



ADDIS ABABA UNIVERSITY
SCHOOL OF BUSINESS AND PUBLIC ADMINISTRATION
DEPARTMENT OF ACCOUNTING AND FINANCE
(GRADUATE PROGRAM)

FACTORS AFFECTING TAX AUDIT EFFECTIVENESS EVIDENCE FROM
LARGE TAX PAYERS OFFICE OF ETHIOPIAN REVENUE AND
CUSTOMS AUTHORITY
(Based on Auditors perception)

BY
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June, 2016

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**A Thesis Submitted to the
Partial Fulfillment of the Requirements for the Degree
Of Master of Science in Accounting and Finance**

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Statement of declaration

I, the undersigned, declare that this thesis is my original work, has not been presented for award in any other university and that all sources of materials used for the thesis have been duly acknowledged.

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Abstract

The purpose of this study is to investigate factors affecting tax audit effectiveness on large tax payer's office. The study stands to answer the following research question "How do audit quality, management support, organizational setting, auditee attributes, organizational independence and the interplay among them, influence audit effectiveness in LTO?" In light of this objective the study adopted mixed research method of research approaches to test a series research hypothesis. Specifically, the study used survey of questionnaire analysis of offices' on tax auditors and interview analysis on team leaders and process owners. Then tax auditors and team leaders were selected based on simple random sampling method of census method. Because, the target population to be studied is small. In large tax payer's office there are 62 tax auditors supervised and lead by 10 team leaders managed by two process owners. Then the researcher distributes those questioners to the 62 tax auditors, only 59 of them are returned. Consequently, Data was then analyzed on quantitative basis using Pearson's correlation, linear regression analysis and descriptive statistics. Qualitatively interview and documentary evidences summarized and presented. The results showed that there is no statistical significance negative relationship between auditee attributes and tax audit effectiveness. Besides, the results showed that Tax Audit Effectiveness of Large tax payer's office is highly affected by audit quality of the department, managements support and the organizations independence from unethical practices. While as auditors perception it doesn't be affected by organizational setting and auditees attribute.

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Acronyms

TAE: Tax audit effectiveness

AA: Auditee attributes

AQ: Audit quality

OI: Organizational independence

OS: Organizational setting

TMS: Top management support

TA: Tax auditing

IA: Internal auditing

SPSS: Statistical package for social science

VIF: Variance inflation factor

LTO: large tax payer's office

ERCA: Ethiopian revenue and customs authority

PCA: post clearance audit

MOFED: ministry of finance and economic development

Chapter one

1.1 Introduction

A tax audit in ERCA's context is defined as: an activity or a set of activities performed by Tax auditors to determine a taxpayer's correct tax liabilities for a particular accounting or tax period, by examining a taxpayer's organization procedures and financial records in order to assess compliance to tax laws and verifying the true, fair, reliable, and accuracy of tax returns, and financial statements. (ERCA, 2010)

In conducting an audit, various types of information will be reviewed namely, tax returns, financial statements, accounting records, customs declaration and other source documents. Generally, an audit will examine different issues identified as most significant in achieving an accurate assessment of a taxpayer's tax liability.

Some of the typical issues will include any indications of unreported income, or potentially over claimed deductions, over /under valuation, smuggling and illegal activities.

Tax audits usually focus on areas where there is a high risk with regard to the amount of tax paid and/or payable. Depending on the specific factors relating to a taxpayer, the scope of tax auditing will often vary. However, it is important to remember that the primary objective of an audit is to determine the correct amount of tax that ought to be paid. The above stated objective is very important to tax payers as well as to tax authorities and it helps ensure that taxpayers have confidence in the fairness of the audit process such that an audit could result in either an **increase** or a **decrease** of a taxpayer's tax liability. (ERCA, 2010)

Tax administration carry out audits so as to verify that the taxpayer has complied with provisions of tax legislation .However ,the role of an audit program in a modern tax administration goes beyond verifying a taxpayer's reported obligations and detection of discrepancies between a taxpayer's declaration and supporting documentation. Audit can play a major role in improving tax administration and overall tax payer compliance by impacting on taxpayer behavior. In addition to raising revenue directly from audit activities ,by selecting the highest risk cases ,efficiently detecting non-compliant tax payers, applying appropriate sanctions, and publicizing results of audit

activity(either generally or specifically),taxpayers get the message that any attempt to avoid tax presents a high risk of detection and the penalty for non-compliant taxpayers is substantial.

Tax audits therefore provide the tax administration with significant leverage across the community rather than only impacting on the taxpayer selected for audit and collecting the tax that should have been paid in the first place. Additionally a tax system that is perceived to be fair and equitable and punishing taxpayers who don't comply builds community confidence and encourages compliance from the broader population.

In order to optimize use of resources to effectively meet the audit objectives, it is necessary to strategically plan the allocation of available resources to areas likely to have the greatest impact on compliance, while maintaining a balanced program across the taxpaying population. Intelligence, research, and analysis need to be used to define risk areas and audits need to be tailored to address the identified risks.

The efficiency and effectiveness of audit activities can be greatly facilitated by a broad range of support tools. Without competent staff tax audit activities will not achieve their objectives. Competency models and competency improvement activities help develop and manage the audit workforce. Performance management is an important tool for shaping audit behavior and contributes to the attainment of audit program objectives. Monitor change in taxpayer compliance with record keeping, filing and payment obligations, as well as movements in reported tax subsequent to audit activities, as measures of the effectiveness of audit programs. (Ayalew, 2014)

1.2Organizational Background

According to 'the domestic tax audit manual of May, 2014 head quarter of Ethiopian revenue and customs authority (ERCA) segmented its tax payers into large tax payer's office (LTO), medium tax payer's office (MTO), small tax payer's office (STO).the main purpose for the establishment of LTO is to control and provide services to those tax payers who collectively account for between 60-75 % of the governments overall tax revenue each year. Inclusion in the LTO program is determined by:-

On the year January, 2016 Annual sales turnover greater than 37million this is an increase from the previous 27 million birr annual sales cut-off point medium and large tax payers. Companies engaged in the mining, petroleum exploration, banking and insurance sectors are included in large

taxpayers' category regardless of their annual sales turnover. First grade contractors are also included in this category, which only included private limited and share companies and All sister companies located in Addis Ababa after this circular they get all services from LTO, for comfortable situation on audit of sister companies. Though previously 3star and above hotels were immediately as large tax payers, not only those earning above 37millionbr will be considered. This is because the previous hotel standards are currently being revised and are no longer applicable.

ERCA set a policy to revise its segmentation bracket every couple of years to factor in the change or growth of taxpaying business in 2010. The most important reasons for introducing Large Taxpayer Department has been "to provide consistent and quality service to large taxpayers, to secure revenue, to improve audit programs, to improve collections and management of tax debts, and also to act as models or pilots for testing new processes, procedures, structures and systems" (TRA, 2012).

In the revision, the number of large tax payers should be between 900 and 1000." Adequate assistance and supervision to large tax payers is necessary, because they contribute a major part of the revenue ERCA collects."

Large taxpayers are enterprises which engage in large-scale, complex/specialized, and often global operations. Such enterprises are complex because of being characterized by; (1) multiple operating entities and/or diverse business interests; (2) high volume of transactions in day-to-day business activities; (3) large number of employees; (4) international dealings, often involving cross-border transactions with related parties; (5) operations in an industry that presents unique tax issues (e.g. banking and insurance); (6) wide spread in geographical terms; (7) dealings in complicated issues involving complex tax law and accounting principles; and (8) complex financing and tax planning arrangements (OECD 2009).

Apart from being complex, from the revenue bodies' perspective, large taxpayers present major tax Compliance risks due to various factors including: (1) significant offshore activities; (2) policies and strategies to minimize tax liabilities; (3) large portion of tax assessments result from audit activity of large taxpayers; and (4) growing/significant differences between financial accounting profits and the profits computed for tax purposes. Furthermore, large taxpayers has a critical role in revenue collection due to size and the range of taxes they are responsible for, including their role as withholding agents for large numbers of employees (OECD 2009).

The revenue of the Ethiopian government comes from different source such as tax, public borrowing, sales of public assets, and transfer payments. The main purpose of generating revenue from these various sources is to finance government expenditure. These public expenditures are meant for public goods and service that are very essential for the development and wellbeing of the society. Among the various aforementioned sources of revenue, taxes are the primary and sustainable source of government revenue as can be observed from the table.

Table 1:-government revenue collection performance from 2003-2006 e.c

revenue souce	budget year		amounts in million	
	2003	2004	2005	2006
Total revenue including grants	85,611.00	115,659.00	137,192.00	158,078.00
Total domestic revenue	69,120.00	102,864.00	124,077.00	146,174.00
Tax revenue	58,981.00	85,740.00	107,010.00	133,119.00
Direct tax revenue	19,550.00	28,858.00	36,393.00	47,021.00
Indirect tax revenue	15,705.00	23,326.00	32,440.00	40,499.00
Other duties and taxes	23,726.00	33,556.00	38,177.00	45,599.00
Non-tax revenue	10,139.00	17,124.00	17,067.00	13,055.00
Grant revenue	16,491.00	12,795.00	13,115.00	11,904.00
Total domestic resource(GDP@cmp)	515,079.00	747,326.00	864,673.00	1,047,393.00
Domestic revenue to GDP ratio	13.40%	13.80%	14.30%	14%
Tax to GDP ratio	11.50%	11.50%	12.40%	12.70%
Total government expense	93,943.00	124,417.00	154,009.00	185,472.00
Percentage share total domestic revenue to government expenditure	73.60%	82.70%	80.60%	78.80%
percentage share of tax revenue to government expenditure	62.80%	68.90%	69.50%	71.80%
ERCA's total revenue collection	50,816.00	70,746.00	84,414.00	106,798.00
percentage share of ERCA from the total domestic tax revenue	74%	69%	68%	73%
Large tax payer's office revenue collection	19,660.00	26,130.00	32,520.00	43,920.00
percentage share of LTO from the total domestic tax revenue	28%	25%	26%	30%

Source:-MOFED and ERCA (July, 2007)

One of the measures of a country's tax system is GDP at current market price or tax/GDP ratio. A study of World bank report shows that ,developed countries average of Tax/GDP ratio is 34.8%,developing countries average is 25% and sub –Saharan average is 15.89%.from the report of 2003-2006 e.c shows on the last 4 years Ethiopia is below sub-Saharan average. This shows that

tax administration corrective measures on the potential problems of tax administration at each branch's makes it to achieve at least sub-Saharan average.

The major source of revenue for a country is tax, Ethiopian revenue and custom authority has collected for the last 4years 74%, 69%, 68%and 73%.the other is from non-tax revenue and grants. From those the giant share is from LTO, it holds 28%, 25%, 26 and 30% for the last 4 consecutive years.

Table 2 :-tax revenue to gross domestic product (GDP at current market price)

revenue source	budget year			
	2003	2004	2005	2006
total government tax revenue to domestic production share(tax/GDP ratio)	11.5	11.5	12.4	12.7
ERCA total revenue collection(in million)				
domestic source	26,118.00	36,068.00	44,733.00	59,276.00
foreign trade tax and duty	23,535.00	33,551.00	38,178.00	45,598.00
taxable revenue	49,653.00	69,619.00	82,911.00	104,874.00
non tax revenue	1,165.00	1,127.00	1,504.00	1,924.00
total revenue	50,816.00	70,746.00	84,414.00	106,798.00
ERCA's share on domestic production (tax/GDP)	9.64	9.32	9.59	10.01
LTO revenue collection(in million)	19,660.00	26,130.00	32,520.00	43,920.00
LTO's share on domestic production (tax/GDP)	3.82	3.5	3.76	4.19

Source:-MOFED and ERCA (July, 2007)

1.3 Statement of the problem

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

One of the purposes of the creation of large tax payer office is to provide better service for 900-1000 tax payers who have selected by segmentation criteria set by Ethiopian revenue and customs authority. From these tax payers ERCA expected to collect 60-70% of revenue each year. There for

the branch collects this revenue mainly from branch tax payers self-assessed report and on the other hand to deter non-compliant taxpayers uses different audit strategies that generate revenue for the branch. Those tax payers are being selected for audit as a branch level based on risk to revenue and compliance.

Previous study's discuss the issue of tax audit in different perspectives and organizational setting .the study of (Gebeyehu,2008)discuss tax audit in relation to its significance on revenue on the year 2008.the study of (Bibibiso,2014) discuss Hawassa city administration tax audit performance (Yismaw, 2007)also stands the issue of internal audit effectiveness on public sector organization .Recently (Ayalew, 2014)discuss on factors affecting tax audit effectiveness a study on Bahir dar city administration .Therefore previous study's adequately discuss issues related to tax audit but as large tax payers have major share on the economy ,the researcher couldn't find a study related to LTO and tax audit effectiveness.

So, the researcher tries to focus on the factors affecting tax audit effectiveness evidence from large tax payer's office of the Ethiopian revenue and customs authority.

1.4. Research objective and hypotheses

The major objective of this study is to examine the factors affecting tax audit effectiveness in large taxpayer's branch office. Based on specific factors that are found to significantly influence tax audit effectiveness in prior studies, the study assesses the factors that consider tax audit effectiveness in large tax payers office.

Specifically, the study evaluate whether tax audit effectiveness is influenced by *audit quality, organizational setting, support from top management, auditee attributes and organizational independence.*

In addition, the study assesses these tax office specific factors and tax audit effectiveness issues byexamining on tax auditors of LTO.

In order to achieve the broad objective of the study, the researcher developed the following five Testable hypotheses (Hp1-Hp5):

H1: Greater audit quality is positively related to tax audit effectiveness.

H2: the organizational setting is positively related to the tax audit effectiveness.

H3: Greater support from top management is positively related to tax audit effectiveness.

H4: More auditee attributes for tax auditors in the organization is positively related to auditing effectiveness.

H5: Greater organizational independence is positively related to auditing effectiveness.

1.5 Significance of the Study

The results of this study are expected to be significant in various respects. First, on the basis of the study findings, the report has Conclusions and forwards some recommendations that will benefit large tax payer's office to identify the factors that affect tax audit effectiveness and to take corrective remedies to keep the existing factors through tax audit improvement. This study may help ERCA and its other branches, because LTO is also an experiment institution, if the remedy taken achieves the perceived objective. It helps also tax policy makers to make use of out puts of the study in addressing the factors affecting tax audit effectiveness by the revenue office. In addition, it helps the revenue office tax auditor's to know their role in the tax system. Moreover, it may serve as a source of reference and give some highlights for others who would Like to know more about the issue and interested in undertaking further and detail studies in tax audit effectiveness as a research title and on the other branches as well.

1.6 Scope of the Study

Even though wide ranges of variables were expected to be studied, this study contemplates on examination of tax audit effectiveness, auditee attributes, audit quality, organizational independence, organizational setting and top management support. The scope of this study would be limited to the examination of factors affecting tax audit effectiveness in large tax payer's branch office.

1.7 Organization of the Study

The thesis is organized as follows. Chapter one is deals with introduction, which includes: Background of the study, background of the organization, statement of the problem, objective and

hypotheses of the study, significance of the study, and scope of the study; chapter two deals with the review of the related literature; chapter three contains the research methodology; which describes about the research approach, research methods, sampling design and sources of data, limitation of the study. Chapter four discuss about data presentation, analysis and interpretation, different tables and figures are used in this part to describe and analyze the quantitative data. Finally the fifth chapter presents the major conclusion drawn from analysis and findings of the study and possible recommendation for the identified problems also included.

Chapter Two

Review of Related Literature

This section presents review of existing theoretical and empirical literature on tax audit. At the end of the review, an attempt is made to summarize the major Drawbacks of the existing empirical studies and to identify the knowledge gap to be filled in by further investigation. The chapter is organized in to 5 section .the first section presents the theoretical framework for audit ,the second section presents empirical evidences ,the third section shows gaps in literature, the fourth and the fifth section shows hypothesis development on dependent and independent variables.

2.1 Theoretical framework for auditing

Audit is defined as the structured examination of business' relevant commercial systems financial and non-financial records, physical stock and other assets, internally generated data and that produced independently of the business.

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

A tax audit is one of the most sensitive contacts between the tax payer and a revenue body, the presence of an auditor in a taxpayer's private dwelling or business premises, coupled with the exploration of private and business issues and the gathering of information from taxpayers' books and records, or just the disruption of day-to-day work flow, represents a burden on the taxpayer (OECD, 2006).

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

The numerous roles assigned to tax auditors require a recruitment and maintenance of competent tax auditors with technical knowledge, audit skills, and tactical knowledge. Moreover, the attitudes of tax auditors during the conduct of an audit may affect tax payers' compliance behavior in the future. For example, if tax payers are treated with respect during the audit, tax payers may have a stronger incentive to comply voluntarily (IsaandPope, 2011); arbitrary audit procedures leave tax payers feeling helpless and thus reduce their intrinsic motivation to comply (OECD, 2010). Similarly, a responsive and fair administration of the tax audit may positively influence compliance behavior. In addition, if taxpayers trust the tax auditors, taxpayers voluntarily comply with audit requirements.

2.1.1 Theories of auditing

Auditing theory helps explain why society needs auditing: the role and purpose of audit services in communication between a company and its environment. The agency theory is the most prominent of the existing theories.

1) Agency theory

Adams (1994) used agency theory to explain that it is in the interest of management to maintain a strong internal audit department. Implementation of audit recommendations is highly relevant to audit effectiveness (Van Gansberghe, 2005) and the management of an organization is viewed as the customer receiving internal audit services. As a result, management's commitment to use audit recommendations and its support in strengthening internal audit is vital to audit effectiveness (Sawyer, 1995).

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

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

2) Positive Accounting Theory (PAT)

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

3) Institutional theory

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

As a result, organizations with the appropriate structures in place will avoid deep investigations of their function by external auditors (Meyer and Rowan 1977). Organizations are subject to rules and regulations to which they must conform in order to ensure their legitimacy and thus have access to resources and ensure their survival (DiMaggio and Powell 1983). However, these rules and regulations don't necessarily guarantee that organizations will continue to operate efficiently (Meyer and Rowan 1977; Scott 2008). Institutional elements comprise the institutions and over time the institutional elements are given priority. The key point is to identify what institutional elements reinforce or undercut other elements (Scott 2008). Functional pressure, political pressure

and social sources are three possible factors that cause pressure on institutional common practices (Oliver 1991)

4) Stewardship theory

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

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

5) Stakeholder theory

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

Direct stakeholders are shareholders, employees, investors, customers and suppliers whose interests are aligned with the company. An example of an indirect stakeholder is the government, which is indirectly affected by the company's function (Kiel and Nicholson 2003). Due to this role of stockholders, organizations are not only accountable to shareholders only but also to stakeholders.

2.1.2 Objective of tax audit

The overall objective is to improve the compliance of taxpayer's whether they declare the correct amount of tax and paid at the right time .the expectation by a taxpayer of an 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. (ERCA,2014)

The main purposes of tax audit in ERCA are:-

- Establish the extent of a risk or risks and quantify any errors which may have arisen as a result
- Improve future compliance
- Support those who wish to comply
- Deter non-compliance

2.1.3 Condition for Good Tax Audit

For the tax inspector to carry out a good audit exercise, the following conditions must be fulfilled. (ERCA, 2014)

1. The tax auditor must be familiar with the environment in which he works. It is a condition which is highly critical that the tax inspector must be properly schooled in the political, economic, social, cultural and religious environment of the taxpayer. A good knowledge of his environment will affect the decision made by him.
2. The tax officials should be motivated to carry out tax audit, he should be properly trained and have experience in his area. The tax inspector should not be carried away by corrupt practices that render the aim of the tax audit useless.
3. The tax audit should be properly supervised by those who are professional and when new tax inspectors are sent to carry out the audit, they should be monitored by older ones so as to make sure that the right thing is done.
4. Specialization should be encouraged. The cases should be grouped. This will allow the tax audit staff to become specialist in specific field.
5. The manner in which the audit is being carried out should be changed. The use of computer should replace the manual process as this will go a long way in facilitating the job and helping to preserve information for a long time. This will improve the efficiency of the exercise (Ogundele, 1999).

2.1.4Types of tax audit

The types of audits are defined by the three major factors, namely:- (ERCA,2014)

- 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:-

1. **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 will 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 will 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.

2. **Issue audit**:-this is limited scope audit that may be confined to specific issues in 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 will normally focus on a single tax type, period or item. Where afield issue audit escalate the case into comprehensive audit ,the team coordinator's concurrence must be sought and the procedures for comprehensive audits adhered to .issue audits may be conducted either on the desk or in the field:-

2.1 **desk issue audit**:-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.

2.2 **field issue audit**:-this is the escalation of a desk audit into afield 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 obligation in respect of 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.

3. **Desk audit:**-is used as preliminary examination of declarations analyzing accuracy, completeness, and ratios and crosschecking information to determine if further audit or investigation is warranted.
4. **Special audit projects:**-audits can be organized as a separate project for a targeted or specific group of tax payer's in a given period to verify compliance in the sector. These audit projects may cover an industry, trade, profession or a line of business. This will consist of specific checks and are used to address a particular risk or to establish the degree of non-compliance in a particular sector, industry or trade. For this audit type to be effective, all taxpayers in the targeted sector must be considered and handled with in the shortest time possible.
5. **Advisory visit audits:**-all registered tax payers or business need to be visited with the aim of offering advice on tax obligation and the taxpayers rights, and any other development 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 advise so as to improve compliance. These audits are expected to be spontaneous and hence should not take more than a day.
6. **Refund audits:**-this is a verification of a taxpayer's claim for a tax refund prior to processing the refund. The predominant claim for refund is vat and/or withholding which is submitted monthly.
7. **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 witness and preparing briefs for courts.
8. **De-registration audits:**-in order to establish outstanding obligations or liabilities, de-registration audit will be conducted for all reported cases of cessation of business, winding up or uncertainty .the audit will 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.

2.1.5 Risk assessment

2.1.5.1 need for risk based approach

No tax administration has, nor should have the resources to control 100% of their taxpayers and transaction base .instead they increasingly rely on risk management methodologies to allocate better the available scarce resources in order to achieve an optimal compliance strategy. (ERCA, 2014)

Risks are those events that could negatively impact on organizations ability to deliver on its mission. Risk assessment must therefore be an integral part of the entire audit process and should involve/;-

- A review of the economy to identify risk prone sectors
- A review of the sectors to profile the various operators there in ;and
- A profile of the operators in order to identify risky trends or behavior

Risk assessment should also involve a review of the internal systems within an organization to obtain a picture of any in-house factors that influence the non-attainment of audit objectives.

The adoption of risk based approaches goes beyond audit case selection and applies to more than direct revenue risk .a tax administration will usually have as part of its objectives, the need to deliver a certain amount of revenue to the government to meet budget objectives, but this will usually be supplemented by other objectives such as improving compliance; maintaining expenditure with in a specific budget; minimizing tax payer compliance costs; and maintaining community confidence in the tax system(often an important political objective).the administration therefore has to manage the risks failing to achieve each of these objectives and not just the risks of non-compliance .

From an audit perspective, management needs to complement the administrations objectives. This requires a review of all activities related to the audit program and to assess the value they add to meeting the administrations objective. Only by having a clear understanding of the objectives, it is possible to formulate a risk based approach. As resources are limited, the administration needs to allocate resources to activities that will provide the greatest impact on the achievement of objectives; this usually means gaining the biggest improvements in voluntary compliance at the lowest cost to both the taxpayer and the administration, while maintaining community confidence

in the tax system. If activities performed don't contribute to the attainment of these objectives, management needs to reconsider the performance of such activities. As there are likely to be more risks identified than can be adequately addressed by the administration, it is necessary to rank and prioritize the risks according to the likelihood and consequence of their impact on the objectives.

2.1.5.2 Analyzing risk and file assignment

Selecting file for audit should always be based on sound risk assessment .sound risk assessment includes evaluating the potential collectability of a debt that could arise as a result of an audit action. Difficulty to collect a potential debt is only one aspect to consider in selecting a file for audit or closing a file early. The collection of an assessment is an important final step in the audit process.

Audit files are assigned from the inventory of files selected by the concerned team and from other sources. The team coordinator generally assigns audit files to the individual auditors based on gross revenue of the taxpayers and categories established for each group and level of auditors.

In addition to gross revenue, the following factors must be considered when assigning audit files in order to be transparent:-

- The nature of the audit
- Rotation or specialization of auditors
- Training and development of auditors
- Idle or on duty of auditors(work in process)

In the current situation of large tax payer's office company's which are selected with the above risk criteria are distributed to each team leader for the year by the audit process leader, investigation audit process leader and assessment (desk audit)process leader which constitutes 15-20 companies to each team leader.

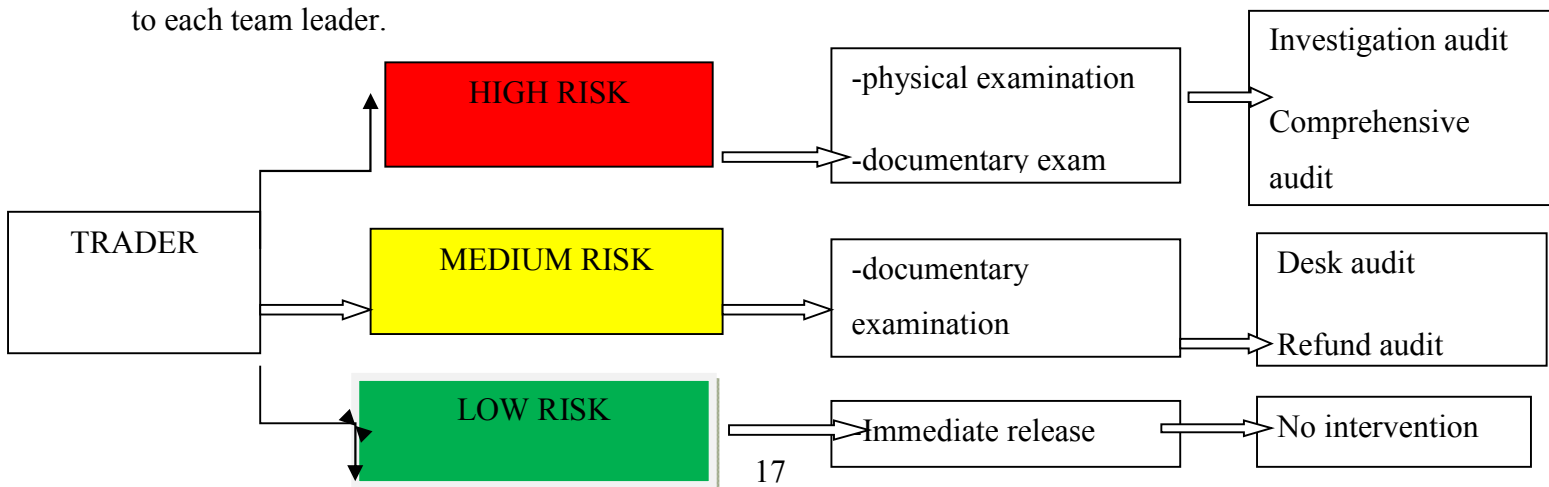


Figure 1:-ERCA Risk management policy and strategy, 2015

In addition to the risk criteria there are some conditions which need audit of the business in our branch .this conditions may appear if the taxpayer renders the following services from the authority:-

- Withholding tax receivable (refund) request more than 1.5 million birr (the law made before 10 years)
- Request for business license return
- Closing business entity (liquidation of the business)
- Disposal of fixed asset more than 50% of its book value
- Transformation of business from PLC (private limited company) to share company

ERCA is emphasizing the risk based approach. So every audit will be directed towards this approach, which is more explained as follows:-

Given the nature of the audit process, every audit assignment presents a different challenge to ERCA, with no two audit assignments being the same. For example, no two entities are the same in terms of business sector , location ,size ,employees , governance issues , ethos , and complexity of operations .there is no one single approach to auditing which ensures the performance of a perfect audit .however , it is generally accepted that for most entities of size , the risk based audit approach will minimize the possibility of audit objectives not being met. Auditors to adopt a risk based approach to audit in so doing; it requires auditors to make risk assessments of material misstatements at the financial statement and assertion level, based on appropriate understanding of the entity and its environment including internal controls.

2.1.6 Review of role of audited financial statement

LTO auditor relies on external audit report but their report and opinions differ from the ERCA auditor's report because the position of the taxpayer's representative can legitimately differ from that of the tax authority. The LTO auditors wouldn't accept without question the validity of external auditor's financial statements where judgments may have been made favorable to the taxpayer on legal or accounting issues. (ERCA, 2014)

The auditor then obtains copies of the audited financial statements, supporting opinion, notes and schedules and the letter of engagement. The letter is necessary to determine .the letter is necessary to determine if the taxpayer placed any limitations on the scope of the auditor's assignment.

Sometimes the external auditor will make a disclaimer as to the accuracy certain aspects of the financial statements by indicating a reliance on the taxpayer representations rather than conducting an independent verification.

2.1.7 Review of internal controls

The establishment of internal controls is the responsibility of management of the taxpayer concern. The evaluation of internal controls is primarily the responsibility of the taxpayers internal audit department and the external auditor. The tax authority can point out weakness in internal controls which may have led to an assessment for additional taxes but usually cannot insist on the taxpayer introducing stronger control measures. (ERCA, 2014)

The tax auditor must review the system of internal control and internal checks to determine possible areas of weakness or to establish methods of determining if the taxpayer is deliberately manipulating the records to minimize tax liabilities .the auditor will conduct his verification1 activities in accordance with his/her findings .the audit checklist and the audit working papers dealing with the specific aspects of the taxpayer's operations include tests of the internal control system and internal checks.

2.1.8 Risk, materiality and sampling

2.1.8.1 Audit risk

Audit risk is defined as the risk that the auditor may unknowing fail to appropriately modify an opinion on financial statements that are materially misstated .audit risk can be thought of in terms of the following three component risks; (ERCA, 2014)

Inherent risk is the susceptibility of an assertion to a material misstatement, assuming that there are no related internal controls.

Control risk is the risk that a material misstatement that could occur in an assertion will not be prevented or detected and corrected on a timely basis by the entity's internal control.

Internal control consists of five components:

1. The **control environment** sets the tone of an organization, influencing the control consciousness of its people. It is the foundation for all other components of internal control, providing discipline and structure.
2. **Risk assessment** is the entity's identification and analysis of relevant risks to achievement of its objectives, forming basis for determining how the risks should be managed.
3. **Information and communication** are the identification, capture, and exchange of information in a form and time frame that enable employees to carry out their responsibilities.
4. **Monitoring** is a process that assesses the quality of internal control performance over time.
5. **Control activities** are the policies and procedures that help ensure that management directives are carried out.

Detection risk is the risk that the auditor will not detect a material misstatement that exists in an assertion.

2.1.8.2 Materiality

Materiality is one of several tools the auditor uses to determine that the planned nature, timing, and extent of procedures are appropriate .as defined in financial accounting standard board (FASB).

- Materiality represents the magnitude of an omission or misstatement of an item in a financial report that, in-light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the inclusion or correction of the item.
- Materiality is based on the concept that items of little importance, which don't affect the judgment or conduct of reasonable user, don't require auditor investigation. Materiality has both quantitative and qualitative aspects. Even though quantitatively immaterial , certain types of misstatements could have a material impact on or warrant disclosure in the financial statements for qualitative reason

In practice, the materiality level will vary depending up on the level of audit risk assessed. When the level of risk assessed is high the materiality level will be set at lower level, and when the risk assessed is low, it will be set at a higher level.

2.1.8.3 Audit sampling

Sampling is used to test the information and transactions to increase the efficiency and effectiveness of the audit. Cost and time constraints don't usually permit 100% verification of the taxpayer's information nor does the relative risk warrant 100% verification. However, in rare situations 100% verification may be required. (ERCA, 2014)

Successful sampling depends on the auditor knowing the population, which must not be too variable. The auditor must know the objectives of the exercise, and have planned the sampling correctly. Because of its complexity and (relative to file interrogation) lower accuracy, statistical sampling is a last resort for testing, and should only be considered when file interrogation is not possible or appropriate.

Generally, the materiality level and sample size will vary depending up on the level of audit risk assessed. When the level of risk assessed is high the materiality level will be set at lower level and sample size taken will be high, while the risk assessed is low, materiality level will be set a higher level and sample size will be taken out.

2.2 Empirical literature review

This section reviews the empirical evidence on tax audit effectiveness and factors affecting it.

(Eden and Moriah, 1996) assigned 224 organizations to experimental conditions (audited or not audited) and monitored their performance for a year. Their findings showed that performance significantly improved during the half year following the audit in the experimental branches, while the control branches experienced a decline due to poor general business conditions. It should be reiterated that Eden and Moriah are nearly alone in developing and testing an explanatory model of IA effectiveness. While that study offers a useful jumping-off point for understanding how good auditing can improve a company's performance, it does not go far enough in explaining when and why IA works, and the conditions that facilitate or impede it. Helping to bridge this gap will be one of the main contributions of this study.

There are main approaches to the concept of IA effectiveness. According to the first approach, the effectiveness of internal auditing is determined by the fit between the audit and some set of universal standards extrapolated from the characteristics of audit. Such an approach was presented by (Sayag, 2010) who advanced five standards for internal auditing:

interdependence, professional proficiency, and the scope of work, the performance of the audit and management of the internal audit department.

This approach requires the development of systematic and generally valid measures by which to gauge IA effectiveness (Dittenhofer, 2001). One of the early efforts in this regard is that of who designed a questionnaire designed to elicit managerial feedback for each internal auditing activity in an organization. The questionnaire covered four issues: planning and preparation; the quality of the audit report; the timing of the audit; and the quality of communication between the relevant actors. Based on managers' responses, an average score was calculated for the effectiveness of a given auditing task.

In a study sponsored by the Institute of internal auditors (IIA), identified 15 criteria used by 13 large private organizations to evaluate the effectiveness of internal auditing. They concluded that effectiveness is determined mainly by the fit between the auditing work and the goals set by managers, the qualifications of the internal auditor, management support for the internal auditing staff, and several characteristics of the internal auditing department. The previous study identified 15 factors that contribute to an effective audit and categorized them into three stages of the auditing process: planning, fieldwork, and reporting and review. They suggested measurements they considered valid and reliable for these factors. Moreover, (Ziegenfuss, 2000) developed a questionnaire that includes 84 criteria for effectiveness categorized into four main areas: the environment of the internal audit, input into the audit, the auditing process and the output of the audit.

Appelgren (2008) studied the effect of information regarding different audit strategies on taxpayers' compliance behavior in Sweden. The study was conducted with the intent of examining whether the taxpayers in reality behave as expected by theory of tax audit. Experimental design was used to test the effect of information regarding different audit strategies on taxpayers' compliance behavior. The experiment was measured as the change in declared income between years, and was conducted in 2003-04 on approximately 900 sole proprietors which are divided into three groups (rational group, random group and control group) each with around 300 firms. The rational group members were informed that audit would focus on taxpayers declaring lowest income. The random group was told that audit would be at random whereas the control group 36 members received no information. Further, the sample was limited to men below the age of 55 in order to concentrate on a high-risk group (younger men are more fraudulent than women and older

men). The principal finding of this study was that declared income increased significantly more in rational audit strategy group than in the control group. The results of the study indicate strongly that information concerning the use of rational audit strategies is superior to information concerning random audits, and that audit information, in general, is superior to no information. The information concerning the rational audit strategy reduces tax fraud compared to no information. According to this study, tax audits have an indirect deterred effect by which rational taxpayers adapt their behavior to the expected degree of auditing if they are made aware that they may be audited.

(Sayag, 2010)The objective of the study was to show the importance and relevance of a scientific examination of internal audit's effectiveness and its determinants. It is exploratory factor analysis and uses conceptual model of research. The target population was all Israeli organizations. From these questionnaires' were mailed to 292 organizations, only 108 were returned the questionnaire. Correlation analysis was applied first to determine the interrelationships among the research variables and to examine the possibility of multi-co linearity. Regression analysis was used to test the other hypotheses. The finding of the study shows that auditee's evaluations and the added contribution of internal audit were positive in the private sector, there is no significant correlations were found between the variables of professional proficiency and career advancement and auditing effectiveness ,greater quality of audit work and greater organizational independence were positively related to audit quality and auditee's evaluations.(the correlation is stronger in the case of organizational independence and perceived top management support was the only variable that was strongly and consistently related to three auditing effectiveness dimensions.

(Ratto, 2012) Argues that random audit programs provide income taxpayers with information that alters their perceptions of, and hence their behavioral responses to, audits. Comparing samples of randomly selected audited and non-audited UK taxpayers, the evidence confirms predictions that audited taxpayers found to be "compliant" reduce their subsequent compliance. The opposite response is observed for taxpayers found to be "noncompliant." The results highlight the importance of testing separately the responses of taxpayers facing different opportunities and incentives to evade tax in order to avoid conflating their different effects, and to reveal both positive and negative indirect revenue effects from random auditing.

(Qtish, 2012)The article examines the relationship between some components (i.e. risk assessment, control environment and control activities) of internal control system and the effectiveness of audit program in Jordan. Quantitative approach was incorporated in this study. Based on 43 usable questionnaires, the result of the study's how that the risk assessment does contribute significantly toward an effective audit program. On the other hand, the results of analysis indicate that control environment and control activities don't contribute significantly toward an effective audit program. These results give an indicator that Jordanian company's lackthe necessary experience to deal with the current tools of internal control evaluation.

The study of (Adediran S. A, 2013)Examines the impact of tax audit and investigations on revenue generation in Nigeria. The aim is todetermine if tax audit and investigations can actually increase the revenue base of the government and if it canalso stamp out the incidence of tax evasion. Data were collected through the primary sources from four hundredand ten respondents who are staff of the Federal Inland Revenue Service and Edo State Board of InternalRevenue. Hypotheses formulated were tested with Pearson Correlation Coefficient using SPSS output data. Thefindings are that Tax audit and investigations can increase the revenue base of the government and can alsostamp out the incidents of tax evasion in the country. It was recommended that Tax audit and investigationsshould be carried out more often and as thorough as possible to accomplish its task of increasing the revenuebase and stamping out tax evasion in the country.

(Al_Frijat, 2013) The objective of the study was to show the tasks to be performed by AIS in the income tax department to improve the effectiveness of tax audit and collection. The researcher uses descriptive analysis and quantitative analysis .data was collected through interviews with senior managers and review of previous articles and recent official reports of income tax authority. The finding of the study shows that the study found that the AIS used in the income tax department positively influenced the effectiveness of tax audit and collection due to the existence of qualified human resources, an advanced computer system and competent control system.

(Chatama, 2013)This article examines how the use of ICT has modernized Tax administration procedures and improved revenue collection at Large Taxpayer Department of Tanzania Revenue Authority. ICT was introduced into the departmentin 2001 for facilitating maintenance and timely access of records and fast processing of return so as to removepostal delays; minimize operational

costs; curb cheating and plug revenue loss (TRA 2010e). Large Taxpayers and Large Taxpayer Department staff (100%) agree that, since 2001 time for processing return and responding to queries have been reasonably shortened (Victor–Nyambo 2009). TRA reports reveal that, actual revenue collection increased from TZS. 204,397.5 Millions in 2001/02 to TZS. 1,605,751.2 Millions in 2008/09 while revenue contribution share rose to 41% in 2008/09 from 23% in 2001/02. Although other factors in the economy like; increased internal trade, reduced importation and more reliance to home products may cause the increase, if there is no good tax administration, revenue will not be reflected in collections. The fact that revenue has increased proves that, ICT use enhance better tax administration.

The study of (Husam Al-Khaddash, 2013) aims to analyze the Factors affecting the quality of Auditing: The Case of Jordanian Commercial Banks. Its general objective is to examine some factors affecting auditing quality in the Jordanian banks from internal and external auditor's perspective. Data was collected through questionnaire method; the number of observations (respondents) for each variable was 85. And analyzed using Statistical Package for Social Sciences (SPSS). as per finding of the study the following hypothesizes are accepted; - The internal control system doesn't affect auditing quality in the Jordanian banking sector; the independence of the auditor doesn't affect auditing quality in the Jordanian banking sector, the size of the auditing office doesn't affect auditing quality in the Jordanian banking sector and There are no differences in auditing quality between internal and external auditors. The following hypothesizes are rejected:- Auditor efficiency doesn't affect auditing quality in the Jordanian banking sector , The reputation of the auditing office doesn't affect auditing quality in the Jordanian banking sector, Auditing office fee doesn't affect auditing quality in the Jordanian banking sector and The specialty and proficiency of the auditor doesn't affect auditing quality in the Jordanian banking sector. The study finds that performance of tax revenue is relatively poor that accounts an average of 10.76 percent of GDP during the 2004/05 - 2008/09 fiscal years, which is caused by lack of voluntary compliance mainly due to paucity of taxpayers' awareness and the weakness in the tax administration itself, ineffective audit program in particular. (Husam Al-Khaddash, 2013)

(Dieu, 2014) The article seeks to explore the role of financial statements audit in promoting tax revenues growth in Rwanda in the broader perspective. Survey questionnaires as primary data

collection instruments were distributed to all audit officers of Rwanda Revenue Authority equaling to 100 staff and followed both analytical research design. Secondary data included reports from Rwanda revenue authority from 2006 to 2010.

The paper also examines preliminary empirical results on the relationship between financial statements audit and tax growth. This paper supports the notion that the practices of audit of final books of accounts for both small and medium enterprises at institutional level are prerequisite for growth of tax revenues in the country. In conclusion, the results not only have the potential to contribute theoretically to public finance but also to the area of institutional performance.

(Gwilliam, 2014) The study assesses factors influencing internal audit effectiveness (IAE) in Saudi Arabia. Data were obtained from 203 managers and 239 internal auditors from 79 Saudi Arabian public sector organizations. Multiple regression analysis examines the association between IAE and five principal factors. Results suggest that management support for IAE drives perceived effectiveness of the internal audit function from both management's and the internal auditors' perspective. Management support is linked to hiring trained and experienced staff, providing sufficient resources, enhancing the relationship with external auditors, and having an independent internal audit department. Saudi Arabia is representative of many developed and developing environments, and its recent tradition of governance and audit is mirrored in countries worldwide. Moreover, its specific cultural traditions involving clan and tribal allegiances, and pervasive and core religious beliefs, characterize the GCC countries, the Arab World generally, and indeed, many other developing countries, irrespective of wealth. Thus, links between management support and internal audit effectiveness are likely generalizable beyond the Saudi public sector context.

(Saidin, 2014) The objective of this study was to empirically examine the moderating effect of effective audit committee on the relationship between audit experience and internal audit effectiveness in the public sector using the perception of internal auditors. Data of the study were collected through research assistant employed, in which 300 questionnaires were sent to internal auditors in the North West geo-political zone local government in Nigeria. The study used simple random sampling technique; data were analyzed using Statistical Package for Social Science (SPSS) version 20. Descriptive statistics, factor analysis, correlation matrix and finally, hierarchical

multiple regression analysis were carried out. The result findings of the analysis revealed that, audit experience has a significant positive relationship with internal audit effectiveness and effective audit committee were significantly moderates such relationship.

(Anam Masood, 2015) The main aim of the study was to explore the antecedents behind ineffective audits at government level. The purpose of the study is exploratory and qualitative research approach has been used. The data has been collected from fifteen senior government auditors and It is a cross sectional study. In depth face to face interviews (which have 20 questions) were conducted with government auditors at their workplace. Analysis of interviews has been presented through word tag cloud, word tree maps, and model and cluster analysis of node similarity and Pearson correlation coefficients of variables. Pearson correlation coefficients have been generated to determine the relationship between several antecedents and ineffective government audits. The finding of the study shows massive corruption, conservative auditing methods, lack of cooperation from auditee, low morale of auditors, lack of financial independence, lack of power to take action against malpractices, lack of financial, technological and human resources, lack of qualified trainers and ineffective training institutes are antecedents of ineffective audits which ultimately make it difficult to bring transparency and accountability in the public sector.

(George Drogalas, 2015) The main objective of the study was to examine the relationship between tax audit effectiveness, tax legislation and the use of specialized information system tools. The study has two hypothesizes; The extent of Information System (IS) effectiveness has a positive effect on Tax Auditing Effectiveness and The extent of Tax Legislation has a negative effect on Tax Audit Effectiveness. The research design is based on a questionnaire. Survey methodology is used as one of the most appropriate methods in the collection of primary data. Structured questionnaire was used. Over 200 questionnaires were sent to 205 tax auditors 93 complete questionnaires were returned, representing a response rate of 45.3 per cent. The data was analyzed with the use of the SPSS software. Factor Analysis and multiple regression analysis were employed in order to examine the hypotheses. The finding of the study shows that There is a positive and significant relationship between “Information Systems” and “Tax Infringements Tracking” and Tax Legislation” found be negative and significant associated with” Tax Infringements Tracking.

There are also studies on audit and the factors affecting it in Ethiopia:

(Yismaw, 2007)The main objective of the study was how audit quality, management support, organizational setting, auditee attributes and the interplay among them, influence audit effectiveness in a public Sector organization. Data were collected via questionnaires distributed to internal audit personnel and an interview was conducted with the internal audit director. A review of relevant documents audit plans, audit programs, working papers, audit reports and audit manuals, all served as means of generating secondary data. The study was conducted on large public sector higher education institutions or university in Ethiopia with over 25,000 students. There are 14 auditors in the internal audit office of the university; the questionnaires' were distributed to all the auditors. The findings of the study shows .internal audit effectiveness is strongly influenced by internal audit quality and management support and organizational setting and auditee attributes don't have a strong impact on audit effectiveness.

The study by (Gebeyehu, 2008) was an attempt to trace out the basic concepts of tax audit, and analyze the significance and role of tax audit in increasing tax revenue and in strengthening tax administration capacity. The methods adopted include questionnaires (both open and close-ended), personal interviews, and document analysis by using documents such as published materials, annual reports, magazines and internet. The results of the study indicated that, in history, the highest ratio of tax to GDP in Ethiopia is 13 percent, which is registered in 2003/04. Most of the country's revenue is from non-tax sources such as grants. Revenue derived from taxes is dominated by indirect taxes. In general, the study mainly focused on the issues of personal income tax and business profit tax. The study stated that personal income tax does not need critical assessment other than checking whether the amount withhold by the employer is forwarded to the respective tax authority. Whereas, business profit tax needs much effort to levy and collect due to the high-risk of understatement and evasion since most taxpayers use all mechanisms that could understate their tax liability. However, there is no sufficient and available statistics about the extent of assessment under the prevailing tax audit net. The type of tax audit performed by tax auditors is only desk audit. So far, there is no field audit although the problem of tax evasion bothers revenue agencies at different levels.

The study of (Getaneh, 2011) examined the problems in tax audit practice in Ethiopia (the case of the federal government). The study was conducted to investigate the tax audit practice, and to identify the main problems of the tax audit program performed that affects tax revenue collection and taxpayers' voluntary compliance in the Ethiopian tax system. The study adopted both quantitative and qualitative approaches. Specifically, the techniques used in the study include survey with tax auditors and investigators, in-depth interviews with tax officials and taxpayers, and documentary analysis.

(Ayalew, 2014) The main objective of the study was to examine factors affecting tax audit effectiveness of the Bahirdar city revenue office. It uses quantitative method of research approach. Data was collected through survey of questionnaire analysis of revenue offices tax auditors and taxpayer's analysis, auditors and taxpayer's selected based on simple random sampling method of census and lottery method. The study selected 333 sample participants from a total of 1518 observations, from this 265 were returned. Data was then analyzed on quantitative basis using Pearson's correlation, linear regression analysis and descriptive statistics. The finding of the study shows that; there is no statistical significance negative relationship between auditee attributes and tax audit effectiveness, There is no statistical significance positive relationship among organizational setting, top management support and tax audit effectiveness and there is strongly significance positive relationship among audit quality, organizational independence and tax audit effectiveness.

(BIBISSO, 2014) The primary objective of the thesis was assessing Tax audit practice of Hawassa city administration Revenue Authority. The author used mixed research approach and descriptive survey was employed, Questionnaire and interview were used to collect data. Questionnaire and interview was designed to eleven tax auditors and seven Revenue Authority officials respectively. The result of the study revealed that the Revenue Authority of Hawassa city administration extensively use comprehensive types of audit. Audit coverage of the revenue authority was too low; audit cases were selected based on associated risk but not used the standard risk identification criteria as of BPR and The Authority was not perform the audit work in predetermine time. Generally the revenue authority was not performing tax audit according to the standards.

(Leilina, 2015) The major objective of the study was to assess the audit quality determinant factors in Ethiopian manufacturing share companies. To collect the necessary data the study adopted

structured review of documents. Data were analyzed through E-views 6 software package; the study selected a sample of twelve (12) companies for the period of five years (2009-2013) with the total of 60 observations. Then companies were selected based on simple random sampling method to avoid biases and represent firms within manufacturing companies. The results of panel least square regression analysis show that audit firm industry specialization and certified audit professionals ratio have statistically significant and positive relationship with manufacturing share companies' external audit quality. On the other hand, the joint provision of audit and non-audit service has a negative and statistically significant relationship with manufacturing share companies' external audit quality. However, the relationship for audit firm size and audit firm tenure is found to be statistically insignificant.

2.3 Gap in Literature

Even though plenty of studies discuss audit effectiveness in different countries worldwide, the researcher has got access to studies held on Saudi Arabia, Israel, Nigeria, Tanzania, Jordan and other few countries. In Ethiopia the study of (Gebeyehu, 2008), (Getaneh, 2011) and (BIBISSO, 2014) discuss tax audit practice of Addis Ababa city administration, Federal government and Hawassa city administration respectively. On the other hand the study of (Yismaw, 2007) measures internal audit effectiveness by focusing on public sector organizations. While recently the study of (Leilina, 2015) discusses external audit quality by focusing on manufacturing share companies and (Ayalew, 2014) measures tax audit effectiveness of Bahirdar city administration revenue office. Those studies examine issues regarding tax audit effectiveness using different variables. But the researcher wants to focus only on large tax payers. The main reason for selection of such category of taxpayers for audit purpose is their higher compliance risk and large tax potential, and also is highly influential in investment and other economic activities. Based on these gaps in the literature together with the problems stated the following research question is established.

How do audit quality, management support, organizational setting, auditee attributes, organizational independence and the inter play among them, influence audit effectiveness in LTO?

2.4 Hypotheses development and Dependent variable definition

Measurement of effectiveness is a key aspect in understanding the drivers of internal audit quality and effectiveness. Previous studies utilized a variety of approaches and measurement techniques. Some studies focused primarily on compliance with ISPPA (International Standards for the Professional Practice of Internal Auditing) e.g., Fadzil et al., 2005; Spraakman, 1997; Xiangdong, 1997. However, that approach has been criticized for focusing entirely on the execution of procedures; it does not take into account outcomes in terms of the requirements of the principal stakeholders (Lampe & Sutton, 1994).

Several studies considered IAE by reference to the function's ability to satisfy the needs of auditees (e.g., Barrett, 1986; Cohen & Sayag, 2010; Frigo, 2002; Ziegenfuss, 2000). These studies sought to measure the auditee's satisfaction with the work of the internal auditor. Other studies used indirect measures, especially the extent to which internal audit recommendations are endorsed and acted upon (Arena & Azzone, 2009; Mihret & Yismaw, 2007; Sawyer, 1995; Van Gansberghe, 2005).

Dittenhofer (2001) argues in favor of wider measures of the capacity of internal audits to evaluate achievement of auditees' goals and objectives and to provide remedies should these goals and objectives not be realized. Undoubtedly, this notion demands an assessment of those dimensions of business activity that the internal audit observes and has the capacity to influence, including corporate performance. Linked to this research are studies that concentrate on the ability of the internal audit function to positively influence the quality of corporate governance (Gramling, Maletta, Schneider, & Church, 2004; Sarens, 2009), including the capacity to ensure that risk management and internal control processes are effective.

Few studies have sought to use direct economic criteria despite arguments that quality is only one aspect of effectiveness and that the cost of achieving quality must therefore be taken into account (Cashell & Aldhizer, 2002). By this reasoning, studies that do not consider the interrelationship between quality and cost only give a partial account of effectiveness. Although this argument is valid, the difficulty of collecting reliable data on internal audit costs means that few studies have taken this route (Although auditees may impute an implicit notion of cost-effectiveness when evaluating quality).

(Gwilliam, 2014) Employs a measure of IAE based on quality of the function as perceived by auditees, specifically managers of audited departments within the investigated organizations. This overall measure was obtained by aggregating auditee responses to survey questions on aspects of

the internal audit function including: ability to plan, improvement of the organization's productivity, assessment of the consistency of results with established objectives and goals, implementation of internal audit recommendations, evaluation and improvement of risk management, evaluation of internal control systems, and recommendations for improvement..

(Ayalew, 2014) states Tax audit effectiveness can be measured by the extent to which a tax audit office meets arguably a result of the interplay among five factors: audit quality; management support; organizational setting; and attributes of the auditee, organizational independence. A tax audit function's capability to provide useful audit findings and recommendations would help raise management's interest in its recommendations. The management support with resources and commitment to implement the tax audit recommendations is essential in attaining audit effectiveness. Also, the organizational setting in which tax audit operates, i.e. the organizational status of the office, its internal organization and the policies and procedures applying to each auditee, should enable smooth audits that lead to reaching useful audit findings. Further, the capability, attitudes and level of cooperation of the auditee impact on the effectiveness of audits. Therefore, tax audit effectiveness should be viewed as a dynamic process that is continuously shaped by the interactions among the five factors mentioned above on large tax payers office by taking Tax audit is effective if it meets the intended outcome it is supposed to bring about.

Based on the results of a consultative forum that focused on improving public sector internal audit, VanGansberghe (2005) identified perceptions and ownership; organization and governance framework; legislation; improved professionalism; conceptual framework; and also resources as factors influencing internal audit effectiveness. Effective internal audit undertakes an independent evaluation of financial and operating information and of systems and procedures, to provide useful recommendations for improvements as necessary.

The effectiveness of internal audit greatly contributes to the effectiveness of each auditee in particular and the organization at large (Dittenhofer, 2001). Dittenhofer (2001) has also observed that if internal audit quality is maintained, it will contribute to the appropriateness of procedures and operations of the auditee, and thereby audit contributes to effectiveness of the auditee and the organization as a whole.

So, on this article the researcher stands to analyze tax audit effectiveness by using the five factors which are audit quality, management support, and organizational setting, auditee attributes, and organizational independence by focusing on large tax payer's branch office.

Internal audit quality, which is determined by the internal audit department's capability to provide useful findings and recommendations, is central to audit effectiveness. Internal audit has to prove that it is of value to the organization and earn a reputation in the organization (Sawyer, 1995). Internal audit has to evaluate its performance and continually improve its service (Ziegenfus, 2000). Audit quality is a function of the level of staff expertise, the scope of services provided and the extent to which audits are properly planned, executed and communicated.

Audit findings and recommendations would not serve much purpose unless management is committed to implement them. Adams (1994) used agency theory to explain that it is in the interest of management to maintain a strong internal audit department. Implementation of audit recommendations is highly relevant to audit effectiveness (Van Gansberghe, 2005) and the management of an organization is viewed as the customer receiving internal audit services. As a result, management's commitment to use audit recommendations and its support in strengthening internal audit is vital to audit effectiveness (Sawyer, 1995).

The independence and objectivity of the IAD has been identified as a key element of its effectiveness (CIPFA, 2003). Worldwide professional standards and guidance of ISPPA and the IIA Practice Advisory suggest that appropriate independence and objectivity can be gained by reporting to levels within the organization that allow the IAD to perform its responsibilities free from interference; avoiding conflict of interests; having direct contact with the board and senior management; having unrestricted access to records, employees and departments; having the appointment and removal of the head of internal audit not under the direct control of executive management; and not performing non-audit work.

2.5 Hypotheses development and Independent variables definition

2.5.1. Quality of audits

Audit quality to IA is considered as a determinant of IA effectiveness (Ayalew, 2014), (Sayag, 2010) and (Yismaw, 2007).

A quality audit is one that: -

- Is focused on identified risks;
- Applies the correct law and technical interpretation;
- Follows consistent procedures;
- Is properly documented, and
- Is properly communicated.

. The office's ability to properly plan, perform and communicate the results of audits is a proxy for audit quality. Therefore, audit quality is arguably a function of extensive audit planning, audit experience, execution & communication, working paper and finally quality assurance.

To evaluate these determinants of audit quality, evidence from questionnaire responses from tax auditors. To support the results, supplementary information was collected through a review of relevant documents.

2.5.1.1 Audit planning

Audit planning entails developing an overall audit strategy and a detailed plan for the nature, timing and extent of the audit.

The auditor performs planning to determine an effective and efficient way to obtain the evidential matter necessary to report on the taxpayer's tax returns. The nature, extent and timing of planning vary with, for example, the entity's size and complexity, the auditor's experience with the entity, and the auditor's knowledge of the entity's operations.

A key to a quality audit, planning requires the involvement of senior members of the audit team. Although concentrated in the planning phase, planning is an iterative process performed throughout the audit. For example, findings from the internal control phase directly affect planning the substantive audit approach.

Auditors should consider the needs of, and consult in a timely manner with, other auditors who plan to use the work being performed, especially when making decisions that require the auditor to exercise significant judgment.

2.5.1.2 Audit Experience

Audit experience is an auditor's unique knowledge, competencies and capabilities that occur from job practices in auditing profession. It enhances the auditor's abilities to process information, make mental comparisons of alternative solutions, and initiate subsequent actions (PaithunIntakhan, 2010).

It explicitly has an effect on decision making efficiency and effectiveness through a good memory of information necessary and an accurate judgment of audit tasks. It helps them identify clients' operational errors and search for their misstated accounts. Likewise, auditors with great experience are likely to improve their judgments with more complete and complex classifications of risk assessments. Audit experience definitely promotes them to build and develop the consistency and consensus of risk judgments, assessments, and evaluations in auditing practices under other conditions, situations, and circumstances. (Ayalew, 2014)

Thus, auditors with more experience tend to perform best audit practices, achieve superior audit outcomes, and gain outstanding audit success. They respond clients' needs, expectations, and requirements by being aware with auditing standards and practice their audit jobs. Audit experience supports the auditors to serve clients having financial difficulties and be made aware of such client situations and problems.

Similarly, experienced auditors seem to have no agreements with clients' preferred accounting treatments and be concerned with retaining and pleasing auditing standards, procedures, and processes. They explicitly propose audit judgments and qualified opinions by increasing awareness of the potential adverse consequences of their audit practices. It definitely plays a significant role in attending negative audit evidences and assessing negative control risks. (Ayalew, 2014)

Experienced auditors tend to have more competencies for analyzing clients' evidences and transactions, and interpreting them and presenting audit comments and reports efficiently and effectively. It promotes auditors to have more audit knowledge and more meaningful organizations of knowledge which they have implemented their knowledge relating to misstatements by submitting aggressive audit reports from the audit practices and activities.

2.5.1.3 Execution and communication

It involves the verification of critical audit activities to ensure quality. Tax audit coordinators are responsible for overseeing the selection, planning, execution and conclusion of every audit undertaken in their jurisdictions .it is requirement for an audit supervisor to approve every audit

plan before such audits are commenced .the team coordinator will ensure that written plans are in place for every audit.

Tax audit process coordinator, team coordinator are primarily be responsible for the station audit performance and shall be responsible for the monthly, quarterly and annual reports in respect of their areas of control. The team coordinators are responsible for the performance of their teams and report directly to the audit process coordinator. (Ayalew, 2014)

2.5.1.4 Working papers

The working papers should reflect all examinations undertaken, all communications, and positions established, and form an integral part of the audit file.

All working papers should be page-numbered and cross-referenced to:

- The taxpayer's records;
- The referral reports/forwarding documents;
- The audit report;
- Source information documents; and
- Any other relevant other documents which complete the picture.

Each sheet of paper should be initialed by the auditor and the supervisor or person reviewing the case.

2.5.1.5 Quality assurance

The Ethiopian revenue and customs authority has established an independent unit for internal control and quality assurance. This unit is charged with the responsibilities for controlling information, implementing the department's strategies, and controlling policies and procedures to ensure the optimal effectiveness of the department. Furthermore, the department worked to improve the control performance level which the information system provides.

Feedback and observations regarding capability gaps and issues is typically gathered from the following sources, considered at a corporate level, and used to improve training and development activities and capability programs: results from quality assurance and other quality management systems; Results from performance system interviews (often performed annually or biannually);

client professionalism, satisfaction and other similar surveys; and Training and skilling program evaluations (OECD, 2006)

H1: Greater audit quality is positively related to tax audit effectiveness

2.5.2 Organizational setting

Organizational setting to IA is considered as a determinant of IA effectiveness (Ayalew, 2014) and (Yismaw, 2007) Organizational setting includes the status of internal audit in the organizational structure; the probity of internal audit office's internal organization; budgetary status of the internal audit office; and the existence of sound established criteria to evaluate auditees' practices. Organizational setting refers to the organizational profile, internal organization and budgetary status of the internal audit office; and also the organizational policies and procedures that guide operation of auditees. It provides the context in which internal audit operates. Thus, organizational setting can exert influence on the level of effectiveness that internal audit could achieve. The auditee attributes relate to the capability of the auditee to meet its intended objectives. Auditee attributes with implications on audit effectiveness include the auditees' proficiency to efficiently and effectively meet organizational sub-goals; their attitude towards internal audit; and the level of cooperation provided to the auditor. (Yismaw, 2007)

2.5.2.1 Organizational status and internal organization

The internal audit function of an organization should be given a sufficiently high status in the organizational structure to enable better communication with senior management and to ensure independence of internal audit from the auditees. Independence is of paramount value in providing effective internal audit service to the management, for it affords an atmosphere of objective and uninhibited appraisal and reporting of findings without influence from the units being audited.

2.5.2.2 Organizational policies and procedures

In order to make internal auditing effective, there should exist clear policies and procedures against which organizational practices are to be gauged. Also, the results of the internal audit services help improve those policies and procedures. The policies and procedures for the organizational practices in the institution studied are those applying to the large tax payer's office.

H2: The organizational setting is positively related to the tax auditeffectiveness.

2.5.3 Management support

Management support to IA is considered as a determinant of IA effectiveness ((Ayalew, 2014) , (Sayag, 2010) and (Yismaw, 2007).

Management support is one of the two most important factors (the other being internal audit quality) influencing audit effectiveness. A number of empirical studies have found top management support for quality to be a key factor in its improvement (for example, Dale and Duncalf 1985; Ebrahimpour and Lee 1988). Top managers' attitudes and behaviors have also been found to be related to quality management practices (Flynn, Schroeder and Sakakibara 1994). Several recent studies have demonstrated that support for internal auditing by top management is an important determinant of its effectiveness (Jill 1998; Schwartz, Dunfee and Kline 2005). Funding, of course, is an important measure of such support: IA departments must have the resource needed to hire the right number of high-quality staff, to keep up-to-date in training and development, to acquire and maintain physical resources like computers, and so on. In a survey of Australian internal auditors, Leung, Cooper and Robertson (2004) found that chief audit executives are generally very positive about the performance of IA. They see themselves as a key part of the management team, and believe they can influence decisions; maintain a sufficient level of objectivity, integrity and competence in their jobs; and provide good support for their own staff. More importantly, they view the support of upper management as a key factor in ensuring the effectiveness of their role. Sarens and De Beelde (2006) have reported on the development of a similar attitude in Belgium, where as a consequence of recent changes in national and international corporate governance regulations, the internal audit function now gets more attention and support from boards and managers.

H3: Greater support from top management is positively related to tax audit effectiveness.

2.5.4 Auditee attributes

Auditee attributes to IA is considered as a determinant of IA effectiveness (Mihret and Yismaw, 2007). The auditee attributes relate to the capability of the auditee to meet its intended objectives. Auditee attributes with implications on audit effectiveness include the auditees' proficiency to efficiently and effectively meet organizational sub-goals; their attitude towards tax Audit; and the level of cooperation provided to the auditor.

Audit quality and management support strongly affects audit effectiveness. Better audit effectiveness, in turn, has a positive bearing on these two factors. If tax audit enhances quality to the extent it elicits management's interest, management support would be a natural returning offavor because the management would realize the contribution of tax audit to the achievement of organizational goals. This would positively reflect on audit quality and enhance audit effectiveness. The management's commitment to implement audit recommendations improves the operation of the auditee, as a result of which the auditee attributes would improve to the benefit of audit effectiveness. Further, management retains the authority to improve the organizational setting and influence the auditee towards a positive effect on audit effectiveness, which in turn, benefits audit quality.

To achieve effective audit work, the auditors are required to have full and unrestricted access to all activities, records and properties, and be provided with cooperation from the auditee. The ease of access to required records in the auditee varies among the units audited. The capability of the auditees to meet their objectives also reflects on audit quality.

H4: More auditee attributes for tax auditors in the organization is positively related to auditing effectiveness.

2.5.5 Organizational independence

Organizational independence to IA is considered as a determinant of IA effectiveness (Aaron Cohen & Gabriel Sayag, 2010). The role of IA in organizations is complex. Van Peursem (2004) identifies strong potential for confusion in the relationship between internal auditors and management: internal auditors are expected to aid managers in doing their jobs, and at the same time to independently evaluate management's effectiveness. Internal auditors are charged with upholding the best interests of their employer, but they may be reluctant to counter management, Regardless of the consequences. (Bou-Raad, 2000) argued that the strength of an IA department must be assessed with respect to

The level of independence it enjoys from management and from operating responsibilities. The IIA, the American Institute of Certified Public Accountants (AICPA) and others have likewise identified organizational independence as crucial to the viability of the internal audit function. Auditors should be sufficiently independent from those they are required to audit that they

can both conduct their work without interference, and equally important to be seen to do so. Coupled with objectivity, organizational independence contributes to the accuracy of the auditors' work and gives employers confidence that they can rely on the results and the report. Differentiate among three dimensions of independence: programming independence, investigative independence and reporting independence. They argue that organizational independence is more crucial to the effectiveness of internal auditors, as it protects the auditor from pressure or intimidation, and increases the objectivity of the auditing work.

(Van Peurse, 2004) based on interviews with Australian internal auditors, concluded that independence from management is a dominant feature of successful auditing programs. Those auditors able to set their own agenda seem to be the most powerful in this respect because their selection of what to audit and when they can include assessments of senior managers as well as assessments for them. Similarly, found that the independence of the internal audit department and the level of authority to which the audit staff report are the two most important criteria influencing the objectivity of their work.

To achieve effective audit work, the auditors are required to have full and unrestricted access to all activities, records and properties, and be provided with cooperation from the auditee. The ease of access to required records in the university varies among the units audited. Whereas, others such as the finance department provide full access to records, though complete records as might be expected by the auditors are, at times, lacking. Still some other departments, such as purchasing, are at times reluctant to cooperate with the auditors.

The capability of the auditees to meet their objectives also reflects on audit quality. The interview responses and data from the questionnaire reveal that the poor record management system in some areas is more pronounced than the difficulty of access to files. The level of cooperation of the auditee and auditee capability in light of established criteria are nevertheless sound enough not to adversely influence audit effectiveness.

H5: Greater organizational independence is positively related to auditing effectiveness.

Chapter Three

Research Design and Methodology

The previous chapter reviewed both theoretical and empirical studies, and it tried to give a brief conclusion and excavate the gap in the existing knowledge. This chapter presents research design and its methodology used in this study. It includes the research design, sampling technique, data collection method, data analysis method and other aspects of the research.

3.1. Research methods used

Explanatory research design was used in line with the objective of the study. Because, the researcher wanted to focus on a very narrow set of data with deep explanations on the study area. Research methods are the techniques used to collect data. In this study, the researcher adopted mixed methods approach, mixed approach includes the use of theory deductively in theory testing and verification, or inductively in an emerging theory or pattern (Mertens 2003 cited in Creswell 2007). For this study, the researcher applied quantitative (questioner) and qualitative (interview and document analysis), and are discussed in the following sub-sections. The researcher distributes the questioners to the 62 tax auditors of LTO and the data was processed on SPSSv20.0 to make multiple regression and descriptive statistics.

3.2 Sampling Design

3.2.1 Target Population

The population of the study includes the entire set tax auditors in large tax payer's office. Accordingly, the target groups for the study were 62 tax auditors of large tax payer's office. in large tax payer's office there are 2 audit processes which is led by 10 team leaders who coordinate 62 audit experts which were available on the two processes of Large tax payer's office as of march 30,2016.

3.2.2 Sampling Techniques

To achieve the objective of the study the researcher used Census method to select the survey respondents. Because Census method is most reliable sampling techniques especially if the number of population is small.

To ensure the validity of the findings, the study used adequate sample size. The researcher determined to accept at 5% sampling error and wanted to be at 95% level of confidence with the findings of this study.

For the purpose of this study the total population which is the 62 tax auditors of LTO would be taken with 95% level of confidence.

3.3 Source of Data

3.3.1 Primary Data Sources

The main base for the study is primary data only which was collected through field work survey in order to get information on the issue of factors affecting tax audit effectiveness through questionnaire. The structured questionnaire consists of closed ended questions to collect quantitative data from the respondents.

Along with some of the closed ended questions are five score Likert scales to provide respondents a wider range of alternative with end points where “5” the level of agreements are represent by 1 to 5. ***Strongly agree 5, agree 4, neutral 3, disagree 2, and strongly disagree 1.***

Questionnaires were pre tested by five team leaders analyzed respectively and the necessary correction were made and standardized before they were circulated to the respondents to test the validity. In addition to this they were adopted from a published article of (Aron sayag, 2010) which is an explanatory research on internal audit effectiveness. Subsequently, these questionnaires were filled by tax auditors to reflect their work to the issue under study.

➤ Questionnaires:

Questioners were used to collect primary data form respondents and its advantage is covering a small number of respondents easily and quickly. Questionnaires were distributed to the selected respondents to get primary data on the factors affecting tax audit effectiveness. Thequestionnaires have provided to the tax auditors and have a total of 52 questions; with two parts, its first part have 4 related to respondents profile and in its second part it have 48 questions which were designed to measurevariables of the study .tax audit effectiveness and auditee attribute is measured by each with 14 questions. Audit quality and organizational independence were each measured with 7 questions, organizational setting and top management support with 3 and 4 questions respectively.

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

3.3.2 Secondary Data Sources

- **Documentary analysis:** the purpose of using quantitative aspect of the research is to support the study by making documentary analysis on tax audit process performance on the last 4 years to measure the audit effectiveness based on audit coverage, number of company's during the year and the amount of audit adjustment.

Data collected from document review and interview was interpreted qualitatively. This study used multiple sources of data including document review, interview and questionnaire that helps to cross validate the data.

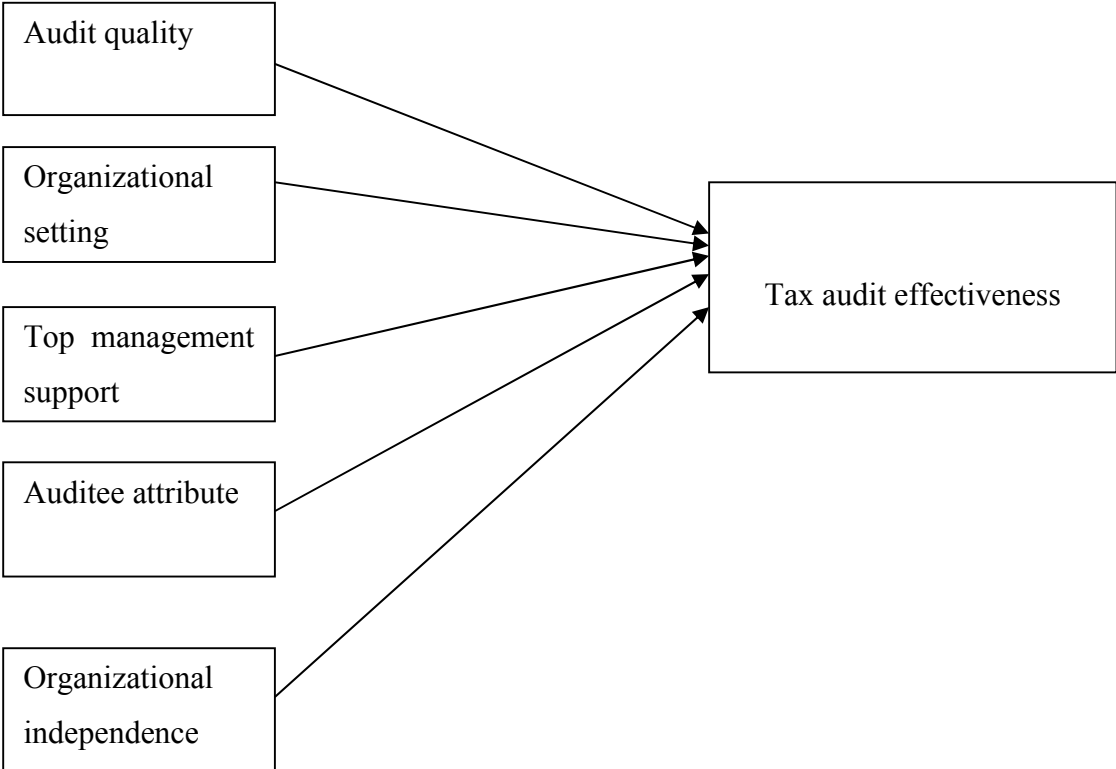
3.4 Methods of Data Analysis and Interpretations

Before presenting the data analysis methods adopted, the study tried to specify the variables and models used under the study. Accordingly, the study identified a total of six (6) variables including one dependent, and five independent variables based on the previews studies on different countries on similar topics namely, (Mihret and Yismaw, 2007) , (Ayalew, 2014) and (Aaron Cohen & Gabriel Sayag, 2010).

In the research, raw data is changed into a data structure that enables to generate meaningful and useful bits of information. The major part of the analysis was done based on the descriptive statistics and multiple regression analysis for quantitative data to examine the study to indicate the factors affecting tax audit effectiveness in Large tax payers office.

The collected and analyzed data was presented by using the following data presentation tools: Tables, histogram and regression along with sufficient interpretations.

Model Specification:



Therefore, the formula used for the model is:

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

$$TAE = \beta_0 + \beta_1 (AQ) + \beta_2 (OS) + \beta_3 (MS) + \beta_4 (AA) + \beta_5 (OI) + \epsilon$$

Where:

TAE = tax audit effectiveness

AQ = audit quality

OS = organizational setting

MS = management support

AA = auditee attributes

OI = organizational independence

Where Y stands for the mean values of the Tax Audit Effectiveness where as $\beta_0, X_1, X_2, X_3, X_4, X_5$ and ϵ denote the intercept of the equation, mean values of audit quality, mean values of organizational setting, mean values of management support, mean values of auditee attributes, mean values of organizational independence and error term of the equation respectively. In addition, $\beta_1, \beta_2, \beta_3, \beta_4$ and β_5 are the parameters of the equation.

Descriptive analyses were used to describe patterns of behavior or relevant aspects of phenomena and detailed information about each variable. Thus, it shows the average, and standard deviation of the different variables of interest in the study. Moreover, it also presents the minimum and maximum values of the variables which help in getting a picture about the maximum and minimum values a variable can achieve and processed using SPSS V20.0. The study used multiple regression analysis and descriptive statistics to estimate the causal relationships between tax audit effectiveness variable, and independent variables.

3.5 Measures of dependent and independent variables

➤ *Dependent variable*

Given the lack of academic work on the effectiveness of tax auditing, the researcher found scales in the literature that were tested for their reliability which met the requirements of this study. The researcher used the 48 internal auditing effectiveness items advanced by (Aaron Cohen & Gabriel Sayag, 2010) as a starting point and variables were tested for their reliability through (Cronbach's Alpha) for all items with SPSS V20.0.

Tax audit effectiveness- This variable will measure by fourteen items (numbers 5,6,7,8,9,10,11,12,13,14,15,16,17 and 18). The majority of these items dealt with the tax audit effectiveness.

➤ *Independent variables*

It should be noted that the data for the five independent variables were collected from the tax auditors in large tax payer's office. Therefore, the independent variables represent the perceptions of the tax auditors regarding these concepts.

Auditee attributes: This variable was measured by fourteen items (numbers 19,20,21,22,23,24,25,26,27,28,29,30,31 and 32). The majority of these items dealt with the auditee attribute.

Audit quality: This variable was measured by seven items (numbers 33, 34, 35, 36, 37, 38 and 39). The majority of these items dealt with the audit quality.

Organizational independence: This variable was measured by eleven items (numbers, 40, 41, 42, 43, 44 and 45). The majority of these items dealt with the organizational independence.

Organizational setting: This variable was measured by three items (numbers 46, 47 and 48). The majority of these items dealt with the organizational setting.

Top management support: This variable was measured by four items (numbers 49, 50, 51 and 52). The majority of these items dealt with the top management support.

Data was then analyzed on quantitative basis using Pearson's correlation, linear regression analysis and descriptive statistics. The researcher also undertook the diagnostic tests for the assumption of classical linear regression model (CLRM).

To summarize, this chapter deals the approach adopted to examine the factors affecting tax audit effectiveness, the type of data used and the techniques employed to collect the data, the sampling mechanism including sample size, the methods utilized to manage and analyze the data, and the process of constructing empirical model with identification and measurement of its components, measurement and selection of variables, expected relations between the dependent and independent variables.

Chapter Four

Data analysis and presentation

In the preceding chapters, the review of relevant literature helped this study to understand the problem and design an appropriate research approach to deal with. The previous chapter also discussed the research design employed to achieve the objectives of the study and to test the research hypothesis there on. In this chapter, the study analyzes the collected data using various statistical tools and presents the results and discussion accordingly. This chapter is organized in two sections. The first sub section presents the result which in turn includes descriptive statistics, correlation analysis and the regression results. The second section is dedicated to the interview and review of document. Questionnaires were sent to 62 tax auditors of the two process that which are on job until March 30, 2016. The data collection do not take more than two weeks, as the researcher was an employee of the branch. At the end of the collection process, the researcher received 59 respondents from the 62 questioners sent to the tax auditors. The data collected from the returned questionnaire were entered into SPSS (Statistical package for social science software) version 20 for analysis. Finally correlation and regression analysis were performed. In this study, a multiple regression analysis was performed by using all the discrete variables (dependent and independent) variables available in the dataset.

4.1 Descriptive Statistics results

The descriptive statistics (such as mean of distribution, median of distribution, minimum/maximum of the range of distribution and standard deviation of the distribution) were employed to investigate and present an overview of both dependent (TAE) and independent variables (AA, AQ, OI, OS and TMS) used in the study. Table 3 shows the descriptive statistics output of all variables.

Table 3 shows the descriptive statistical results of corresponding 59 total observations of each variable in the study. It also describes the overall nature of variables employed in the study and their interpretation is presented as follows.

Table 3: Descriptive statistics output of all variables.

Variables		Observations	Minimum	Maximum	Mean	Standard deviation
Dependent Variable	TAE	59	1.64	4.29	2.8554	.62562
Independent Variables	AA	59	1.17	3.83	2.6502	.54516
	AQ	59	1.00	3.90	2.6749	.64342
	OI	59	1.71	4.80	2.8705	.61546
	OS	59	1.00	4.80	2.5229	.71945
	TMS	59	1.25	5.00	2.6112	.68234

Source: Output of SPSS 20

1. According to Best, (1977), standard deviation of the score from 1-1.80 is lowest, from 1.81-2.61 is lower, from 2.62-3.41 is average/moderate, from 3.42-4.21 is good/high, and 4.22-5 is considered verygood.
2. Besides, the decision rules used in the analysis was average mean less than 3 was considered as low, average mean equal to 3 was considered as medium and average mean greater than 3 was consideredas high . (Best and khan1995).

The mean distribution of the dependent variable (TAE) of the study is 2.8554 which is less than 3 and standard deviation statistics for TAE is 0.62562, which is less than 1.it shows the as per the auditors perception audit effectiveness in LTO is less than its moderate level. The auditor’s response shows on the 14 questions tax audit effectiveness in LTO is low.

The mean distribution of auditee attribute was 2.6502 which are less than 3 and the standard deviation of auditee attribute 0.54516which is less than 1which indicates in view of the respondents there is low auditee attribute in large tax payer’s office.

Quality of audit is determined by audit planning, audit experience, execution and communication, working papers and quality assurance approval. The mean value of audit quality was 2.6749, which is less than 3.this implies that auditors perception on quality of audit in large tax payers audit as in

its planning up to working paper preparation, the audit work is not done as the audit manual indicates. The variation of audit quality measured by standard deviation was 0.64342 which is less than its moderate score, it can be understood that the large tax payers have lowest audit quality.

The mean value of organizational independence was 2.87 which is less than its moderate value of 3. It indicates that for the large tax payers have lowest or less than moderate organizational independence. The standard deviation of organizational independence was 0.61546 which indicates the large tax payers have less average deviation of 0.61546 from the mean value. Its implication is that auditor's perception on organization was not free from unethical practices like corruption.

Organizational setting is determined by organizational status & internal organization and organizational policies and procedures. The mean value of organizational setting was 2.5229 which is less than its moderate level 3 and its standard deviation was also less than its average. So its implication is auditor's perception on organizational policies and procedures are no more workable for the audit done in LTO.

The average mean value of top management support in large tax payer's office was rated as 2.6112 which is less than 3 and its standard deviation was 0.68234 which is also less than its moderate level. So the respondent's perception on top management's role on audit effectiveness of LTO is low.

4.2. Correlation Analysis and Discussion

Correlation analysis is a statistical tool which is used to measure the strength or degree of linear association between two variables. The correlation coefficient, which always lays between -1 and +1, was used to measure the strength and magnitude or degree of linear association between two variables. A correlation coefficient of +1 shows a strong and positive linear relationship between two variables. On the contrary, a correlation coefficient of -1 indicates a strong and negative linear association between two series. A correlation coefficient of 0 shows that there no linear relationship between two variables.

The correlation table below shows that all the independent variables have a positive significant relationship with the dependent variable. The result of correlation analysis is discussed in detail as follows:

Table 4: Correlation matrix between variables

		Correlations					
		TAE	AA	AQ	OI	OS	TMS
TAE	Pearson Correlation	1	.393**	.629**	.550**	.479**	.536**
	Sig. (2-tailed)		.002	.000	.000	.000	.000
	N	59	59	59	59	59	59
AA	Pearson Correlation	.393**	1	.408**	.350**	.391**	.321*
	Sig. (2-tailed)	.002		.001	.007	.002	.013
	N	59	59	59	59	59	59
AQ	Pearson Correlation	.629**	.408**	1	.543**	.471**	.254
	Sig. (2-tailed)	.000	.001		.000	.000	.052
	N	59	59	59	59	59	59
OI	Pearson Correlation	.550**	.350**	.543**	1	.386**	.202
	Sig. (2-tailed)	.000	.007	.000		.003	.126
	N	59	59	59	59	59	59
OS	Pearson Correlation	.479**	.391**	.471**	.386**	1	.149
	Sig. (2-tailed)	.000	.002	.000	.003		.260
	N	59	59	59	59	59	59
TMS	Pearson Correlation	.536**	.321*	.254	.202	.149	1
	Sig. (2-tailed)	.000	.013	.052	.126	.260	
	N	59	59	59	59	59	59

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

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

Source: Output of SPSS 20

The coefficient of correlation between tax audit effectiveness and auditee attribute was 0.393. It shows that there is weak and positive relationship between them. The relationship is significant at 0.05 level of significance. Which implies that auditees cooperation during audit have weak or low effect on audit effectiveness. Another variable employed in the study was audit quality. The coefficient of correlation between tax audit effectiveness and audit quality is 0.629, which indicates that there is strong positive correlation between TAE and audit quality and the relationship, is significant at 0.05 level of significance. The relationship between tax audit effectiveness and audit quality is higher than the relationship between tax audit effectiveness and auditee attribute. This implies that if the quality of audit (planning, execution, working papers done as per the audit

manual, experienced auditors increased in the staff) were improved in the process its effectiveness will be affected significantly.

The coefficient of correlation between tax audit effectiveness and organizational independence is 0.55. This figure reveals that there is a strong and positive relationship between tax audit effectiveness and organizational independence in large tax payers. The relationship is significant at 0.05 level of significance. This implies that the organizations independence from unethical practices have a significant positive impact on effectiveness of the audit work.

Tax audit effectiveness is positively correlated to organizational setting with correlation coefficient of 0.479. The relationship is weak but significant at 0.05 level of significance. This implies that any change in organizational practices and procedures positively but not significantly affects its audit effectiveness in LTO.

The coefficient of correlation between tax audit effectiveness and top management Support is 0.536. It shows that there is strong and positive relationship between them. The relationship is significant at 0.05 level of significance. This implies that any improvement on managements support to the audit have apposite significant impact on audit effectiveness in LTO.

4.3. Multiple regression analysis

The study employed multiple regression model in the form of ordinary least square (OLS) and used a cross-sectional data from auditors in large tax payer's office. The researcher undertook the diagnostic tests for the assumption of classical linear regression model (CLRM) before directly going to the multiple linear regression model.

4.3.1 Results for test of classical linear regression model (CLRM) assumptions

Diagnostic test is made to make sure that the classical linear regression model assumption violated or not. In this study an attempt is made to test Heteroscedastic, Autocorrelation, normality and Multi-collinearity the result of which are presented and discussed as follows.

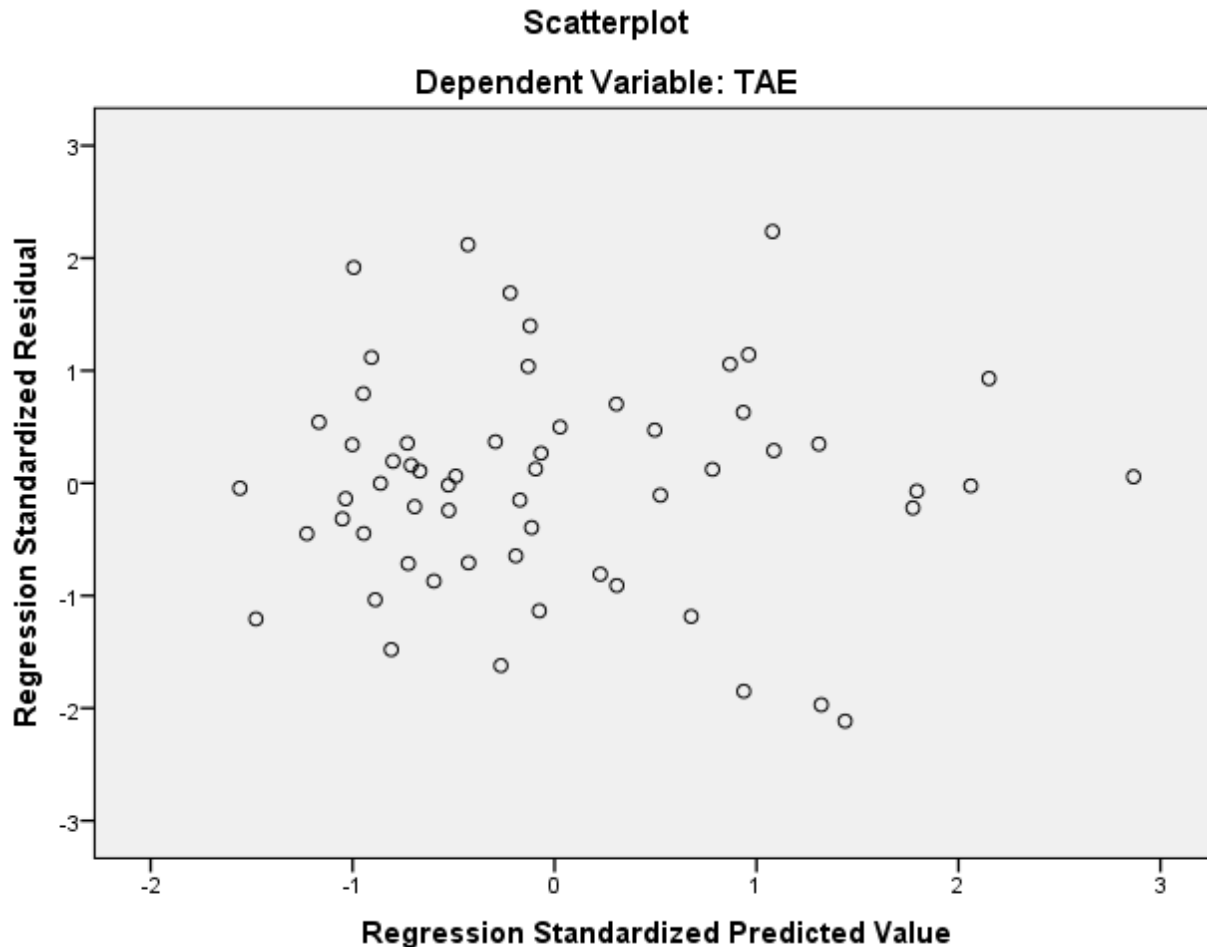
➤ ***Test for no heteroscedasticity (homoscedasticity) $\{var (ut) = \sigma^2 < \infty\}$***

One of the important assumptions of the classical linear regression model is Heteroscedasticity. As noted by brooks (2008) Heteroscedasticity assumption state that the disturbancesui appearing in the

population regression function are homoscedasticity; that is, they all have the same variance. The variance of each disturbance term u_i , conditional on the chosen values of the explanatory variables, is some constant number equal to σ^2 . This is the assumption of Heteroscedasticity, or equal (homo) spread (scedasticity), that is, equal variance (Gujarati, 2004). If the error term u_i do not have constant variance its said to be there is Heteroscedasticityproblem.

Heteroscedasticity makes your parameter estimates no longer BLUE – they are still unbiased, but no longer have a minimum variance. Unfortunately, SPSS does not have built in procedure to test for heteroscedasticity. The test can be done by writing some codes. Despite not having built in procedure to test for heteroscedasticity, we can plot standardized residuals (ZRESID) against the standardized predicted values (ZPRED). If there is no heteroscedasticity, the plot should look random. If u see a pattern, such as a funnel shape or a curve, this indicates heteroscedasticity. A curve shape, in particular, could indicate some non-linearity in the relation that you failed to take into account. To avoid heteroscedasticity, we can check again by removing one independent variable and try again.

Figure 2:-Test for heteroscedasticity



Source: Output of SPSS 20

As we can see in the plot the residuals have a random pattern, which signifies that there is no sign of heteroscedasticity.

➤ ***Test for assumption of no autocorrelation $\{cov(u_i, u_j) = 0 \text{ for } i \neq j\}$***

The diagnostic test for CLRM assumption of no autocorrelation was tested by this study. According to Gujarati, (2004) the assumption of no autocorrelation between the disturbances assumes that given any two X values, X_i and X_j ($i \neq j$), the correlation between any two u_i and u_j ($i \neq j$), is zero. According to Chris Brooks (2008) it is assumed that the errors are uncorrelated with one another. If the errors are not uncorrelated with one another, it would be stated that they

are ‘auto correlated’ or that they are ‘serially correlated’. This assumption was tested by Durbin Watson (DW) test of autocorrelation. Durbin--Watson (DW) is a test for first order autocorrelation -- i.e. it tests for a relationship between an error and its immediate previous value. One way to motivate the test and to interpret the test statistic would be in the context of a regression of the time t error on its previous value

$$u_t = \rho u_{t-1} + v_t$$

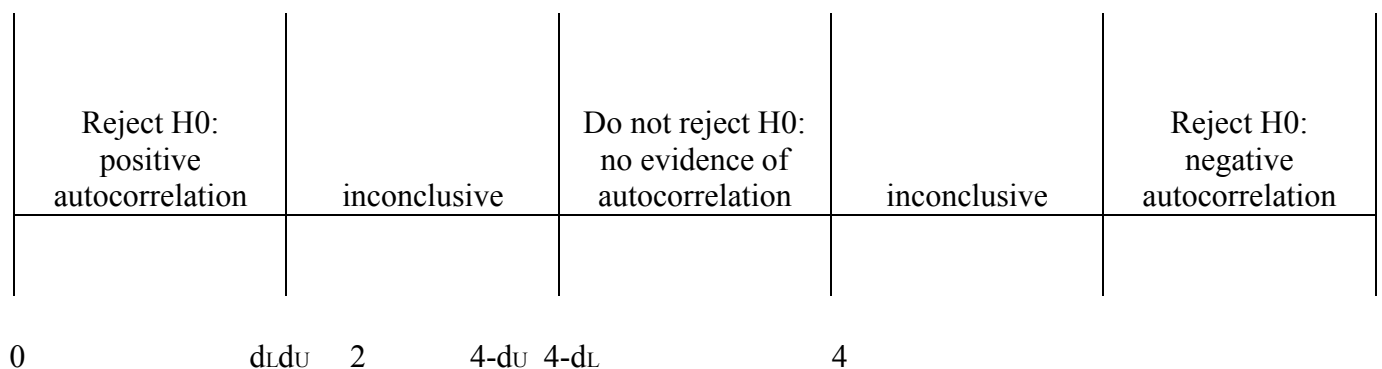
Where $v_t \sim N(0, \sigma^2 v)$ and ρ is the coefficient of autocorrelation. The DW test statistic has as its null and alternative hypotheses. Under the null hypothesis, the errors at time $t - 1$ and t are independent of one another (the errors at time $t - 1$ and t are uncorrelated), and the alternative hypothesis says the errors at time $t - 1$ and t are independent (the errors at time $t - 1$ and t are serially correlated). Therefore

$$H_0 : \rho = 0 \text{ (no autocorrelation)}$$

$$H_1 : \rho \neq 0 \text{ (autocorrelation)}$$

DW has 2 critical values: an upper critical value (d_U) and a lower critical value (d_L), and there is also an intermediate region where the null hypothesis of no autocorrelation can neither be rejected nor not rejected! The rejection, non-rejection, and inconclusive regions are shown on the number line in figure 3.

Figure 3:-Rejection, non-rejection, and inconclusive regions for DW test



According to Brooks (2008) the following is the decision rule to reject and not to reject the null hypothesis

- null hypothesis is rejected and the existence of positive autocorrelation presumed if DW is less than the lower critical value d_L ; the null hypothesis is also rejected and the existence of negative autocorrelation presumed if DW is greater than 4 minus the lower critical value d_L ;
- The null hypothesis is not rejected and no significant residual autocorrelation is presumed if DW is between the upper critical value d_U and 4 minus the upper critical value d_U .
- The null hypothesis is neither rejected or fails to be rejected if DW is between lower critical value d_L and the upper critical value d_U or if DW is in between 4 minus the upper critical value d_U and 4 minus the lower critical value d_L .

The DW test table value of d_L , d_U , $4-d_U$ and $4-d_L$ at N 80, and K 3 for this study is presented graphically below.

Figure 4:-DW test result test of autocorrelation



	DW test statistics
Result	1.815

Source: Output of spss

The DW test statistic value for the model was 1.815 for a total observation of 59 responders with 5 regressors. Thus the decision values for the test are $d_L= 1.25$, $d_u= 1.6$, $4-d_U = 2.4$ and $4-d_L = 2.75$. The DW test statistics for the model is 1.81 which is clearly in between the no autocorrelation area. So, the null hypothesis of no autocorrelation is within the inconclusive region. Therefore, there is no evidence of autocorrelation in the study.

➤ ***Test for absence of multi-collinearity assumption***

The other CLRM assumption tested in this study was the absence of multicollinearity assumption. According to Brooks (2008) the absence of multicollinearity assumption says that the explanatory variables are not correlated with one another. If there is no relationship between the explanatory variables, they would be said to be orthogonal to one another. If the explanatory variables were orthogonal to one another, adding or removing a variable from a regression equation would not cause the values of the coefficients on the other variables to change. A small degree of association between explanatory variables will almost always occur but will not cause too much loss of precision. However, a problem occurs when the explanatory variables are very highly correlated with each other, and this problem is known as multicollinearity. Perfect multicollinearity occurs when there is an exact relationship between two or more variables. In this case, it is not possible to estimate all of the coefficients in the model. Perfect multicollinearity will usually be observed only when the same explanatory variable is inadvertently used twice in a regression.

According to Gujarati, (2004) multicollinearity refers to the existence of more than one exact linear relationship, and according to the author, the assumption of no multicollinearity says that there are no perfect linear relationships among the explanatory variables. In this study the researcher has checked for the independent variables are not correlated with one another. The following hypotheses were tested in the study for assumption of no multicollinearity.

Ho: there is multicollinearity among independent variables.

H1: there is no multicollinearity among independent variables.

Different acceptable levels of degree of relationships between the independent variables have been suggested by different literatures. According to Cooper and Schendler (2009) the correlation coefficient between independent variable up to 0.8 may not cause series multicollinearity problem therefore, coefficient of correlation less than 0.8 is acceptable. According to Hair et al (2006), the correlation coefficient between independent variable should not exceed 0.9 which means coefficient of correlation less than 0.9 is acceptable.

Table 5: Multicollinearity test result between two independent variables

		AA	AQ	OI	OS	TMS
AA	Pearson Correlation	1	.408**	.350**	.391**	.321*
	Sig. (2-tailed)		.001	.007	.002	.013
	N	59	59	59	59	59
AQ	Pearson Correlation	.408**	1	.543**	.471**	.254
	Sig. (2-tailed)	.001		.000	.000	.052
	N	59	59	59	59	59
OI	Pearson Correlation	.350**	.543**	1	.386**	.202
	Sig. (2-tailed)	.007	.000		.003	.126
	N	59	59	59	59	59
OS	Pearson Correlation	.391**	.471**	.386**	1	.149
	Sig. (2-tailed)	.002	.000	.003		.260
	N	59	59	59	59	59
TMS	Pearson Correlation	.321*	.254	.202	.149	1
	Sig. (2-tailed)	.013	.052	.126	.260	
	N	59	59	59	59	59

Source: Output of SPSS 20

As shown above in the table, the maximum coefficient of correlation between the independent variables table in this study is 0.543, which was between AQ and OI. This coefficient of correlation does not violate the acceptable level stated by Cooper and Schendler (2009) and Hair et al (2006). Therefore, there is no multicollinearity among the independent variables in the study.

In addition, we can also use another method, aCollinearity diagnostics using SPSS one of which is the variance inflating factor (VIF). The VIF indicates whether a predictor has strong linear relationship with the other predictor(s). Although there are no hard and fast rules about what value of the VIF should be a cause for concern, Field (2000) suggests that value of 10 is good value at which to worry. Field (2000), suggest that if the average VIF is greater than 1, then multicollinearity may be biasing the regression model. Related to the VIF is the tolerance statistics, which is a reciprocal of VIF (1/VIF). Such values below 0.2 are worthy of concern. Considering the regression model for this study correlation matrix of all of the predictor variables less than 0.80 or 0.90 and the tolerance statistics values are all below 1 as such no multicollinearity is observed in this model.

Table-7 Collinearity diagnostics using VIF

Model		Coefficients ^a						Collinearity Statistics	
		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Tolerance	VIF	
		B	Std. Error	Beta					
1	(Constant)	.059	.336		.177	.860			
	AA	-.018	.114	-.016	-.156	.876	.726	1.378	
	AQ	.316	.107	.325	2.954	.005	.593	1.687	
	OI	.234	.105	.230	2.221	.031	.670	1.492	
	OS	.161	.087	.186	1.851	.070	.715	1.399	
	TMS	.352	.083	.384	4.244	.000	.876	1.141	

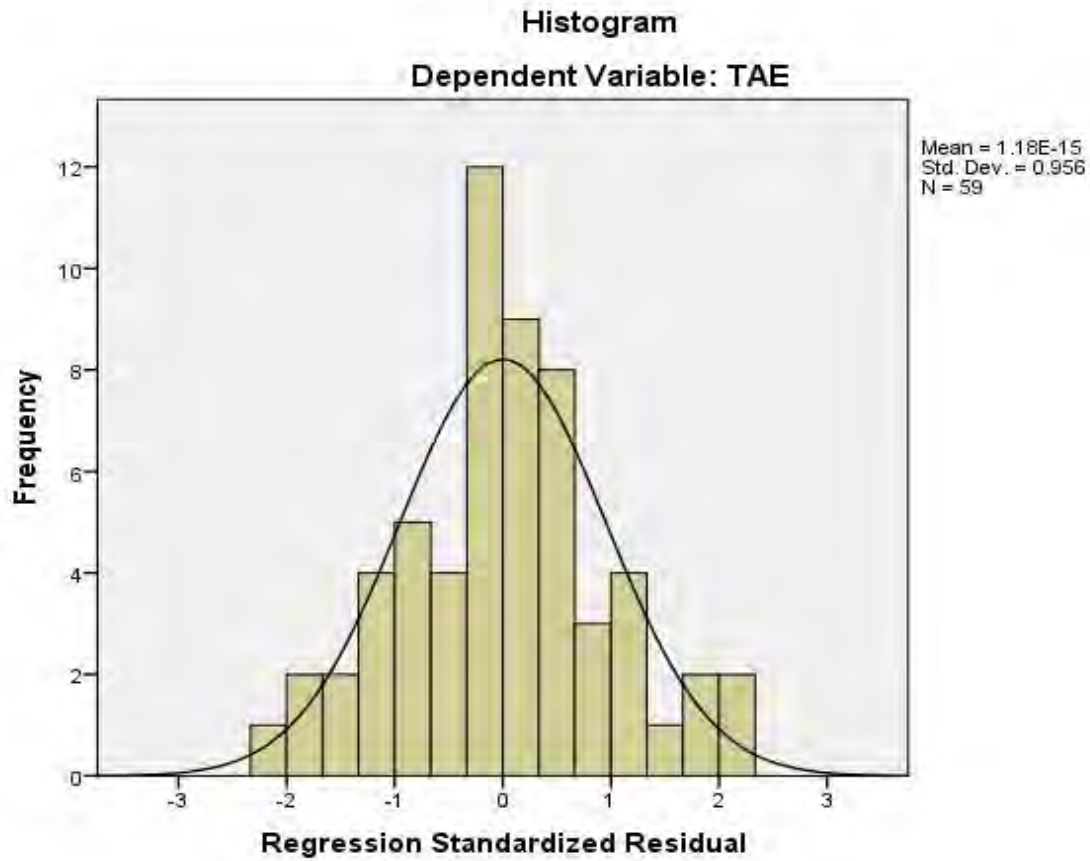
a. Dependent Variable: TAE

➤ **Test of normality assumption $\{ut \sim N(0, \sigma^2)\}$**

The last diagnostic test for CLRM assumption of normality assumption was tested by this study. The assumption says that disturbances are normally distributed.

Frequency distributions come in many different shapes and sizes. It is quite important, therefore, to have some general descriptions for common types of distributions. In an ideal world our data would be distributed symmetrically around the center of all scores. As such, if we drew a vertical line through the center of the distribution then it should look the same on both sides. This is known as a normal distribution and is characterized by the bell-shaped curve. This shape basically implies that the majority of scores lie around the center of the distribution (so the largest bars on the histogram are all around the central value).

Figure 5 :- Normality test



Residuals Statistics^a

	Minimum	Maximum	Mean	Std. Deviation	N
Predicted Value	2.0882	4.2669	2.8554	.49237	59
Residual	-.85372	.90329	.00000	.38598	59
Std. Predicted Value	-1.558	2.867	.000	1.000	59
Std. Residual	-2.114	2.237	.000	.956	59

a. Dependent Variable: TAE

Table 6:-reliability analysis

Variables	No. Of items	cronbach's alpha
Auditee attributes	14	.918
Tax audit effectiveness	14	.741
Audit quality	7	.931
Organizational independence	7	.917
Organizational setting	3	.524
Top management support	4	.514

Source: Output of SPSS 20

From the above table 6, it is seen that the reliability value was estimated to be a0.514-0.931betweethescale. Ifthe above calculated reliability values are compared with the standardvalue alpha of 0.5 advocated by Cronbach's, then it can be safely assumed that the scales used bythe research are reliable for data analysis.

4.3.2. Multiple regression output and its discussion

In this study, multiple regression analysis was carried out to get the predictive value of the variables considered. This was basically made to determine the linear combination of the constructs.

Regression of tax audit Effectiveness (TAE) on auditee attributes (AA), audit quality (AQ), organizational independence (OI), organizationalsetting (OS) and top management support (TMS).

The econometrics model employed in this study was the following

$$TAE = \beta_0 + \beta_1 (AA) + \beta_2 (AQ) + \beta_3 (OI) + \beta_4 (OS) + \beta_5 (TMS) + \epsilon$$

Table 7:-model summary

Model Summary^b

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.787 ^a	.619	.583	.40378

a. Predictors: (Constant), TMS, OS, OI, AA, AQ

b. Dependent Variable: TAE

Table 8:- Anova

ANOVA^a

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	14.061	5	2.812	17.249	.000 ^b
	Residual	8.641	53	.163		
	Total	22.702	58			

a. Dependent Variable: TAE

b. Predictors: (Constant), TMS, OS, OI, AA, AQ

F

Table 9:-coefficient of linear regression

Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	.059	.336		.177	.860
	AA	-.018	.114	-.016	-.156	.876
	AQ	.316	.107	.325	2.954	.005
	OI	.234	.105	.230	2.221	.031
	OS	.161	.087	.186	1.851	.070
	TMS	.352	.083	.384	4.244	.000

a. Dependent Variable: TAE

After running this equation using SPSS 20, the regression model was as follows.

$$TAE = 0.059 - 0.018AA + 0.316 AA + 0.234 OI + 0.161 OS + 0.352 TMS$$

The regression model output was presented in table-9, it shows the coefficients, standard errors, t-values, and p-values for explanatory variables. The model in table-9summary shows R-squared, Adjusted R-squared and standard error of the estimates. The ANOVA result table shows F-statistics and probability (F-statistics) for the regression. The R-squared and Adjusted R-squared statistic of the model were 78.7% and 61.9% respectively. The explanatory power of independent variables such as auditee attribute, audit quality, organizational independence, organizational setting and top management support on the change in dependent variable (tax audit effectiveness) was 78.7%. The result of Adjusted R-squared shows that change on dependent variable (TAE) was explained was explained 61.9% by the independent variables employed in the study. Therefore, 21.3% of change on dependent variable (TAE) was explained by other factors which are not included in the model. The null hypothesis of F-statistic (the overall test of significance) which says the Adjusted R-squared is equal to zero was rejected at 1% significance level. F-value of 0.0000 shows strong statistical significance which enhanced the reliability and validity of the model.

Table 9 shows that audit quality, organizational independence, organizational setting and top management support had positive coefficients. The positive coefficient indicates that there was direct relationship between those variables and TAE. The variables, audit quality and top management support are significant at 1% and 5% significance level. Whereas organizational independence had significance impact starting from 5% significance level. Organizational setting had no significance up to 10% significance level. Auditee attribute had a statistical value more than 1%, 5% or 10% significance level, which means auditee attribute had had negative coefficients with no significant impact on tax audit effectiveness of large tax payers. The negative coefficient indicates that there was an inverse relationship between auditee attribute and TAE.

4.3.3. Testing of hypotheses

The hypotheses testing based on regression model output is discussed below:

H0: There is no positive and significant relationship between *auditee attribute* and *tax audit effectiveness* of large tax payers in Ethiopia.

From the table 9, it can be observed that auditee attribute has -0.018beta coefficient, which shows that if auditee attribute is increased by 100%, tax audit effectiveness will be decreased by 1.8% by controlling other factors constant. Since the beta coefficient of auditee attribute has a negative sign, total asset has a negative impact on tax audit effectiveness of large tax payers in Ethiopia. Auditee attribute is not statistically significant at 5 percent significant level because the p-value of auditee attribute was 0.87 which is higher than 5%. This implies auditees cooperation during auditing or not did not have significant effect o the effectiveness of tax audit in LTO. This is consistence with the study of (Ayalew, 2014),(Yismaw, 2007)and (Mihret, 2011)

H0: There is no positive and significant relationship between *audit quality* and *taxauditeffectiveness* of large tax payers in Ethiopia.

As it is shown from table -9 Audit quality has 0.316 beta coefficient, which shows that if audit quality is increased by 100%, tax audit effectiveness will be decreased by 31.6% by controlling other factors constant. Since the beta coefficient of *audit quality* has a large magnitude of positive sign, audit quality has a strong negative impact on *taxauditeffectiveness of large tax payers*. *Audit quality* is statistically significant at 1 percent significance level because the p-value of *audit quality* was 0.005 which is less than 1%. Therefore, the null hypothesis was rejected in the study because *audit quality* has a positive significant impact on tax audit effectiveness. Therefore, *audit quality* has a great influence for the improvement of tax audit effectiveness of large tax payers. These result has been consistence with (Ayalew, 2014),(Yismaw, 2007)and (Mihret, 2011).

H0: There is no positive and significant relationship between *organizational independence* and *tax audit effectiveness* of large tax payers in Ethiopia.

As shown from table -9 organizational *independence* has 0.234 beta coefficient, which shows that an increase in the *organizational independence*at 100% will increase tax audit effectiveness by 23.4% by controlling other factors constant. Since the beta coefficient of *organizational independence*has a positive sign, it has a strong positive impact on tax audit effectiveness of large tax payers.*Organizationalindependence* is statistically significant at 5 percent significant level

because the p-value of *organizational independence* was 0.031 which is less than 5%. This indicates that, if the large tax payers grant higher organizational independence, their tax audit would be highly effective.

Therefore, the null hypothesis was rejected in the study because according to the finding of the study, *organizational independence* has a positive significant impact on tax audit effectiveness. Therefore, *organizational independence* has a great contribution for the raise of tax audit effectiveness of large tax payers. These result is consistence with (Sayag, 2010),(Ayalew, 2014),(Yismaw, 2007)and (mihret, 2011).

H0: There is no positive and significant relationship between *organizational setting* and *tax audit effectiveness* of large tax payers in Ethiopia.

Organizational setting has beta coefficient of 0.161 which indicates that if *organizational setting* is increased by 100%, the company's tax audit effectiveness will be increased by 16.1% by controlling other factors constant. Since the coefficient has a positive sign, *organizational setting* has appositve impact on tax audit effectiveness of large tax payers. However, the p-value of the variable was 0.07 and this indicates that the impact of variable on tax audit effectiveness was statistically insignificant at 5% significance level because the p-value of the variable was greater than 5% significance level. Therefore, the null hypothesis was accepted in the study because according to the finding of the study, *organizational setting* has a positive insignificant impact on tax audit effectiveness. This result is consistence with (Ayalew, 2014),(Yismaw, 2007)and (mihret, 2011).

H0: There is no positive and significant relationship between *top management support* and *tax audit effectiveness* of large tax payers in Ethiopia.

As shown from table -10, top management support has beta coefficient of 0.352, which shows that an increase in the top management support at 100% will increase the tax audit effectiveness by 35.2% by controlling other factors constant. The positive sign of beta coefficient of *top management support* variable has indicated that TMS has a positive impact on tax audit effectiveness of large tax payers. *Top management support* is statistically significant at 1 percent significant level because the p-value of *top management support* was 0.000 which is less than 1%. Therefore, the null hypothesis was rejected in the study because of that *top management support*

has a positive significant impact on tax audit effectiveness. Therefore, *top management support* has a contribution for the raise of tax audit effectiveness of large tax payers. (Sayag, 2010),(Yismaw, 2007)and (Mihret, 2011).

This finding supports the argument that large tax payer's offices have low staff expertise, low quality of working paper preparation supervision .in addition to that the organization is not free from unethical issues, not workable policies and procedures and inadequate and insufficient management support for the audit make audit effectiveness of large tax payer's office low. Besides as LTO have administered high firm size with more than 37 million sales turnover, international dealing and that that have an influential power on governments earnings ,the effectiveness and its quality of audit to its tax payers is low. These findings were consistence with the findings of Salihaet al (2011), Akbaşet al (2012), Serrasqueiroet al (2008), Shubitaet al (2012). But finding was different and inconsistent from the results found in the studies of Khatap et al. (2011), Simon (1962).

4.4 Discussion of interview and document review results

This section presents the discussion of data from interview and review of relevant documents. Semi structured interview with team leaders and audit process owners of the function was conducted. It includes 8 semi structured questions for each of the variables; auditee attribute organizational setting, audit quality, management support and organizational independence.

4.4.1. Tax audit effectiveness and auditee attribute

The attributes of auditees include the proficiency, the attitude towards audit and level of cooperation with auditors. The interview result showsthat, auditee's consider the internal audit function as a problem finder ratherthan a value-adding service provider. Inaddition, as the interviewers discussauditees of LTO companies are wider, complicated in excessive transaction &process and restricted access to someactivities, records and properties has impacted the successful completion of the audit work.

On the other hand, the process owners highlight on the interview the purpose of audit is to teach the taxpayer to comply for the tax laws and to truly & timely pay its obligation.

But on the ground tax payers are knowingly and unknowingly hiding their income from the tax base, this leads the authority to request additional interest and penalty from the tax base and to make risk assessment on its taxpayers yearly and make the appropriate audit for the periods specified.

Let us see the last 4 years audit plan and coverage for LTO:-

YEAR	audit plan in number	audit plan in amount	execution in no.	execution in amount	audit coverage
2012	213	1,489.42 million	190	1,548 million	90%
2013	170	5,170.23 million	124	4,060.74 million	73%
2014	160	2,234.03million	129	3,934.40 million	80%
2015	150	3,241.00 million	140	4,258.54 million	93%

Table 10:-audit plan and coverage for the last 4 years in LTO

As the above table states on in each year the organization states its plan for audit but in the last 4 years the organization couldn't meet its objectives. As the researcher understands from the interviewees there is high rate of employee turnover in the department and in all other ERCA branches. (Yismaw, 2007)In addition to that there are companies that request service e.g. plc's that need to change to share companies, this needs comprehensive audit. From the interviewees clarifies that in each year 15-20 company's requests service that needs comprehensive or issue audit. Then the team leaders take side by side this audit on the specified year.

As the documentary evidences showed that risk assessment selection criteria is all and the same for all ERCA branches but as the researcher find out there are unclear unacceptable criteria's are listed on the law. Someof the rules are size of employment,size of business, existence of branches and date of commencement of the business. the process owners clarifies the risk assessment selection techniques are not clearly separated risky tax payers tobe audited in the year of selection ,so the organization is on the process to make LTO's risk assessment criteria to be different from other branch's.

4.4.2. Tax audit effectiveness and audit quality

Audit quality is a function of the level of staff expertise, the scope of services provided and the extent to which audits are properlyplanned, executed and communicated. (Yismaw, 2007)As the

researcher understands from documentary evidence and interview that there are 62 tax auditors in the two audit process from these only 20 auditors are with the intended experience the other are with junior and less than 2 years of audit experience.

As audit work requires knowledge and experience on a wide range of systems and operations, it is imperative to deploy auditors with extensive professional skills and to upgrade their skills through continuing professional training and development. The interview result shows that there is no continuously scheduled program for those auditors to take training on basic and detailed issues .but the researcher understands from the team leaders that they tried to make 2-3 days of training on complicated and new laws and directives. On the other side they persuade that these trainings are still not enough to equip those auditors on the intended objective. In relation to planning the interview result showed that after the new audit manual prepared there is some kind of progress to make the audit as per the audit manual states but as the interviewees clearly states most of the audits are started without proper plan the main reason for this was those un-experienced auditors are not capable enough to make detailed plan for the audit and not giving due attention are stated first. The other most important issues for quality audit stated during the interview are working paper and quality assurance. As the audit process owners state most of the audit works should not have proper working (as the audit manual states) they state in the year 2007 the quality assurance team approves 3 audit working papers only from the sample it takes that are done as the audit manual states. (But the researcher couldn't get the relevant document on this issue).

4.4.3. Tax audit effectiveness and top management support

A number of empirical studies have found top management support for quality to be a key factor in its improvement (for example, Dale and Duncalf 1985; Ebrahimpour and Lee 1988). Top managers' attitudes and behaviors' have also been found to be related to quality management practices (Flynn, Schroeder and Sakakibara 1994).

The interview result showed that in LTO the managements support to the department was not as it intended .as the interviewees explained one issue is resources like laptops should not give to the tax auditors rather to its team leaders this makes the auditors to depend on the auditee's resource during the audit. The other issue was the management was not committed to support those auditors to strengthen and upgrade their field of study and even with scheduled trainings .the one and important issue was also the management was not willing to pay satisfactory or enough salary to its

staffs .as the researcher observes from the department that most of its staff are not satisfactory with the payment they received and this makes they look into other jobs.

The final issue raised in relation to management support management of LTO was busy on other administrative issues and it cannot give due attention to the department.

4.4.4. Tax audit effectiveness and organizational independence

Organizational independence is more crucial to the effectiveness of internal auditors, as it protects the auditor from pressure or intimidation, and increases the objectivity of the auditing work. (Sayag, 2010)

As (Ayalew, 2014) interpretation Organizational independence is the audit offices ethics of international profession in addition to which is free from any Corruption. The interview result shows that the organization as a whole has missed its reputation due to varies issues stand certainly on the organization which are related to corruption. As the interviewees explanation these issues are the most critical, in the process there are issues hold by law and anti-corruption commission. But the researcher couldn't find documentary evidence on this matter. As interviewees explanation Auditors should be sufficiently independent from those they are required to audit that they can both conduct their work without interference, and equally important to be seen to do so. Coupled with objectivity, organizational independence contributes to the accuracy of the auditors' work and gives employers confidence that they can rely on the results and the report. They argue that organizational independence is more crucial to the effectiveness of auditors, as it protects the auditor from pressure or intimidation, and increases the objectivity of the auditing work.

4.4.5. Tax audit effectiveness and organizational setting

As (Yismaw, 2007)Organizational setting includes the status of tax audit in the organizational Structure; the probity of tax audit office's internal organization; budgetary status of the internal audit office; and the existence of sound established criteria to evaluate auditees' practices. Organizational setting in which tax audit operates, i.e. The organizational status of the office, it's internal organization and the policies and procedures applying to each auditee, should enable smooth audits that lead to reaching useful audit findings.

The interview and the document review results reveal that after the new audit manual execution audit reports are check for proper approval by its process owner next to team leaders approval. And the auditees have legal right to go into appeal with in 10 day .if they are not satisfied by appeal committee's decision they can go until court. These activities enable better communication with auditees and senior management and help to ensure independence of internal audit function from the auditees.

The other issue was in relation to directives, circulars and explanations. Interviewee's argued that explanations requested are not replayed duly from head office; this makes some decision to lack concrete legal background. On the one hand also there are some regulations that needs amendment or further explanation which makes the audit complex as interviews conclusion these laws makes the auditor and auditee not to come into common understanding .as an example income tax bracket for individual employees was not amended for the last 25 years.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 Summary

The purpose of this study was to examine the factors affecting tax audit effectiveness using statistical analysis; both descriptive and inferential statistics. The research instruments were survey questionnaires developed with census and lottery method, interview with higher officials of the audit process and documentary review on the last 4 years performance of the audit process are applicable constructs. Before questionnaires were sent to respondents they were tested for reliability by 5 team leaders of the audit process. A total of 62 copies of questionnaire were distributed to tax auditors and however 59 copies were found to be returned and used for analysis. Since each construct was affected by other constructs, regression analysis was conducted by the models, using tax audit effectiveness as dependent variables, this was basically done to get the best linear combinations of the constructs as well as to get predictive value of individual predictors for testing the hypotheses proposed. A tax audit is an investigation made by the tax authority in order to verify the accuracy of tax returns and attempt to detect non-compliance behavior and activities. The study applied mixed approach to get advantage on draw backs of using one approach. In the chapter four, the data instruments (questionnaire, interview and documentary analysis) has been analyzed and interpreted in relation with the statement of the problem and objectives of the study. Then in this chapter conclusions are made by summarizing the results stated on the data collection instruments on chapter 4 and finally make recommendations on the possible findings.

5.2 Conclusions

The results of the study enable us to conclude that audit quality, organizational setting, organizational independence, auditee attributes as well as top management support as a linear combination significantly influence tax audit effectiveness in the organization studied. However, as individual predictors: organizational setting and auditee attributes are not

significant enough to undermine tax audit effectiveness. The findings of the present study are also in conformity (consistent) with the observations of earlier studies organizational setting, and auditee attributes are not significant influence on tax audit effectiveness (Mihret and Yismaw, 2007).

Audit quality is a dominant factor in predicting tax audit effectiveness whereas, organizational independence and top management support has moderate significant influence on effectiveness of the organization being studied.

Audit quality; in comparison to top management support, Organizational independence organizational setting and auditee attributes, is greater influence on tax audit effectiveness. The results of study demonstrated that perceived adequacy or inadequacy of both organizational independence and audit quality, extends noticeable influence on perception of tax audit effectiveness. The influence of audit quality on tax audit effectiveness may be attributed to the organizational independence and top management support.

Tax audit effectiveness and their perception come from quality of audit, its implication is as the audits are done from risk selection through planning till working paper preparation as per the audit manual of the organization it significantly affects audit effectiveness of the organization being studied. The result is consistent with the study of (Ayalew, 2014) and (Yismaw, 2007). On the other hand result of organizational independence shows; the organizations reputation in relation with unethical things especially with corruption significantly influences audit effectiveness of the branch. This result is consistent with (Sayag, 2010). In relation to top management support results implies that due attention and support of the management to the audit process has increased the audit effectiveness of the branch.

There is no statistical significance negative relationship between auditee attributes and tax audit effectiveness. Besides, the results showed that there is no statistical significance positive relationship among organizational setting and tax audit effectiveness. The research examines the taxpayers' cooperation with the tax systems and auditors during auditing. Findings of the research indicated that majority of the respondents replied that, most taxpayers may not cooperate to the tax system and the tax auditors without knowledge of sufficient tax laws and regulations, according to this perception, auditors penalize taxpayers instead of educating them, low level encourage honest taxpayers, and also deliberately some

taxpayers do not support the tax auditors during the audit. It can be concluded that most taxpayers are noncompliance as result they impeded the tax audit effectiveness.

5.3 Recommendations

On the base of the findings/conclusion derived; the following recommendation was made by the researcher. In order to improve the tax audit effectiveness, large taxpayer's office should consider the following points:

- ✓ As it was explained Audit quality play significant role on tax audit effectiveness; large tax payer's branch office should emphasis on that predictor, except auditee attributes, organizational setting. organizational independence and top management support has also positive influence on tax audit effectiveness and it is better to consider it.
- ✓ To use LTO as an experiment institution indicated as a mission audit quality, organizational independence and top management support role is significant, so the branch should look at into it. In relation to this by paying attention to the needs and desires of tax auditors, reducing the corruption, the management attention to audit findings (since they are important assets owned by every organization) to perform their tax audit work the branch can achieve effective and efficient audit process and can collect what the economy produces.
- ✓ Create a good work environment by encouraging relationship among tax auditors and taxpayers, with colleagues, and immediate supervisors so that they are motivated in performing tasks/activities in the office.
- ✓ The branch should consider also the giant power its taxpayer for the economy and for the country should improve its system and work on capacity buildup of its auditors.

5.4 Future Research Implications

The results will have important implications and is believed to be helpful for large tax payer's branch office and for ERCA. While this study has revealed some interesting results, one should be careful of its limitations related essentially to its sample size and scope of the study.

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

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

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

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Annex - 1

Tax experts' information and consent form

Addis Ababa University
College of Business and Economics
Department of Accounting

Dear participant's _____

This study is entitled “Factors affecting tax audit effectiveness in large tax payer’s office”. The researcher is Melat Abera who is currently an MSc (in accounting and finance) student at the Addis Ababa University.

I am going to ask you some questions about profile of large tax payer’s office audit department. Your participation in this study is completely on voluntary bases and you have the right to refuse, to take part or to contact at any time. But the information that you will give us is quietly useful to know about large tax payer’s office audit effectiveness.

We would like to assure you your name will not be mentioned in anywhere. The information that you will give us will be kept confidential and only be used for the research purpose.

Are you willing to participate in this study?

1 – Yes Sign _____ 2 - No

If the answer is yes, thanks! Conduct the questioner. But if the answer is no thanks! Transfer to other respondents.

Part I: Questions related to profile of large tax payer's office tax audit and investigation audit staffs

1) What is your level of education?

Diploma · 1

Degree · 2

Master's degree or above · 3

2) What is your field of study?

Accounting 1 Management 2 Economics 3 business administration 4

3) What is your current position in the office?

Process owner · 1

Auditor 2

Team leader · 3

4) How long have you been working in this position

Less than two years 1

2-6 years 2

Greater or equal to six years · 3

Part II: Questions related to Measure Audit Effectiveness

5) Can you believe Tax audit improves organizational performance

Strongly disagree 1 neutral 3 agree 4

disagree 2 agree 5

6) Tax audit reviews operations and programs to ascertain whether results are consistent with established objectives and goals

Strongly disagree 1 neutral 3 agree 4

disagree 2 agree 5

7) Tax audit determines the adequacy and effectiveness of the organization's systems of internal accounting and operating controls

Strongly disagree 1 neutral 3 agree 4

disagree 2 agree 5

8) Tax audit reviews the accuracy and reliability of financial reports

Strongly disagree 1 neutral 3 agree 4

disagree 2 agree 5

9) Tax audit reviews the compliance with policies, plans, procedures, proclamations and regulations

Strongly disagree 1 neutral 3 agree 4

disagree 2 agree 5

10) Tax audit reviews the means of safeguarding assets

Strongly disagree 1 neutral 3 agree 4

disagree 2 agree 5

11) Tax audit evaluates and improves the effectiveness of risk management

Strongly disagree 1 neutral 3 agree 4

disagree 2 agree 5

12) Tax audit reviews the economical, effective and efficient use of resources

Strongly disagree 1 neutral 3 agree 4

disagree 2 agree 5

13) Tax audit evaluates the internal control system of the company

Strongly disagree 1 neutral 3 agree 4

disagree 2 agree 5

14) Tax audit makes recommendations for improving the internal control system when appropriate

Strongly disagree 1 neutral 3 agree 4

disagree 2 agree 5

15) Tax audit improves the organization's productivity of the company

Strongly disagree 1 neutral 3 agree 4
disagree 2 agree 5

16) Tax audit develops appropriate annual audit plans

Strongly disagree 1 neutral 3 agree 4
disagree 2 agree 5

17) Timely action is taken to implement the recommendations of the internal audit report

Strongly disagree 1 neutral 3 agree 4
disagree 2 agree 5

18) Tax audit provides adequate follow-up to ensure that appropriate corrective action is taken and that it is effective

Strongly disagree 1 neutral 3 agree 4
disagree 2 agree 5

19) Large tax payer's office audit system is sufficiently promoting voluntary compliance tax payers.

Strongly disagree 1 neutral 3 agree 4
disagree 2 agree 5

20) In Large tax payer's office, there is transparent audit procedure and audit decisions are made based on facts.

Strongly disagree 1 neutral 3 agree 4
disagree 2 agree 5

21) Taxpayers have a good attitude and cooperation with the tax system and auditors.

Strongly disagree 1 neutral 3 agree 4
disagree 2 agree 5

22) The current working capacity of audit staff is well aware of the tax laws and regulations.

Strongly disagree 1 neutral 3 agree 4
disagree 2 agree 5

23) Tax payer knows when the auditing process is completing from starting to ending.

Strongly disagree 1 neutral 3 agree 4
disagree 2 agree 5

24) The Ethiopian revenue and customs authority tax audit manual and procedure minimize the compliance burden on the tax payer.

Strongly disagree 1 neutral 3 agree 4
disagree 2 agree 5

25) Tax audits are finalized according to consistent process and assurance a level of customer satisfaction.

Strongly disagree 1 neutral 3 agree 4
disagree 2 agree 5

26) Audit procedure is transparent and clear to the tax payers during the course of the audit.

Strongly disagree 1 neutral 3 agree 4
disagree 2 agree 5

27) The existing audit program is promoting voluntary compliance there builds public confidence.

Strongly disagree 1 neutral 3 agree 4
disagree 2 agree 5

28) Large tax payer's office has an effective motivation scheme to the compliance taxpayers.

Strongly disagree 1 neutral 3 agree 4
disagree 2 agree 5

29) The audit program enables to differentiate deliberate and non-deliberate misreporting of taxpayers and applies penalty.

Strongly disagree 1 neutral 3 agree 4
disagree 2 agree 5

30) Auditors give sufficient education to the taxpayers about the tax laws and regulations during auditing.

Strongly disagree 1 neutral 3 agree 4
disagree 2 agree 5

31) Do LTO auditors accept taxpayers' suggestion to improve the tax function?

Strongly disagree 1 neutral 3 agree 4
disagree 2 agree 5

32) There is a good work relationship between the taxpayers and tax auditors.

Strongly disagree 1 neutral 3 agree 4
disagree 2 agree 5

33) Is Tax auditors in LTO have appropriate audit plan in all their audits?

Strongly disagree 1 neutral 3 agree 4
disagree 2 agree 5

34) The areas audited are focus on specific risk of the organization and the sector the organization operates in?

Strongly disagree 1 neutral 3 agree 4
disagree 2 agree 5

35) Tax auditors are able to cover all organizational units and all issues in their audit activity?

Strongly disagree 1 neutral 3 agree 4
disagree 2 agree 5

36) The response of tax payer's to the audit is submitted in written and has a power to appeal on the findings?

Strongly disagree 1 neutral 3 agree 4
disagree 2 agree 5

37) There is regular follow-up on those taxpayers to examine actions taken to correct the audit findings found?

Strongly disagree 1 neutral 3 agree 4

disagree 2

agree 5

38) Tax auditors in LTO have appropriately prepared working papers after their audit work?

Strongly disagree 1

neutral 3

agree 4

disagree 2

agree 5

39) Quality assurance is an appropriate tool to ensure quality of audit work in LTO?

Strongly disagree 1

neutral 3

agree 4

disagree 2

agree 5

40) Are tax auditors in LTO having appropriate ethics of international profession?

Strongly disagree 1

neutral 3

agree 4

disagree 2

agree 5

41) Do you think tax auditors in LTO are free from any corruption?

Strongly disagree 1

neutral 3

agree 4

disagree 2

agree 5

42) Do you think reputation of auditors related with corruption has impact on audit effectiveness?

Strongly disagree 1

neutral 3

agree 4

disagree 2

agree 5

43) Tax auditors have free access to information and data about the organization, and unrestricted access to its site;

Strongly disagree 1

neutral 3

agree 4

disagree 2

agree 5

44) All organizational data pools (data bases, contracts, etc.) are accessible to the tax auditor and examined by the auditor

Strongly disagree 1

neutral 3

agree 4

disagree 2

agree 5

45) Rotation of tax auditors into a variety of organizations and into different sectors has an impact on audit effectiveness

Strongly disagree 1 neutral 3 agree 4

disagree 2 agree 5

46) Tax audit is one stage in training and preparing employees in the organization.

Strongly disagree 1 neutral 3 agree 4

disagree 2 agree 5

47) Tax audit is one stage in the promotion process of employees in the organization.

Strongly disagree 1 neutral 3 agree 4

disagree 2 agree 5

48) Tax audit is considered a stage in the organizational independence of employees in the organization.

Strongly disagree 1 neutral 3 agree 4

disagree 2 agree 5

49) Top managements in LTO doesn't provide with the support expected from them?

Strongly disagree 1 neutral 3 agree 4

disagree 2 agree 5

50) The number of employees in tax audit is limited given the amount of auditing work planned and needing to be done in the near future;

Strongly disagree 1 neutral 3 agree 4

disagree 2 agree 5

51) Management is not sufficiently aware of the needs of tax audit, as demonstrated by the small budget assigned to this process?

Strongly disagree 1 neutral 3 agree 4

disagree 2 agree 5

52) Management does not provide enough support and encouragement for training and developing the tax auditors—another indication that it does not recognize the importance of this issue.

Strongly disagree 1

neutral 3

agree 4

disagree 2

agree 5