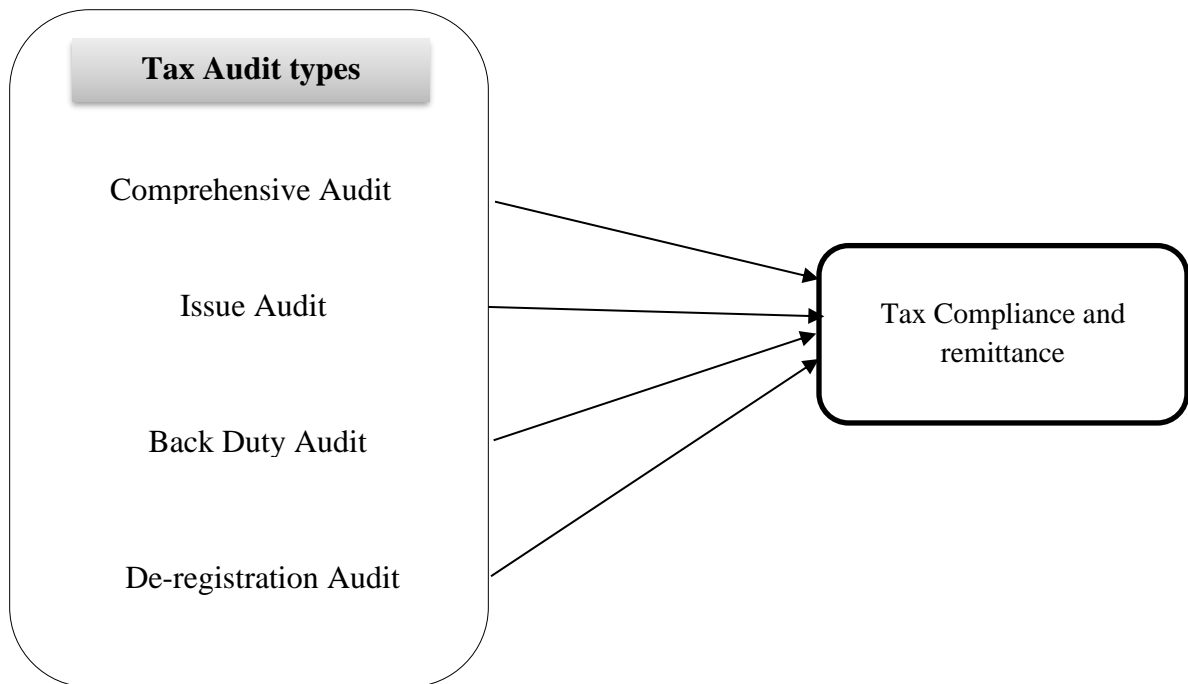


Figure 2.2 Conceptual framework. Source: Researcher's compilation

CHAPTER THREE; RESEARCH DESIGN AND METHODOLOGY

The chapter outlines and explains the methodology employed to achieve the research objective and provides a brief overview of the research approaches, followed with the methodology adopted with proper justification for adopting a certain method, which in turn include sampling design and actual data collection tools, data presentation & analysis techniques used in the study.

3.1 Research Approach

Research approach is the general framework for the study that links, knowledge claims, strategies of enquiry, specific methods and implicitly reflects the researcher attitude as to how knowledge is constructed and commands what method to be employed in the study. As noted in (Creswell, 2009). Thus, the study is a quantitative research where relied on the measurement of quantity or amount plus it helps the researcher to express phenomena in terms of quantity and involves the generation of data in measurable form which can be subjected to rigorous quantitative analysis in a formal and rigid fashion (Kothari, 2004). In addition, quantitative research generates statistical data through the uses of large-scale survey research, using predetermined instruments such as close-ended questionnaires and/or structured interviews to collect data and can be analyzed using statistical procedures to test objective theories through examining the relationship among variables. Moreover, it is advantageous as it procedurally, follow scientific approach, tests reliability and validity of the instrument to minimizes researcher's biasedness by employing large sample size. Hence the results can be believed and generalized to larger population. (Dawson,2002; Creswell,2009).

Thus, the study was used explanatory sequential mixed methods approach as a design in mixed methods that involves a two-phase project in which the researcher collects quantitative data in the first phase, analyzes the results, and then uses the results to plan (or build on to) the second, qualitative phase. The quantitative results typically inform the types of participants to be purposefully selected for the qualitative phase and the types of questions that will be asked of the participants. The overall intent of this design will be to have the qualitative data help explain in more detail the initial quantitative results. A typical procedure might involve collecting survey data in the first phase, analyzing the data, and then following up with qualitative interpretation to help explain the survey responses.

3.2 Research Design

According to Kothari (2004), research design is the arrangement of condition for collection and analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedures. It is the blueprint for collection, measurement and analysis of data. Burns & Bush (2002) stated that research design can be used for three purposes, these are descriptive, exploratory, and explanatory.

Accordingly, the study was used a casual research design since causal studies helps the researcher to seek to discover the effect that a variable(s) has on another (or others) or why certain outcomes are obtained furthermore the concept of causality is grounded in the logic of hypothesis testing , which, in turn, produces inductive conclusions though such conclusions are probabilistic and thus can never be demonstrated with certainty (Cooper, 2014). The inferential questions or hypotheses relate variables or compare groups in terms of variables so that inferences can be drawn from the sample to a population plus it provide a rationale for the choice of statistical test and mention the assumptions associated with the statistic (Creswell, 2014).

3.3 Sample Sampling and techniques

3.3.1 Population, sampling frame and sampling technique

Subsequent to the justification of the research methodology, a sample design was chosen to collect relevant information for the research problem. In selecting a valid sample tax auditor, east Addis Ababa middle taxpayers branch office audit department is the unit of the target population.

Population is described as a group of elements or cases, whether individuals, objects, or events, that conform to specific criteria and to which we intend to generalize the result of the research (McMillan and Schumacher, 2001). For the present study, the target population will comprise of from the Seventy-Nine (79) ERCA tax auditors and official of tax audit department, in east Addis Ababa middle taxpayers branch office in order to assess the effect of tax audit on tax compliance and revenue at the branch office. Thus, in this study, information was collected from east Addis Ababa middle taxpayers branch office, tax audit department in Addis Ababa, because the department has a direct relation related to the subject matter under study.

For the purpose of this study non-probability design in the form of convenience sampling were used since this enables the researcher to have the freedom to choose to pick tax auditors and officials which are relevant to the study from the branch office in Addis Ababa , moreover, it is also the only feasible alternative sampling method as a result that the total population of branch office may not be available for this study. However, the selected sampling design is associated shortcoming relates to its restricted generalizability, particularly in terms of the higher chances of sampling errors (Sekaran, 2003) and to overcome restrictions with respect to generalizability, maintains that it is advisable to use larger samples or total population.

3.3.2 Sample size

If a universe from which a sample is to be drawn does not constitute a homogeneous group stratified sampling technique is to be applied to obtain representation sample. That is to obtain representative sample. Researchers normally work to a 95 per cent level of certainty. This means that if a sample was selected 100 times, at least 95 of these samples would be certain to represent the characteristics of the target population. The confidence level states the precision estimates of the target population as the percentage that is within a certain range or margin of error. Consequently, the study uses a census sampling i.e. studies every unit, everyone or everything in a population and it is known as a complete enumeration, which means a complete count considering the population of 67 (Sixty seven) tax auditors and 12(Twelve) seniors officials of tax audit department at the branch office in ERCA.

3.4 Source and instruments of Data collection

Data collection is the process of gathering and measuring information on variables of interest, in an established systematic fashion that enables one to answer the stated research questions, test hypotheses, and evaluate out comes. A survey questionnaire will be adopted (self-administered) to obtain primary data that enables the researcher to measure the relevant constructs in a quantitative manner through the use of statistical techniques (correlation and multiple regression) to analyze the respondents' level of agreement or disagreement in the differences between the variables employed in the study and the factors affecting employees turnover intentions (Creswell, 2014) and the questionnaire uses a five-point Likert scale to measure the variables employed to obtain quantitative data.

The survey was conducted using self-administrated questionnaires in east Addis Ababa middle taxpayers ERCA branch office, tax audit department to choose the respondents. Each prospective respondent will be initially approached and informed the purpose of the survey. A close ended questionnaire was used and divided into two major parts, part 1 and 2. while part 1 covered the demographic data of the respondents, while part 2 covered items on predictor variables and the outcome variable.

By reviewing the works of Henry and Hassan (2017); Jackson and Milliron (1986); Clement and Ayodele (2019); Mohd *et al.* (2013); and Engida and Baisa (2014) variables for tax audit effect on tax compliance and revenue were identified and incorporated into the structured questionnaire. Respondents were asked to indicate their level of agreement with each of the 16 attributes of a five-point Likert-scale ranging from 1 (strongly disagree) to 5 (strongly agree). In order to ensure the validity of survey instrument, the initial questionnaire will be given to a sample of faculty members to judge the content's validity, the clarity of its items meaning and to assure its linkages with the study objectives.

3.4.1 Procedure of Data Collection

Data was collected by using self-administered survey questionnaire in tax audit department of east Addis Ababa middle taxpayers ERCA branch office. These respondents were obtained from the list of each tax audit unit of tax audit department from the branch office and the questionnaires were distributed and administered to list of each tax audit unit respondents. The researcher personally handover and requests the respondents to fill up the questionnaire and brief the purpose of the research. The respondents fill out the questionnaire following the instructions provided in the questions then immediately collect filled questionnaire.

3.4.2 Method of Data analysis

Data analysis is carried out using the Statistical Package for Social Science (SPSS) version 23. The study focus on the following dimensions of independent variables, tax audit types (comprehensive tax audit, issue tax audit, back duty tax audit and de-registration audit) effect on tax payers compliance and revenue in the branch office which is a dependent Variables which was measured in a five point Likert scale. For data analysis, the study used both descriptive and inferential statistics. Descriptive statistics, which were measures of percentage

and frequency in this study, were used to describe the demographic details of the respondents, as well as central tendency, dispersion and standard deviations (SDs) were measures of the perceptions of respondents about individual items for tax audit types and tax compliance and revenue .

The Independent and dependent variables scale items were tested using Pearson Correlation to ascertain whether variables used in this study depict the relationship between the variables with the degree of association or not and multiple regression analysis has the objective of predicting changes in the dependent variable in response to changes in the independent variables i.e. the effect of tax audit types on tax payers compliance and revenue were tested. Before multiple regressions analysis was performed, reliability and validity tests were tested. For reliability and validity, Cronbach's alpha and correlational analysis were performed.

3.5 Scope of the Study

The study assesses the effect of tax audit on taxpayer's compliance and revenue . The research was conducted ERCA branch office, so the scope of the study will be limited to east Addis Ababa middle taxpayers branch office. Money and time are the main constraints of this study. Furthermore, Survey instrument were used for the purposes of comparison, evaluation, and generalization. Disadvantages of survey research include the inability to gather anything more than superficial data without much depth; the demands on time, energy, and money; subjectivity to sampling error; and the requirement of knowledge concerning both survey methodology and research.

Many of the disadvantages can be improved through careful consideration of the design of the research; where the instruments were collected at a single point in time only from branch office tax audit department in Addis Ababa. Furthermore, the study used explanatory sequential method that provide an opportunity for the researcher since it requires less resources and produces less qualitative data which makes it an easier prospect for researchers to tackle. This method is used in quantitative designs where only a limited quantity of qualitative data is necessary (Creswell 2012) on the other hand the challenge with using the method is that it can often be difficult to integrate results, and that this approach is very difficult within qualitative data in the study.

3.6 Organization of Research Report

The study is organized into five chapters, including this chapter that discusses the background, research problem, research questions, and objectives of the study. Related literatures were reviewed for this study and the conceptual framework together with the research questions formulated were discussed under chapter two. Chapter three discussed in detail about the research methodology used in the study. Presentation, analysis, and interpretation of the data collected were discussed in chapter four of the report and finally, conclusion and recommendations of the study will be presented in chapter five.

3.7 Ethical in research reports

In the context of research, ethics is defined as the appropriateness of the researcher's behavior in relation to the rights of the participants or subjects of the research work (Saunders, *et.al.*, 2009). This study was governed by the general rules of research ethics in such a way that respondents were requested to provide information on voluntary basis, there were no prior communication about the purpose of the study, and confidentiality of the information were guaranteed. Moreover, the researcher, to his best level, were abided by the rules and regulations of the University and conducted the study based on objective judgment.

CHAPTER FOUR; RESULTS AND DISCUSSIONS

4.1 Introduction

In this chapter, a brief overview of the respondents' information was presented then a statistical analysis of the data collected will proceed. In the analysis, the data were compared with the theories presented in the theoretical research frame, all derived from the literature review. The analysis will follow in the same structure as the research questions and objectives.

4.2 Results and findings of the study

4.2.1 Description of Sample

The population comprises of tax auditors, team leaders and officials in tax audit department at east Addis Ababa middle taxpayers branch office to get the actual set of units from which a sample was drawn, information was collected from the branch tax audit department and a total of 79 survey instruments were distributed 79 fully filled survey questioners' were obtained since the researcher is an employee of the branch office for longer time now and already have prior relationship with the department greatly helps to collect self-administered survey instruments from the participants well.

Table 4.1 Questionnaire Distribution and Response Rates

Method	Distributed (%)	Returned (%)	Response Rate (%)
Population	79		
Sample size (Census)	79		
Hand Delivered	79	79	100%

Source: researcher's own compilation of Survey data 2019

4.2.2 Demographic Profile of the Respondents

The first three demographic variables tried to look at the gender age and level of education distribution of the participants. As it can be seen in the table below the number of females was slightly more than the females (59.5%) while looking at the age distribution, it looks like most of the participants were the ages of 30 and below while the second highest age group was between 30-40years.

Table 4.2 Personal Background of Tax Auditors and Managers

Profile	Frequency	Percent	Cum.
Sex of auditor and audit manager respondent			
Male	32	40.51	40.51
Female	47	59.49	100.00
Total	79	100.00	
Age			
>=30 years	44	55.70	55.70
30 - 40 years	30	37.97	93.67
40 - 50 years	5	6.33	100.00
Total	79	100.0	
Education status of auditor and audit manager respondent			
Diploma	3	3.80	3.80
BSc/BA Degree	62	78.48	82.28
MSC/MA Degree and above	14	17.72	100.0
Total	79	100.00	
Field of study attended			
Accounting	37	46.84	46.84
Finance	2	2.53	49.37
Economics	6	7.59	56.96
Management	30	37.97	94.94
Others	4	5.06	100.00
Total	79	100.00	
Experience before joining this sector			
Yes	12	15.19	15.19
No	67	84.81	100.00
Total	79	100.00	
Current experience			
<2 years	34	43.04	43.04
2 - 4 years	28	35.44	78.48
4 - 6 years	9	11.39	89.87
6 - 10 years	8	10.13	100.00
Total	79	100.00	
Selection criteria for current position			
Based on your past work experience related	45	56.96	56.96
Based on your field of study completed	18	22.78	79.75
Based on education level achieved	16	20.25	100.00
Total	79	100.00	
Position			
Manager	8	9.78	9.78
Auditor	68	85.78	95.56
Other	4	4.44	100.00
Total	79		
Did you attend any special training?			
Preparation of audit findings	6	7.11	7.11
Audit selection techniques	6	8.00	15.11
Computer-assisted tax audit techniques	11	13.33	28.44
Other	5	6.67	35.11
More than one of the above	51	64.89	100.00
Total	79		

Source: Data Collected from Tax Auditor, and Tax Manager, 2019

Looking at education level of the respondents more than half of the respondents (78.87%) are BA/BSc. degree holders while 17.72% of respondent are MSc/MA degree holders. Similarly, 46.84% of respondents are from accounting field of study, while 37.97% are studied management and the remaining 15% of are studied economics, finance and others indicating almost half of the department employees background is from non-finance background and may impact the audit activity in the branch office .Furthermore 84.81% of the respondents have no previous experience on tax auditing before and the the response of the tax auditors also indicated that 56.96% of respondents were replied that their related past experience were the main bases for the current position assignment, where as 22.78% and 20.78% of respondents were indicated that they are selected for current position based on their field of study completed and education level achieved respectively. Similarly,85.78% of the respondents were found to be tax auditors within the department while 9.87% are managers. correspondingly 64.89% of the respondents indicated that they have taken more than one training and 13.33% of the respondents indicated that they have received a computer-assisted tax audit techniques training. The remaining 8% and 7.11% indicated that they have attended preparation of audit findings and audit selection techniques training while the remaining 6.67% of them indicated that they have received other trainings which are not stated in the survey instrument. Even though majority of the respondents are auditors with no previous experience related to tax auditing and received few related training may implicate that there a gap in professional job assignment that may affect the quality of audit performed in the branch office.

4.2.3 Descriptive statistics for independent variables

Von der Heyde, Brandhorst & Kluge, (2015) introduced a concept called bomb crater effect which is defined by the newer experimental-empirical literature. This effect was determined within the time interval of the audit while assessing the audit probability in the future. At first, in accordance with the concept used by Mittone (2002), soon after a taxpayer is audited, that taxpayer's tax compliance decreases, and he/she violates many rules. Accordingly, since the taxpayers, who has gone through audit, believe that an audit will not be repeated for a second time at the same place, they tend to decide to avoid or even evade taxes. The term's point of origin is the First World War. Hereunder, in the combat when under heavy bombardment, soldiers believed that a bomb's falling on the same place twice is impossible and hid in the crater

of the last bomb and believed that next bombs will not fall on the same spot within a short time interval (Mittone, 2006). It is considered that there is a similarity in tax audits. In the first case, individual assumes that the occurrence probability of a random event such as an audit is high since he/she was not subject to an audit for some time or recently (the misperception of chance). In the second case, it may be assumed that the taxpayer who went through an audit may try to repair his/her losses through tax evasion in the next transactions (the loss repair effect) (Mittone *et.al.* 2017).

Concerning the perceptions of the respondents on the effect of tax audit on taxpayer's compliance and revenue in the branch east Addis Ababa middle taxpayers branch office there were 16 statements categorized in to tax audit types factors that affect the taxpayers compliance and revenue in the branch office and the results are a summary of a five-point Likert scale containing mean and standard deviation (SD).

Table 4.3 Descriptive statistics for independent variables

	Mean	Std.D
Comprehensive Audit	3.60	.797
Tax audit takes within the premises of tax officials	3.92	1.011
Comprehensive Audit is cost effective	3.59	1.141
It allows auditors to independently determine the accurate tax liability of the taxpayers	3.30	1.156
Issue Audit	3.37	.356
Desk audit often lead to field audit when additional documents are needed	3.67	1.091
It requires the taxpayers are well-informed before the commencement of the audit.	3.56	1.143
It allows physical verification of taxpayers claims to confirm the facts and figure of the returns	2.88	1.159
Back Duty Audit	3.26	.687
It is used to reveal doubtful claim of capital allowance related to previous or current year	3.36	1.079
It corrects the mistake of lesser tax as a result of falsification of document submitted by the taxpayers	2.97	1.206
It reveals the reduction of profit in the return's files in tax office	3.46	1.097
De-Registration Audit	3.00	.995
De-registration audit documents taxpayers' identities and other	2.66	1.330

business information obtained from trade office and ERCA branch offices		
It ascertains organizations and other chargeable persons evading tax	2.83	1.321
It is used to cage individuals and companies in the tax net	3.50	1.302

Source: researcher's own compilation of Survey data 2019

Scale: 1=Not High, 2= Less High, 3= High 4= very High, and 5= Extremely High Cooper,(2014)

The results, presented in table 3, indicate that comprehensive tax audit is the most important dimension of tax audit (m=3.60). Furthermore, Tax audit takes within the premises of tax officials effect is significant consequently respondents' have in general have a positive perception towards comprehensive Audit being cost effective in addition respondents indicated that comprehensive tax audit allows auditors to independently determine the accurate tax liability of the taxpayers.

The results, presented in table 3, also shows that issue audit is the most next important dimension of tax audit effect (m=3.37). However, the effect of issue audit (desk audit) is more significant often leading to field audit when additional documents are needed still respondents believed that the process requires the taxpayers being well-informed before the commencement of the audit. On the other hand, the respondents' indicated that it is less likely that issue tax audit permits physical verification of taxpayers claims to confirm the facts and figure of the returns.

Concerning back duty audit, respondents believe that back duty audit affects taxpayer's compliance and revenue in the branch office is high (m=3.26), and similarly respondents also indicated that de-registration audit also relatively has a high effect on taxpayers' compliance and revenue in the branch office (m=3.00). Moreover, respondents also highly believed that back duty tax audit used to reveal doubtful claim of capital allowance related to previous or current year (m=3.36) and reveals the reduction of profit in the return's files in tax office (m=3.46). in similar manner respondents also highly believed that de-registration audit can be used to cage individuals and companies in the tax net (m=3.50) while it is less likely that de-registration audit ascertains organizations and other chargeable persons evading tax.

4.2.4 Reliability of the instrument used

Consequently, the researchers calculated reliability of this study using Cronbach's Alpha to check the internal consistency among items used in the survey questionnaire. Thus, Table 4 shows the results of Cronbach's Alpha coefficients. It was 67. % for comprehensive audit and 66.7% issue audit, 66.4% for back duty audit,74.9% for de-registration audit, 71.6% tax compliance and revenue . As overall result, the items of questionnaire are stable coefficient value of all fields (82.1%). This result is acceptable because it's greater than the percentage 0.60 (Tavakol and Dennick, 2011).

Table 4.4 Cronbach's Alpha Coefficients

Variable	No. of items	Cronbach's Alpha
Comprehensive Audit	3	.670
Issue Audit	3	.667
Back Duty Audit	3	.664
De-Registration Audit	3	.749
Tax Compliance and Revenue	4	.716
Overall	22	.821

Source: researcher's own compilation of Survey data 2019

4.4.1 Relationship between Tax audit and tax compliance and revenue

4.4.1.1 Correlation Analysis

The correlation coefficient depicts the basic relationship across two variables: “Do two variables tend to increase together (Co-together) or to change in opposite directions &, if so, by how much? The two most commonly used statistical techniques to analyze relationships between continuous variables are the Pearson correlation and linear regression. The term correlation is correct, but correlation also refers to a specific statistical technique. Since the study have parametric data Pearson correlations are used to study the relationship between two continuous variables & the theoretical correlation coefficient is often expressed using the Greek letter rho (ρ).

The Pearson correlation coefficient is used to quantify the strength and direction of the relationship between continuous variables. The Pearson correlation coefficient is a measure of

the extent to which there is a linear relationship between two variables. It has values between -1 and $+1$, so that the larger the value, the stronger the correlation. As an example, a correlation of $+1$ indicates that the data fall on a perfect straight line sloping upward (positive relationship), while a correlation of -1 would represent data forming a straight line sloping downward (negative relationship). A correlation of 0 indicates there is no straight-line relationship at all (SPSS v.23 manual). Correspondingly, the effect size for a correlation measures the strength of the relationship. For correlation, r serves as the numeric measure of the effect size whose strength can be interpreted according to criteria developed by Cohen (1988):

- When r is greater than 0.10 and less than 0.30 , the effect size is “small.”
- When r is greater than 0.30 and less than 0.50 , the effect size is “medium.”
- When r is greater than 0.50 the effect size is “large.”

Effect sizes smaller than 0.10 would be considered trivial. These terms (small, medium, and large) associated with the size of the correlation are intended to provide users with a specific word that can be used to describe the strength of the correlation in a write-up (SPSS v.23 manual).

Table 4.5 Correlation table

Variables	Compliance audit	Issue audit	Back duty Audit	De-registration Audit	Tax Compliance and Revenue
Compliance audit	1				
Sig. (2-tailed)					
Issue audit	0.521**	1			
Sig. (2-tailed)	0.000				
Back duty Audit	0.699**	0.586**	1		
Sig. (2-tailed)	0.000	0.000			
De-registration Audit	0.474**	0.699**	0.599**	1	
Sig. (2-tailed)	0.000	0.000	0.000		
Tax Compliance and Revenue	0.675**	0.755**	0.748**	0.745**	1
Sig. (2-tailed)	0.000	0.000	0.000	0.000	

***. Correlation is significant at the 0.01 level (2-tailed).* *Pearson rho (ρ).* *N=79*

Source: researcher’s own compilation of Survey data 2019

The outcome above revealed that there is a positive significant correlation between tax compliance and revenue and compliance audit, issue audit, back duty audit and de-registration audit with correlation coefficient and p-values of 0.675** and 0.000; 0.755** and 0.000; 0.748** and 0.000 and 0.745** and 0.000 respectively.

This connotes that tax compliance and revenue move in the same direction with compliance audit, issue audit, back duty audit and de-registration audit. In the same vein, it could be deduced from the outcome that there is a positive significant relationship between compliance audit, issue audit, back duty audit and de-registration audit with correlation coefficients and p-values of 0.521** and 0.000; 0.699** and 0.000 and 0.474** and 0.000 respectively. Also, it was gathered that issue audit has a significantly positive relationship with back duty audit and de-registration audit with correlation coefficients and p-values of 0.586** and 0.000 and 0.699** and 0.000 respectively. Furthermore, it was revealed that back duty audit has a positive significant relationship with de-registration audit with correlation coefficient of 0.599** and p-value of 0.000. The major discovery made in the analysis is that all the variables move in the same direction. This means that when compliance audit, issue audit, back duty audit and de-registration audit are increasing, the compliance level of taxpayers is also increasing.

4.4.2 Multiple Regression Analysis

Regression analysis is about predicting the future (the unknown) based on data collected from the past (the known). A *regression analysis* determines the mathematical equation to be used to figure out what will happen, within a certain range of probability. It analyzes one variable, the dependent variable, taking into consideration the effect on it by one or more factors, the independent variables. The analysis determines that some independent variables have more effect than others, so their weights must be considered when they are the basis of a prediction. Regression analysis, therefore, is the process of looking for predictors and determining how well they predict.

When only one independent variable is considered, it's called a simple regression. But this study uses more than one independent variable, its uses multiple regressions analysis that shows the influence of two or more variables on a designated dependent variable. The result of this sequence is to produce a regression analysis that identifies which of the tax audit predictors

(compliance audit, issue audit, back duty audit and de-registration audit) have the greatest influence on the dependent variable (tax compliance and revenue) of east Addis Ababa middle taxpayers branch office. The enter method of selection will enter at one a time all specified variables regardless of the significance level. Accordingly, the following fundamental criterions were fulfilled for creating a reliable model:

- The research was thoughtfully crafted and carefully designed by avoiding meaningless relationships or serious design flaws that may affect the arithmetic correctness of regression.
- The sample size should be large enough to create meaningful correlations. There are no hard rules concerning acceptable sample size, but as N drops below 50, the validity of the results become increasingly questionable, while the sample size in this study was 79 (*annex D*).
- Data should be examined carefully for outliers or other abnormalities (*See annex E*).
- The predictor variables should be approximately normally distributed, ideally with skewness and kurtosis values between ± 1 (*See annex D*).
- the issue of linear dependency between the predictor variables were considered i.e. The study never uses two variables when one is partially or entirely dependent upon the other and avoids using variables that are conceptually very similar that can be checked by high correlation of variables (*See annex C*),

The results of multiple regression analysis where enter entry method used a dependent variable and any number of predictor (independent) variables are designated are presented in the Table

Table 4.6 Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Sig. F Change
1	0.511	0.769	0.762	0.585	.000

D -Predictors: (Constant), compliance audit, issue audit, back duty audit and de-registration audit

Dependent Variable: tax compliance and Revenue

Source: researcher's own compilation of Survey data 2019

The first statistic to look for in SPSS output when performing regression analyses is if Sig.-F is significant or not by seeing (“ANOVA”) table. the table shows the goodness of fit of the model. The lower this number, the better the fit. Typically, if “Sig.” is greater than 0.05, we conclude that our model could not fit the data (See annex E) If Sig. < .01, then the model is significant at 99%, if Sig. < .05, then the model is significant at 95%, and if Sig. <.1, the model is significant at 90%. Significance implies that we can accept the model. If Sig>., 1 then the model was not

significant (a relationship could not be found) or "R-square is not significantly different from zero."

Table 4.7 Relationship between Tax audit, Tax compliance and revenue

Variable	coefficients		
	Standardized Beta	t-values	(p-value) Sig.
(Constant)	2.131	3.089	.002
compliance audit	0.792	3.275	.001
Issue audit	1.311	4.622	.000
back duty audit	1.116	3.921	.000
de-registration audit	1.049	4.471	.000

Dependent Variable: tax compliance and Revenue $R^2 = 0.769$; $F=103.985$; Sig. $F = 0.000e$

Source: researcher's own compilation of Survey data 2019

4.4.3.2 Interpretation of regression results

Keeping the above criteria, in this study multiple regression analysis was done for independent factors tax audit predictors (*compliance audit, issue audit, back duty audit and de-registration audit*) against the dependent variable (*tax compliance and Revenue*) even though model as a whole is significant (sig. $P < 0.001$) indicating that for 99% confidence in the ability of the model to explain the dependent variable.

Table 4.8 Coefficients a

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	1.758	0.690		3.089	.002
compliance audit	0.209	0.242	0.792	3.275	.001
Issue audit	0.111	0.281	1.311	4.622	.000
back duty audit	0.106	0.285	1.116	3.921	.000
de-registration audit	0.134	0.235	1.049	4.471	.000

a. Dependent Variable: tax compliance and Revenue

Source: researcher's own compilation of Survey data 2019

Estimation result presented in the table above reported coefficient estimate of 0.792, 1.311, 1.116 and 1.049 alongside the p-value of 0.001, 0.000, 0.000 and 0.000 for compliance audit, issue audit, back duty audit and registration audit. The result showed that compliance audit, issue audit, back audit and registration audit exert significant positive effect on tax compliance and revenue ; reflecting that tax compliance and revenue would increase through desk audit, field audit, back duty audit and registration audit. R-square reported stood at 77%. This implies that about 77% of the systematic variation in the tax compliance and revenue could be explained by compliance audit, issue audit, back audit and registration audit. The F-statistics of 103.985 revealed that the regression model was significant.

CHAPTER FIVE: CONCLUSIONS AND RECOMMENDATIONS.

5.1 Introduction

The aim of this chapter is to present a summary of all the findings and to make conclusions based on the study findings. Additionally, the implications of the study to the theory and practice are addressed along with directions to future researches. Finally, the limitations of the study and suggestions for further research have been presented.

5.2 Conclusions

Respondents' indicated that comprehensive tax audit is the most important dimension of tax audit affecting taxpayer's compliance and revenue . Issuance audit also found to be the next most important dimension of tax audit affecting taxpayer's compliance and revenue . Also, the result revealed that there is a positive significant correlation between tax compliance and revenue and compliance audit, issue audit, back duty audit and de-registration audit with correlation coefficient and p-values of 0.675** and 0.000; 0.755** and 0.000; 0.748** and 0.000 and 0.745** and 0.000 respectively.

Furthermore, major discoveries made in the study is that tax audit has significant positive effect on tax compliance and revenue in east Addis Ababa middle taxpayers branch office. This discovery attribute rapid increase in tax compliance and revenue to the effect of compliance audit, issue audit, back duty audit and de-registration audit. The argument that ensues from this discovery is that tax audit can engender increase in the compliance and revenue level of taxpayers in east Addis Ababa middle taxpayers branch office. This outcome corroborated the findings of Onoja and Iwarere (2015). They concluded that tax audit has significant effects on revenue generation. Similarly, this discovery gives credence to the conclusion of Onuoha and Dada (2016). They submitted that tax audit and investigation are inevitable to improve on the collection of tax revenues in Nigeria.

Even, Adediran, Alade & Oshode (2013) concluded that tax audit and investigations could increase the revenue base of the government and can also stamp out the incidents of tax evasion in the country. The corollary of these findings is that tax compliance and revenue level in east

Addis Ababa middle taxpayers branch office could be improved upon through desk audit, field audit, back duty audit and registration audit.

5.3 Recommendations

The study centered on the effects of tax audit on tax compliance and revenue of tax revenue in east Addis Ababa middle taxpayers branch office. Based on the discoveries made in this study it can be established that tax audit will stimulate tax compliance and revenue in east Addis Ababa middle taxpayers branch office. Through compliance audit, issue audit, back duty audit and de-registration audit, tax compliance and revenue will increase, thereby increasing the revenue pool of the branch office. Tax audit in the context of ERCA is defined as an activity or a set of activities performed by tax auditors to determine the taxpayer's correct tax liabilities for an accounting or tax period. Tax auditor examinee taxpayers' organizational procedure and financial records in order to assess compliance with tax laws and verify the true, fair, reliable and accurate of tax returns and financial statements (ERCA, 2010). Therefore, the revenue office should consider on the convenient tax audit system as well as making brief tax law, policies, rules and regulations in the office.

Therefore, the study recommended that east Addis Ababa middle taxpayers branch office of ERCA should intensify tax audit through the employment of more competent staffs and intermittent training in order to cause increase in tax compliance level in the branch office. Also, audited files that reveals criminal act should not be taken slightly. Tax evaders and avoiders should be seriously dealt with to deter others from plodding the same criminal path.

The finding show that the adequacy of tax audit unit has a positive significant influence on tax compliance and revenue therefore the study recommends the branch office to take in to consideration the tax auditor's training, education, experience, communication and independence, as well as improving the relationship between taxpayers and tax auditors. The current study indicates that a tax audit with educated, experienced and trained auditors is able to enhance tax audit effectiveness. Likewise, when a tax audit unit is adequate, it will have clear division of labour, sufficient manuals to carry out the audit professionally, a strong audit management team and full autonomy to carry out its duties. The findings here are consistent with agency theory, which considers the principal– agent relationship between tax auditors and

government. As we argued in the contingency theory, the government here is considered to be an environmental factor influencing the tax authority's work, including ensuring that the tax audit units are adequate. This will help the tax auditors to have a good business understanding, hence reducing information asymmetry between the government and taxpayers.

References

- Alemu and Deresse. 2009, *Forty Shops Shut Down for VAT violations' Addis Fortune*: Retrieved December 12, 2015, from <http://allafrica.com/stories/200904130945>.
- Adams, C. (2001) *For Good and Evil the Impact of Taxes on the Course of Civilization*. Hacienda Publishing, Madison.
- Agumas, A.L. (2016) Impact of Tax Audit on Improving Taxpayers Compliance: Empirical Evidence from Ethiopian Revenue Authority at Federal Level. *International Journal of Accounting Research* , 2, 1-19. <https://doi.org/10.12816/0033279>
- Allingham, M. G. & Agnar S. (1972). Income Tax Evasion: A Theoretical Analysis. *Journal of Public Economics*, 1, 323-338.
- Ajzen, I. (1988) *The Theory of Planned Behaviour. Organizational Behaviour and Human Decision Processes* , 50, 179-211. [https://doi.org/10.1016/0749-5978\(91\)90020-T](https://doi.org/10.1016/0749-5978(91)90020-T)
- Adediran, S.A., Alade, S.O. and Oshode, A.A. (2013) The Impact of Tax Audit and Investigation on Revenue Generation in Nigeria. *European Journal of Business and Management* , 5, 171-175.
- Annual Report of East Addis Ababa Middle Taxpayers Branch Office and Consolidated Annual Report of Revenue Minister during period of 2013/14 to 2017/18
- Annual Report Issued by East Addis Ababa Middle Taxpayers Branch Office (2006-2010E.C.
- Bassey, O.U. (2013) *Companies Income Taxation in Nigeria*. CIBN Press Ltd., Lagos.
- Basu, S.K. 2006, *Auditing Principle and Techniques*” Delhi: Dorling Kindersley Pvt Ltd.
- Baurer, L. (2005), *Tax Administration and Small and Medium Enterprises in Developing Countries: small and Medium Enterprise Department, World Bank*.
- Baurer, Lewis I. 2005, *Tax Administrations and Small and Medium Enterprises in Developing Countries*, Small and Medium Enterprise Department, World Bank
- Badara, M.S. (2012) The Effect of Tax Audit on Tax Compliance in Nigeria (A Study of Bauchi State Board of Internal Revenue). *Research Journal of Finance and Accounting* , 3, 74-80.

- Barış Yildiz,2019, A Theoretical Analysis on Tax Auditing-Tax Compliance Determinants and Bomb Crater Effect, Turkey's Economic, Fiscal 74 and Social Problems, published by © 2019 Ekin Yayınevi digital ,Turkey , ISBN: 978-605-327-868-9
- Creswell, John W 2007, *Research design: Qualitative, Quantitative, and Mixed Methods Approaches*, 2nd edn, Sage Publications, London, UK.
- Creswell, John W 2009, *Research design: Qualitative, Quantitative, and Mixed Methods Approaches*, 3rd edn, Sage Publications, California, USA.
- Casagrande, A., Di Cagno, D., Pandimiglio, A., & Spallone, M. (2015). The effect of competition on tax compliance: The role of audit rules and shame. *Journal of Behavioral and Experimental Economics*, 59, 96-110.
- Donald R. Cooper,(2014), *Business research methods, Twelfth edition* Published by McGraw-Hill/Irwin, a business unit of The McGraw-Hill Companies, Inc., 1221 Avenue of the Americas, New York, NY, 10020. Copyright © 2014 by the McGraw-Hill Companies, Inc. All rights reserved. Printed in the United States of America
- Damme, L. T. (2008). "Taxation Policy in Developing Countries: what is the IMF's involvement? DV406 Consultancy project,. Retrieved December 16, 2015, from <<http://visar.csustan.edu/aaba/LaurenDamme.pdf>>.
- Dawson, C 2002, *Practical Research Methods: A user-friendly guide to mastering research techniques and projects*, How To Books Ltd, Oxford OX4 1 RE, UK.
- Ebrill, L, M Keen, J Bodin and V Summers 2001, *The Modern VAT*, IMF, Washington DC.
- Engida, T. G., & Baisa, G. A. (2014). Factors Influencing taxpayers' compliance with the tax system: An empirical study in Mekelle City, Ethiopia. *eJournal of Tax Research*, 12(2).
- ERCA, (2010), "Tax and Post Clearance Audit Policy and Strategy", Addis Ababa, Ethiopia.
- ERCA,(2014),“Domestic Tax Audit Manual" *Ethiopian Revenues and Customs Authority*, Addis Ababa, Ethiopia.
- Fave, K.S. and Dabari, I.J. (2017) Empirical Analysis of Tax Revenue Collection by The Federal Government in Nigeria. *European Journal of Accounting, Auditing and Finance Research* , 5, 1-11.

- Fishbein, M. and Ajzen, I. (1975) *Belief, Attitude, Intention, and Behavior*. Addison- Wesley, Reading.
- Gupta, M and V. Nagadevara (undated), Audit Selection Strategy for Improving Tax Compliance: Application of Data Mining Techniques', available at, <http://www.csisigegov.org/39_354.pdt>, accessed on February 2017.
- Gubar, E., Kumacheva, S., Zhitkova, E., & Porokhnyavaya, O. (2015, October). *Propagation of information over the network of taxpayers in the model of tax auditing*. In " *Stability and Control Processes*" in Memory of VI Zubov (SCP), 2015 International Conference pp. 244-247. IEEE. <http://eprints.biblio.unitn.it/51/> (Date of Access: 02.11.2018).
- Gangl, K., Torgler, B., Kirchler, E., & Hofmann, E. (2014). *Effects of supervision on tax compliance: Evidence from a field experiment in Austria*. *Economics Letters*, 123(3), 378-382.
- Jackson B.R & Milliron V.C (1986). *Tax compliance research: Findings, problems, and prospects*. *Journal of Accounting Literature* 5(1):125-165.
- Jemaiyo, B. and Mutai, G.C. (2016) Determinants of Tax Compliance and Their Influence on the Level of Tax Compliance in the Real Estate Sector, Eldoret town-Kenya. *African Peer Reviewed Journals* , 12, 555-584.
- Kothari, C. (2004). *Research Methodology: Method and Techniques (2nd Ed.)*. New Delhi: New Age International PL td. Publisher
- Keen, M and S. Smith 2007, "VAT Fraud and Evasion: What Do We Know, and What Can be Done?" IMF working paper No WP/07/31, IMF, UK, available at, <<http://www.imf.org/external/pubs/ft/wp/2007/wp0731.pdf>>, accessed on June 2017.
- Kircher, E.E. (2008) Enforced versus Voluntary Tax Compliance: The Slippery Framework. *Journal of Economic Psychology*, 29, 210-225. <https://doi.org/10.1016/j.joep.2007.05.004>
- Lymer, A. and Oats, L. 2009, *Taxation, Policy and Practice*, 16th ed. Birmingham, Fiscal Publications. www.birmingham.ac.uk

- Ladi, O.M. and Henry, I.T. (2015) Effects of Tax Audit on Revenue Generation: Federal Inland Revenue Service. *Journal of Good Governance on Sustainable Development in Africa*, 2, 67-80.
- McKinley, Terry and Katerina Kyrili 2009, 'Is Stagnation of Domestic Revenue in Low-Income Countries Inevitable?', *Discussion Paper 27/09*, CDPR, School of Oriental and African Studies, University of London, London, UK.
- Mebratu, A. A. S 2016, Impact of tax audit on improving taxpayers' compliance based on Empirical evidence from Ethiopian Revenue Authority at Federal level, *International Journal of Accounting Research*, Vol.2, No. 12.
- Milack, J. (undated), "Audit Program Planning and Management: available at, <http://www.accenture.com/INR/rdonlyres/52149C62-F449-47DB-9F4A-A11-CA70D209D/0/taxl_wp_milack2.pdt>", accessed on May 2016.
- Mirera, N. D. 2014, The Effects of tax audit on Revenue collection based on the case of Kenya Revenue Authority, *A research project submitted in partial fulfillments of the requirements for the award of Degree of Masters in business administration, School of business of the university, Nairobi, Kenya.*
- Modugu and Anyaduba, (2014), "Impact of Tax Audit on Tax Compliance in Nigeria" *International Journal of Business and Social Science*, 207-214.
- Modugu, K.P. and Anyaduba, J.O. (2014) Impact of Tax Audit on Tax Compliance in Nigeria. *International Journal of Business and Social Science*, 5, 207-215.
- Mohd, R.P., Mohamad, A. and Mohd, H.H. (2013) Taxpayers Compliance Behaviour: *Economic Factors Approach. Jurnal Pengurusan*, 38, 75-85.
- Mendoza, J. P., Wielhouwer, J. L., & Kirchler, E. (2017). The backfiring effect of auditing on tax compliance. *Journal of Economic Psychology*, 62, 284-294.
- Mittone, L. (2002). *Dynamic behaviours in tax evasion. An experimental approach*. University of Trento.
- Mittone, L. (2006). Dynamic behaviour in tax evasion: An experimental approach. *The Journal of Socio-Economics*, 35(5), 813-835.

- Mittone, L., Panebianco, F., & Santoro, A. (2017). The bomb-crater effect of tax audits: Beyond the misperception of chance. *Journal of Economic Psychology*, 61, 225- 243.
- OECD. (2006, October 16). "Strengthening Tax Audit Capabilities": General Principles and Approaches".
- OECD. 2004, Compliance Risk Management: Audit Case Selection Method, Information Notes
- Olaoye, O.O. and Ogundipe, A.A. (2018) Application of Tax Audit and Investigation on Tax Evasion Control in Nigeria, *Journal of Accounting, Finance and Auditing Studies* , 4, 79-92.
- Olaoye, C.O., Adebayo, A.I. and dada, R.A. (2014) Harnessing Internally Generated Revenue: A Panacea to Tax Evasion and Avoidance in Nigeria a Study of Ekiti State; Economics and Identity. *The Quarterly Journal of Economics*, 115, 715-753.
- Ojo, O.D. (2016) *The Impact of Tax Audit on the Compliance Level of Taxpayers in Kwara State*. Unpublished Master's Thesis, University of Ilorin, Ilorin.
- Onoja, M.L. and Iwarere, T.H. (2015) Effects of Tax Audit on Revenue Generation Federal Inland Revenue Service, Abuja Experience. *Journal of Good Governance and Sustainable Development in Africa* , 2, 67-80.
- Onuoha, L.N. and Dada, S.O. (2016) Tax Audit and Investigation as Imperatives for Efficient Tax Administration in Nigeria. *Journal of Business Administration and Management Sciences Research*, 5, 66-76.
- Okonkwo, A.I. (2014) *Critical Evaluation of Tax Audit and Investigation Processes in Enhancing Tax Compliance*. Being a Paper Presented at the CITN MPTP in Uyo on October 8-9.
- Palil, M.R. and Mustapha, A.F. (2011) Tax Audit and Tax Compliance in Asia: A Case Study of Malaysia. *European Journal of Social Sciences* , 24, 7-32.
- Reagan, Ronald 2015, *Introduction to Tax Audit*. Bangalore, India: Prakash and Rajguru.
- Richardson, G. (2008). The relationship between culture and tax evasion across countries: Additional evidence and extensions. *Journal of International Accounting, Auditing and Taxation*, 17(2), 67-78

- Richardson, M., & Sawyer, A. J. (2001). *A taxonomy of the tax compliance literature: further findings, problems and prospects. Austl. Tax F.*, 16, 137-284
- Samuel Atisbha, 2016, Assessment of tax audit practices and its challenges: a case study of Ethiopian revenue and customs authority large Taxpayers' office. *African International Journal of Research in Management*, Issue - 04, Vol.08, pp. 23-36
- Sarfo, Opoku Joseph 2015, *the Role of Tax Audit in Revenue Mobilization in Ghana Revenue Authority: The Case of Ashanti Region*. A thesis Submitted to the Department of Accounting and Finance, Kwame Nkrumah University of Science and Technology (KNUST)
- Saunders M, Lewis P and Thorn hill A 2003, *Research Methods for Business Students*, 3rd ed, Harlow, Prentice Hall, England.
- Salmina, S. V., Khafizova, A. R., & Salmin, I. V. (2015). Arrangement and performance of on-site tax auditing in the Russian Federation. *Mediterranean Journal of Social Sciences*, 6(3), 732-735
- Samuel, M. and De Dieu, R.J. (2014), “The impact of taxpayers’ financial statements audit on tax revenue growth”, *International Journal of Business & Economic Development*, Vol. 2 No. 2.
- Tunçer, M. (2005), Vergi Yardımcılarının Vergi Uyumuna Etkisi. *Gazi Üniversitesi İktisadi ve İdari Bilimler Fakültesi Dergisi*, 7(1), s. 217-228.
- T. G. Engida and G. A. Baisa, 2014, “Factors Influencing Taxpayers” compliance with the tax system based on an Empirical Study in Mekelle city, Ethiopia, *e Journal of Tax Research*, Volume 12, Number 2, pp. 433-452.
- Vellutini, Charles 2010, "Risk Based Tax Audit Case Selection Methods", ECOPA, Washington, USA, available at <<http://www.ecopa.comlattachments/> accessed on January 2017.
- Verboon, P. and Van Dijke, M. (2014) A Self-Interest Analysis of Justice and Compliance: How Distributive Justice Moderates the Effect of Outcome Favorability. *Journal of Economic Psychology*, 28, 704-727. <https://doi.org/10.1016/j.joep.2007.09.004>

Von der Heyde, A., Brandhorst, S., & Kluge, A. (2015). *The impact of the accuracy of information about audit probabilities on safety-related rule violations and the bomb crater effect.* Safety science, 74, 160-171.

Worku Mekonnen, 2016, *Assessment of Tax Evasion Case of Lideta Sub City Small Taxpayers Ethiopian Revenues and Customs Authority Branch Office.* Addis Ababa: A Thesis Submitted to St. Mary's University.

የፌዴራል ታክስ አስተዳደር አዋጅ አዋጅ ቁጥር ፱፻፹፫/፪፻፳፭

Appendices-1

Addis Ababa University
Faculty of Business and Economics
Graduate Program (MSc) in Accounting and Finance

Questionnaire for Tax Auditors

Dear Sir/Madam;

My name is Mulugeta Bekele Woldtsadik. I am a final year student of master's in accounting and Finance at the Addis Ababa University, Accounting and Finance Department. I am researching on the topic "*A Study on Effect of Tax Audit on Taxpayer Compliance and compliance: The Case of East Addis Ababa Branch Office*". The purpose of the study is to analyze the prevailing tax audit practice in taxpayer compliance and revenue collection.

I would be grateful if you could take time of your busy schedule to provide answers to the questions raised to enable me to complete the study. Any information provided would only be used of academic purpose. As a result, it would be kept confidential and utmost secrecy would be maintained.

Thank you

Yours faithfully

Mulugeta Bekele Woldtsadik

Part One: Background Information of the Respondents

Instruction: Please tick (✓) or mark your thought and where appropriate.

Gender Male _____ Female _____

Age:

Less than 30 years ____ 50-60 years _____

30-40 years _____ Above 60 years _____

40-50 years _____

Highest level of education achieved

Certificate _____ BSc/BA _____

Diploma _____ MSc/MA and above _____

Other, Please specify _____

Field of Study

Accounting _____ Economics _____

Finance _____ Management _____

Other, please specify _____

Position

Manager _____ Auditor _____ Other _____ -

Did you have any audit experience before you joined the ERCA?

Yes _____ No _____

If your answer in questions #6 is yes, how long did you work as an auditor?

Less than 2 years _____ 6-10 years _____

2-4 years _____ Above 10 years _____

4-6 years _____

How long did you work with your current job occupation in the tax audit department?

Less than 2 years _____ 6-10 years _____

2-4 years _____ Above 10 years _____

4-6 years _____

Did you attend any special training?

Preparation of audit findings

Other

Audit selection techniques

More than one of the above

Computer-assisted tax audit techniques

Section B: There are five options: Strongly Agreed (SA), Agreed (D), Undecided (U) Strongly Disagreed (SD) and Disagreed (D). Please, kindly tick as appropriate to you.

No.	Measurement items	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
	Comprehensive Audit					
1	Tax audit takes within the premises of tax officials					
2	Comprehensive Audit is cost effective					
3	It allows auditors to independently determine the accurate tax liability of the taxpayers					
	Issue Audit					
4	Desk audit often lead to field audit when additional documents are needed					
5	It requires the taxpayers are well-informed before the commencement of the audit.					
6	It allows physical verification of taxpayers claims to confirm the facts and figure of the returns					
	Back Duty Audit					
7	It is used to reveal doubtful claim of capital allowance related to previous or current year					
8	It corrects the mistake of lesser tax as a result of falsification of document submitted by the taxpayers					
9	It reveals the reduction of profit in the return's files in tax office					
	De-Registration Audit					
10	business information obtained from trade office and ERCA branch offices					
11	It ascertains organizations and other chargeable persons					

12	It is used to cage individuals and companies in the tax net					
	Tax Compliance and Revenue					
13	Compliance audit induces taxpayers to fully comply with tax laws and regulations					
14	Issue audit promotes reporting compliance of taxpayers					
15	Back duty audit ensures full compliance of tax laws and revenue of tax					
16	De-Registration audit influences taxpayers' compliance level and revenue of tax					

Appendices-2 Annual Report of Revenue Minister

Tax Period	Number of Tax Payers	Annual Declared Taxpayers		Number Auditors	Audited Taxpayers		Unaudited taxpayers	
		Number	Declared %age		Numbers	%age	Number	%age
2006	12,248	6,258	51%	40	710	11%	5,548	89%
2007	14,016	6,107	44%	82	521	9%	5,586	91%
2008	14,018	7,767	55%	82	1,011	13%	6,756	87%
2009	14,016	10,095	72%	68	915	9%	9,180	91%
2010	13,250	10,290	78%	83	886	9%	9,404	91%
Average	13,510	8,103	60%	71	809	10%	7,295	90%

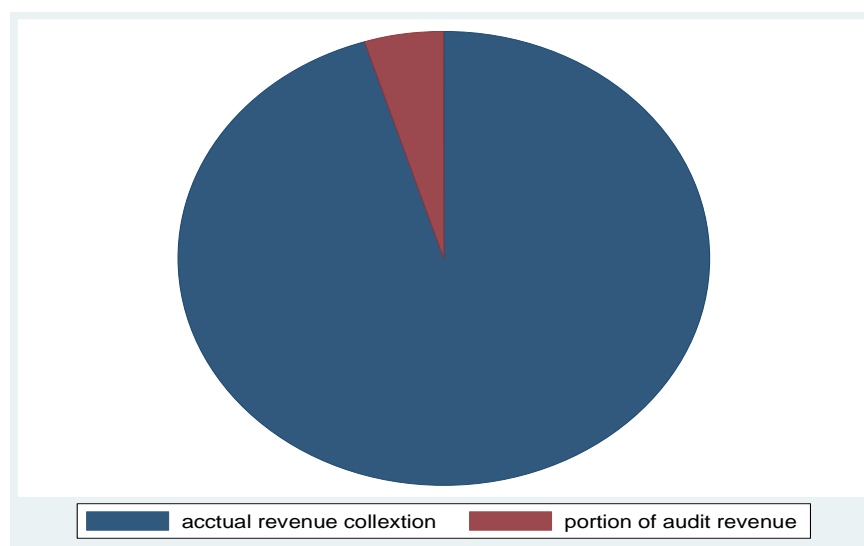
Source: Annual Report of East Addis Ababa Middle Taxpayers Branch Office and Consolidated Annual Report of Revenue Minister during period of 2013/14 to 2017/18.

Number Auditors	Number of Employee	Total Number of Employee	Ration of number of auditor per number of employee
2013/14	40	430	0.09
2014/15	82	425	0.19
2015/16	82	450	0.18
2016/17	68	435	0.16
2018/19	83	450	0.18
Total	355	2190	16%
Average	71	438	16%

Source: Annual Report Issued by East Addis Ababa Middle Taxpayers Branch Office (2006-2010E.C.)

Appendices-3 Revenue Collected and Audit in Branch Level

Tax period	Actual Revenue collected by the branch	Comparison of tax audit actual performance with planned			Contribution of Tax Audit percentage
		Planned revenue collection by tax auditors	collected Actual Revenue from tax audit	Actual Vs. planned	
2006	4,580,000,000.00	1,810,000,000.00	372,710,000.00	20.59%	0.08
2007	7,440,000,000.00	1,780,000,000.00	179,700,000.00	10.10%	0.02
2008	4,980,000,000.00	1,300,000,000.00	384,120,000.00	29.55%	0.08
2009	6,820,000,000.00	1,450,000,000.00	341,000,000.00	23.52%	0.05
2010	8,410,000,000.00	2,400,000,000.00	633,000,000.00	26.38%	0.08



Source: Annual Report Issued by East Addis Ababa Middle Taxpayers Branch Office (2006-2010E.C.)

Appendices-4 Reliability Statistics

Reliability Statistics

Cronbach's Alpha	N of Items
.821	16

Item-Total Statistics

	Scale Mean if Item Deleted	Scale Variance if Item Deleted	Corrected Item-Total Correlation	Cronbach's Alpha if Item Deleted
Comprehensive Audit	17.05	8.052	.641	.670
Issue Audit	17.25	8.221	.668	.667
Back Duty Audit	17.22	7.958	.660	.664
De-Registration Audit	16.89	10.283	.106	.749
Tax Compliance and Revenue	17.59	8.131	.485	.716

Annex-B Correlations

		Compliance audit	Issue audit	Back duty Audit	De-registration Audit	Tax Compliance and Revenue
Compliance audit	Pearson Correlation	1	.521**	.699**	.474**	.675**
	Sig. (2-tailed)		.000	.000	.000	.000
	N	79	79	79	79	79
Issue audit	Pearson Correlation	.521**	1	.586**	.699**	.755**
	Sig. (2-tailed)	.000		.000	.000	.000
	N	79	79	79	79	79
Back duty Audit	Pearson Correlation	.699**	.586**	1	.599**	.748**
	Sig. (2-tailed)	.000	.000		.000	.000
	N	79	79	79	79	79
De-registration Audit	Pearson Correlation	.474**	.699*	.599**	1	.745**
	Sig. (2-tailed)	.000	.000	.000		.000

	N	79	79	79	79	79
Tax Compliance and Revenue	Pearson Correlation	.675**	.755**	.748**	.745**	1
	Sig. (2-tailed)	.000	.000	.000	.000	
	N	79	79	79	79	79

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

Annex-D- Regression

ANOVA^a

Model	Sum of Squares	Df	Mean Square	F	Sig.
4 Regression	34.038	4	8.510	103.985	.000 ^a
Residual	96.193	281	.342		
Total	130.231	79			

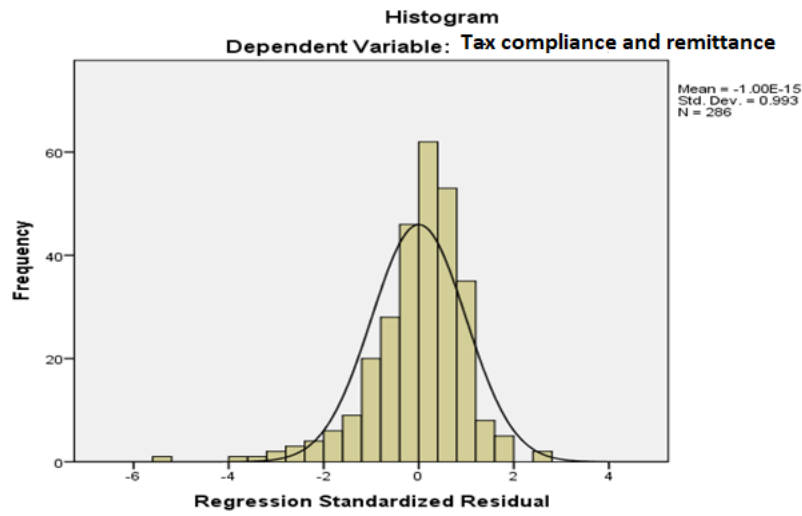
a. Predictors: (Constant), Compliance audit Issue audit, Back duty Audit, De-registration Audit, Tax Compliance and Revenue

Coefficients^a

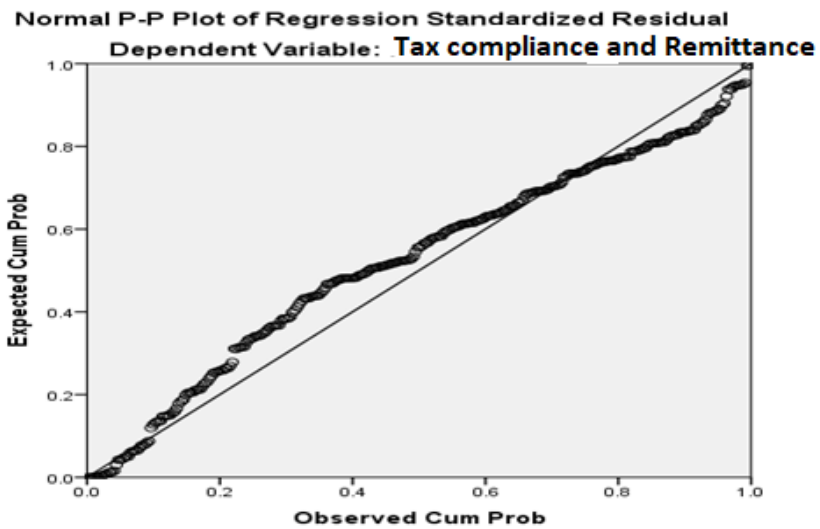
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
		4	(Constant)	2.131		
	SuperiorityandTrust	.792	.242	.244	3.275	.001
	Xenocentrism	1.311	.281	.163	4.662	.000
	Ethnocentrism	1.116	.285	.151	3.921	.000
	QualityandTechnology	1.049	.235	.169	4.471	.000

a. Dependent Variable: Tax compliance and revenue

Annex-D- Histogram



Annex-E- Normal P-P Plot of Regression Standardized Residual



Annex-E- Scatterplot

