THE EFFECT OF TAX AUDIT ON TAX COMPLIANCE: THE CASE OF JIMMA ZONE REVENUE AUTHORITY

A Thesis Submitted to the School of Graduate Studies of Jimma University to Undertake a Research in Partial Fulfillment of the Requirements for the Award of the Degree of Master of Science in Accounting and Finance

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JIMMA UNIVERSITY

COLLEGE OF BUSINESS AND ECONOMICS

MSc PROGRAM

JUNE, 2016

JIMMA, ETHIOPIA

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Statement of certification

This is to certify that Tolossa Damissie Dadi has carried out a thesis on the topic entitled "The Effect of Tax Audit on Tax Compliance: The case of the Jimma Zone" under my supervision. In my opinion, this thesis is suitable for submission in partial fulfillment of the requirement for the award of the MSc Degree in Accounting and Finance.

Advisor: Dr. Arega Seyoum (PhD)

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Co-advisor Tadele Tesfay

Signature: ________________________

Statement of declaration

I have carried out independently a thesis on “The Effect of Tax Audit on Tax Compliance: The case of the Jimma Zone” in partial fulfillment of the requirements of the MSc Degree in Accounting and Finance with the constructive guidance and support of the research advisor. This thesis is my own works that has not been presented for any degree or diploma program in this and any other institution, and that all source of materials used for the thesis have been duly acknowledged.

Tolossa Damissie Dadi ____________________

Acknowledgements

First and foremost, I want to thank the Almighty God for every blessing that He enhances me with in my whole life. Next, I am extremely grateful to my advisor, **Dr. Arega seyoum** for his tireless help in all the steps of the thesis, from title selection to writing the final report, my debts are innumerable. Besides, his hardworking, attractive guide, good advice, constructive criticism, support, and flexibility are learnable. In addition, I am so thankful to my co advisor **Mr. Tadele Tesfay** for the basic knowledge in research, guidance, patience and support throughout the research.

My deepest thanks go to my mother, **Wro Desi Keneni** and my wife, **Wro Yewubdar Mekonnen** for their support in proof reading the study and also the time she has accorded me to work on the project. She has particularly been supportive and encouraging to me with her best wishes and prayers. The prayers are finally answered and have made my dream come true. I am also thankful to my Friends Mudesir Kasim and Munir Mudhin with supporting of the software technic. Thank you all for everything.

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ACRONYMS AND ABBREVIATIONS

AAA:	American Audit Association
COBAC:	Committee on Basic Auditing Concepts
EU**:**	European Union
GDP:	Gross Domestic Product
IFAC:	International Federation of Accountants
INTOSAI:	Congress of International Organization of Supreme Audit Institutions
OECD:	Organization for Economic Co-operation and Development
OLS:	Ordinary Least Squares
RTA	Relevant Tax Authority
SAI:	Supreme Audit Institutions
TOT:	Turnover Tax
TSCS:	Series Cross Section
VAT**:**	Value Added Tax
WEDB:	Well Equipped Data Base

Abstract

The study examines the effect of tax audit on tax revenue a case of the Jimma zone revenue and customs authority. The study used descriptive approach. To achieve the objectives sought, the researcher employed or uses data from primary data. Primary data collected through structured questionnaire. The researcher used purposive sampling techniques to identify the respondents. In accordance with the data types, quantitative analyses employed. The study used multiple regression analysis and descriptive statistics to estimate the relationships between type of tax audit and frequency of tax audit as independent variable, and tax compliance as dependent variables. Excel software help transform the variables into format suitable for analysis, after which SPSS used for data analysis. The researcher concluded that educational level attainment of respondents is good and which is related to their profession but there is no training for tax auditors' and the number tax auditors as well as case selection decision is based on the information from SIGTAS. The recommendation given by researcher was Revenue authority must increase the number and improve the capability of total audit staff resources to achieve required audit rate and audit quality that might improve overall compliance and future tax revenue performance.

Key words; Taxation, Tax Audit, Tax Compliance, Taxpayers and Tax Auditor

CHAPTER ONE

INTRODUCTION

1.1 Background of the study

Taxation is one of the important elements in managing national income, in both developed and developing countries. Tax is defined as ‘a compulsory levy, imposed by government or other tax raising body, on income, expenditure, or capital assets, for which the taxpayer receives nothing specific in return’(Lymer and Oats, 2009).

According to (Dymond, 2008) Taxation has gained importance not only as a tool for raising revenue but also help to meet the administrative costs of governance, the provision of public services such as medical care, education, infrastructure, security and maintenance of law and order, but also as a tool available to planners, policy makers and implementers aiming to regulate the economy in order to bring about desired economic development.

Developing countries are in difficult situation to provide these basic public goods and services from taxes due to weak tax collection and administration (Damme, 2008).Tax administration is a complex and dynamic responsibility. On a regular basis, leaders are faced with new issues, conflicting priorities, taxpayer compliance and emerging commitments (Thomson, 2008).

Furthermore, any tax in a tax system is vulnerable for evasion and fraud, which has become the concern of many countries. For instance, Carousel Fraud and credit and/or refund abuse in European Union (EU) member countries (Keen and Smith, 2007) and abuse of tax credit in Bulgaria (Pashev, 2006) and the offence of non-issuance of value added tax (VAT) invoices in Ethiopia (Alemu and Deresse, 2009) can be mentioned. As (Baurer, 2005) noted, it is a deliberate misrepresenting or concealing the true state of their affairs to the tax authorities to reduce their tax liability. According to Berhan and Jenkins (2005), the government tries to design different strategies for collection of taxes and give great emphasis on policy and administration of taxes to solve the problem and to generate the required revenue for the public expenditures.

A good tax system should not affect the ability and willingness of the people to work, save and invest. If not, it will affect the development of trade industry and the economy as a whole. Thus, a sound tax system should contribute in the economic development of a country (Ramaswami, 2005). Effective tax administration tries to minimize compliance cost and increase revenue, minimizes distortion of resource allocation and simplifies its administration (World Trade Organization, 2003). Tax involves every aspects of income generating activities and consumption items, and requires not only administrative capacity of revenue authority but also the involvement of private sectors through proper accounting and reporting (Tadros, 2009).

Instances of failure to comply with the law are inevitable whether due to taxpayers' ignorance, carelessness, recklessness and deliberate evasion, or weaknesses in administration. To the extent that such failures occur, governments, and in turn the communities they represent, are denied the tax revenues they need to provide services to citizens Forum on tax administration's compliance (OECD, 2006).

For instance, Ethiopia amended the tax laws with new provisions and procedures to assist the taxpayers in complying with self-assessment process so as to reduce tax evasion there by increasing the revenue generated through tax, such as government replaced the sales tax with value Added Tax (VAT) and Turnover Tax (TOT).

Furthermore, the Federal Democratic Government of Ethiopia is trying to improve its tax administration capacity which encompasses tax audit as one of its component (Misrak, 2008 cited in Hailemariam, 2011). Thus, tax audit is needed to increase tax revenue and taxpayer compliance. Tax audit is a detailed exploration into the activities of a taxpayer to determine whether he/she has been correctly declaring the tax liabilities (OECD, 2006a). The inspection of the taxpayers" activities indirectly drives voluntary tax compliance, and directly generates additional tax revenue collections.

As a result, both (compliance by the taxpayers and the additional tax revenue collected) help tax agencies to reduce the tax gap between the amount due and collected (Barreca and Ramachandran, 2004). Several developing countries do not yet have effective audit programs due to; insufficient numbers of the required highly skilled and appropriately paid audit practitioners, absence of a sound institutional audit practice, illegal cooperation between taxpayers and auditors, lack of clear political support for the tax administration, and the deficiency of an appropriate legal and judicial environment (Getaneh, 2012).

Additionally, these countries have a tendency to offset weak tax audit by adopting complex procedures, such as increased filing requirements and massive cross-checking. This, in turn, might result administrative difficulties and increase the compliance cost of taxpayers (Hellenrstein, 2005).

Tax audit is an extension of the normal audit generally conducted for the purpose of expressing an opinion as to the fairness of the accounts examined by the auditor, and the certification of financial statements for tax purposes. An effective audit program will have significantly wider impacts than just raising revenue directly from audit activities. When tax audit is well conducted, taxpayers understand that their returns will be quickly and scientifically analyzed, voluntary compliance rates may rise which could help tax agencies avoid costs and further improve revenue collections, Brown et al. (2003:12), Tax audit and compliance system, a comprehensive, integrated solution designed to improve tax auditor productivity and increase tax revenues.

The efficiency and effectiveness of a revenue body's audit activities depends critically on the nature and scope of powers in the underlying legal framework in place, including the provision of adequate powers for obtaining information and an appropriate regime of sanctions to discourage and penalize non-compliance. According to (East AFRITAC, n/d) well-planned audit program can provide the 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.

However, the role of an audit program in a modern tax administration must extend beyond merely verifying a taxpayer's reported obligations and detection of discrepancies between a taxpayer's declaration and supporting documentation. An effective audit program will have significantly wider impacts than just raising revenue directly from audit activities. By selecting the highest risk cases, efficiently detecting non-compliance, applying appropriate sanctions, and publicizing results of audit activity (either generally or specifically), taxpayers are put on notice that attempting to avoid tax will result in a high likelihood of detection and imposition of significant sanctions (Netsanet, 2014).

1.2. Statement of the Problem

The development of any nation depends on the amount of revenue generated and applied by the government on public infrastructure for the benefits of members of that society. According to Appah (2010), the development of any nation depends on the amount of revenue generated by the government for the provision of infrastructural facilities. However, Ethiopia still mobilizes not more than 14 percent of GDP in tax revenues. This may be a result of evasion or fraud by the taxpayers which includes; underreporting profits and turnover, underreporting employee wages, failure to register or file tax declarations, dearth of willingness to operate in accordance with tax laws, non-issuance of VAT invoices for buyers, and barter arrangements hidden from tax authorities (Getaneh, 2012).

According to Edmiston and Bird, (2004) 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. It is unmoving under a number of challenges regarding its operation and administration that are not yet resolved. Taxes and customs administrations are possibly near the top of public-sector organizations with a high incidence of corruption. The cost of this corruption is high, both for the government and taxpayers. The government suffers major revenue leakages as dishonest revenue officials allow unjustified tax breaks to willing tax evaders. Honest taxpayers suffer as corruption in revenue administration leads to harassment, inflated assessments, high litigation costs and leniency towards non-compliant competitors. Any serious effort to reduce corruption in a country and improve governance, in all likelihood, has to involve reform of the revenue administration (Mesfin, 2008).

Ethiopia made different tax reform for improving revenue generation, enhancing the efficiency of the tax administration and improving equity in the tax system. For instance, the replacement of VAT to the existing sales tax, due to high tax rates, the complexity of tax legislation, complications in the procedures that taxpayers must follow in order to pay taxes, unsatisfactory treatment of taxpayers by tax officials, taxpayer ignorance of the benefit derived from public revenue, a negative image of public administration, a fairly generalized lack of social conscience on the part of the public, weakness in tax administration tax payers were eager to evade the tax (Natsenat , 2014).

However, it is not often the case to collect the potential tax revenue in the country due to lack of awareness of taxpayers as well as paucity of tax agencies cooperation with the business community. In addition, the business owners do not have easy access to and clarification on information of the tax laws. The tax agencies do not also provide advising services. As a result, taxpayers misinterpret tax rules and regulations.

Therefore, for taxation to be effective in achieving both short and long term goals in any economy, the level of tax compliance must be improved for efficient tax administration. Hence, one measure that can be used to improve the level of tax compliance is tax audit. Ola (2001) is of the view that tax audit helps to improve voluntary compliance by detecting and bringing into account those who do not pay correct amount of tax. Slemrod, (2000) is of the view that Tax audit is one of the most effective policies to prevent tax evasion behavior. As Ebrill et al. (2001), Grandcolas (2005), Harrison and Krelove (2005), OECD (2006a) and Biber (2010) noted, tax audit program in a function based administration includes desk audit or verification, field audit, comprehensive or full audit and fraud investigation. However, to the best of the researcher's knowledge there is research gap regarding the effect of tax audit on tax compliance particularly in Ethiopia. There is gap lack awareness regarding the tax type to be imposed on their doings, purpose and operation of desk audit, operation of comprehensive audit, operation of desk, frequency of tax audit and reporting and filing requirements of the tax law. Therefore, in order to fill this research gap that arise as a result of inadequate in-depth investigations on the research problems, the researcher undertake a study on the effect of tax audit on tax compliance in Jimma Zone Revenues and Customs Authority.

1.3. Objectives of the Study

1.3.1. General objective

The main objective of the study is to examine the effect of tax audit on tax compliance case in Jimma Zone revenue authority

1.3.2. Specific objectives

The study attempts to:

- To determine the effects of comprehensive tax audit on tax compliance
- To determine the effect of desk tax audit on tax compliance.
- To determine the effect of field tax audit on tax compliance.
- To analyze the effect of frequency of tax audit on tax compliance.

1.4 Hypotheses of the study

In order to guide the study the following hypotheses have been formulated:

H1: Comprehensive tax audit have positive effect on tax compliance

H2: Desk tax audit have negative effect on tax compliance

H3: Field tax audit have negative effect on tax compliance

H4: Frequency of tax audit has positive effect on tax compliance

1.5. Significance of the Study

This study is to provide feedback to tax payers and the tax authority regarding the significance, application and practice of tax audit on tax revenue. Moreover, it provides constructive feedback about the efficiency and effectiveness of the existing tax audit practice in Jimma Zone revenue authority. For those who are interested to make further study on the related issue it may be used as an indication. Again, knowing the positive extent to which tax administration and auditing has helped and the purpose of which tax auditing has been introduced to help in planning the country's economy.

1.6. Scope and limitation of the Study

The study focused on the effect of tax audit on tax compliance in the case of Jimma zone revenue authority. The study examined tax audit practice, and focused on the type of tax audit performed, the frequency of audit program in terms of improving voluntary compliance and tax revenue performance methods used. The study conducted in Jimma zone which is located south west of Ethiopia 335 km from the capital Addis Ababa and it has 18 woredas.

Thus, the study is not without limitations. The major limitation is absence of incorporating the audit practice of regional governments. In addition, the study has not incorporated some aspects of tax audit program. Specifically, the study has not examined the issues such as formal statements of taxpayers' rights and obligations in the audit context, audit outcome measures, and use of indirect methods to verify income of taxpayers. Because, of to protect the confidentiality of taxpayers the tax administration kept the all information about tax payers.

1.7 Organization of the research

The final report of this study is presented in five chapters. The first chapter deals with introduction including background of the study, statement of the problems, objectives of the study, research hypothesis, and methods adopted significance of the study, and scope and limitation of the study. The related literature have been reviewed and presented in the second chapter. In the third chapter, the research design including the methodology adopted and techniques used in data collection and model analysis is offered. Subsequently, the fourth chapter discusses the results and analysis of the findings of the study. Finally, the fifth chapter presents the conclusions and recommendations based on findings.

1.8. Operational Definitions

Tax audit: The tax audit is one of the most effective policies to protect the behavior of tax evasion (Nicoleta, 2010).

Tax revenue: Revenue collection system for mobilizing the budgetary resources of the government (Ramaswami P., 2006).

Comprehensive tax audit: Examination of all information relevant to the calculation of a taxpayer's for tax liability for a given period (Getaneh M., 2012).

Desk tax audit: It involves basic checks conducted at the tax office when the auditor is confident that all necessary information can be ascertained through in-office examination (Ebrill, 2010).

Field tax Audit: According to OECD (2006), it focuses on detailed examination of taxpayers' books and records to determine whether the correct amounts were reported on the tax returns.

Taxpayer: An individual or entity that is obligated to payments to government taxation agencies (OECD, 2006b).

Tax compliance: Willingness to obey tax laws in order to obtain the economic equilibrium of a country. Andreoni et al., (1998)

CHAPTER TWO

REVIEW OF RELATED LITERATURE

2.1. Theoretical and conceptual literature review

2.1.1. Meaning of tax audit

The American Accounting Association, (1971) in its Statement of Basic Auditing Concepts in Hayes, Schilder, Daseen and Wallage, (1999) described auditing as: a systematic process of objectively obtaining and evaluating evidence regarding assertions about economic actions and events to ascertain the degree of correspondence between these assertions and established criteria and communicating the results to interested users.

A tax audit is an examination of whether a taxpayer has correctly reported its tax liability and fulfilled other obligations. It is often more detailed and extensive than other types of examination such as general desk checks, compliance visits or document matching programs (OECD, 2006a). According to Adesola, (1998), tax is a compulsory levy which a government imposes on its citizens to enable it to obtain the required revenue to finance its activities. And the other scholars Lymer and Oats, (2009) tax is defined as 'a compulsory levy, imposed by government or other tax raising body, on income, expenditure, or capital assets, for which the taxpayer receives expenditure, or capital assets, for which the taxpayer receives nothing specific in return'.

A tax audit is one of the most sensitive contacts between the taxpayer 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 workflow, represents a burden on the taxpayer and may be seen by some as an unwarranted intrusion into their affairs. Notwithstanding this, tax audits remain the only effective method for ascertaining additional facts or verifying provided information. Most taxpayer's report their tax liabilities more accurately if they believe that the tax administration has the capacity to detect any unreported liabilities and that heavy penalty may be applied when they are detected (Biber, 2010).

Internal auditors play a key role in monitoring a company's risk profile and identifying areas to improve risk management (Mihret, 2013). The aim of internal auditing is to improve organizational efficiency and effectiveness through constructive criticism. Control mechanisms are those processes set up to monitor and to direct, promote or restrain the various activities of an enterprise for the purpose of seeing that enterprise objectives are met.

The tax audit function plays a critical role in the administration of tax laws in all countries. In addition to their primary role of detecting and deterring noncompliance, tax auditors are often required to interpret complex laws, carry out intensive examinations of taxpayers' books and records, while through their numerous interactions with taxpayers operating very much as the 'public face' of a revenue body. These factors, as well as the absolute size of the audit function in most revenues bodies, provide a strong case for all revenue bodies paying close attention to the overall management of the tax audit function.

2.1.2 Framework of Tax Audit effectiveness

Tax audits are key characteristics of the voluntary compliance mechanism in the SAS regime because higher audit rates are thought to increase tax compliance (Allingham and Sandmo, 1972). Tax audits have a specific deterrent effect on those audited taxpayers, and more importantly, audits also have a general deterrent effect on taxpayers not actually audited (Khadijah, Isa and Jeff Pope, 2011).

The specific deterrent effect of tax audits refers to enhancement of voluntary compliance by ensuring audited taxpayers comply with the provision of the current tax laws and regulations. Moreover, tax audits allow tax auditors to educate taxpayers on the application of tax laws, to identify improvements required for record-keeping, and to identify areas of tax laws that taxpayers need clarification (OECD, 2006).

In addition to their primary role of detecting and deterring non-compliance, tax auditors are often required to interpret complex tax laws and carry out extensive examinations of taxpayers' books and records (OECD, 2006). The numerous roles assigned to tax auditors require a recruitment and maintenance of competent tax auditors with technical knowledge, audit skills, and tacit knowledge. Moreover, the attitudes of tax auditors during the conduct of an audit may affect taxpayers' compliance behavior.

The way in which tax auditors interact with taxpayers during an audit may influence their compliance behavior in the future. For example, if taxpayers are treated with respect during the audit, taxpayers may have a stronger incentive to comply voluntarily (Isa and Pope, 2011); arbitrary audit procedures leave taxpayers 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. Eden and Moriah, (1996) assigned 224 organization 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 Aaron Cohen & Gabriel 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 22 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.

More recently, 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. This brief review shows the need for a more comprehensive study of the issue of internal audit effectiveness. The papers noted above may deal with the issue qualitatively (Dittenhofer, 2001).

To design a comprehensive scale that can be validated by examining its factor structure and reliability, or by exploring its relationship to conceptual correlate. Frank, (2010) concludes that audit policy can have important effects on production decision by firms. The nature of such effects depends on whether firms compete or collude. Accordingly, an appropriate designed audit policy may not only achieve greater compliance and higher net revenue for given output and resources spend on audit but may also have other effects that would be normally considered desirable in a wider economic context.

Adediran, Alade & Oshode, (2013) opined that, tax audit just like financial audit involves the gathering of information and processing it for determining the level of compliance of an organization with tax laws of the territory. For a successful audit, it is necessary that the auditor organizes his work in such a way that the assignment is accomplished completely and efficiently. According to Hornby, (2000) Tax means “money that you have to pay to the government so that it can pay for public services”. He also defined Audit as “an official examination of business and financial”.

2.1.3. Types of tax audit

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

A) **Comprehensive or full audit**

Ebrill (20011) defined comprehensive audit as comprehensive examination of all information relevant to the calculation of a taxpayer's tax liability for a given period. This audit may cover all tax obligations over a number of tax periods, or extended to several years up to the limit provided for in the law.

All cases where serious underreporting or evasion has been detected under any of other audits should be forwarded to a unit responsible for undertaking comprehensive audits of all tax liabilities. The objective is to determine the correct tax liability for a tax return as a whole. As this audit is usually time consuming and costly to undertake, it should only be applied to those taxpayers if there is an indication of under reporting that may impact across taxes. It requires considerable resources and reduces the rate coverage of taxpayers that could otherwise be achieved by a more varied mix of audit types.

B) **Desk audit or verification**

Desk audit usually carried out annually and primarily based on:

(1) A review of income tax and VAT returns, or basic ratios comparing with previous periods or other taxpayers in similar industries, and

(2) The crosschecking of information included in the taxpayer files. It involves basic checks conducted at the tax office when the auditor is confident that all necessary information can be ascertained through in-office examination. Information technology (IT) systems should provide strong support for these verifications (Ebrill, 2010).

C) **Field Audit**

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

2.1.4 Need for tax audit

According to AAA (1973) four conditions tend to create the demand for the independent performance of the audit or attest function. They are as follows:

I. Conflict of interests between those who prepare accounting information reports and those who use them;
II. Consequence of information to users while using them in decision-making;
III. Complexity of subject matter and audit process; and
IV. Remoteness of users from subject matter and preparer

When audit function is extended to tax, the above-mentioned four conditions are also required to be satisfied. Here, the preparer of income tax return and relevant information (the assesse) has the conflicting relationship in terms of financial interest with his counterpart user or evaluator of the return (the assessing officer). Because, manipulated information in the tax return may reduce the tax liability. Second, use of the tax return, assumed to be correct and complete, may have serious consequence on Government fiscal estimation and collection thereof. As a result, all the budgetary appropriations may stand for nothing but a baseless imagination. Third, both financial accounting and tax accounting are recognized as a much complex discipline due to technicalities and their distinct characteristics of difficulties. (COBAC)

Finally, between the preparer of the return and the information therein (by the assesse) and the assessing officer, there exists a wall of remoteness though the latter can call for any additional information from the former to be satisfied with the completeness and correctness of the information provided. But sometimes this may not be possible due to time and cost constraints and some other reasonable causes. (AAA, 1973)

In this case, the tax authority can apply his best judgment, which may not be the expression of the reality and thus both the parties, the Government and the assesse may be affected by under- or over-charging of tax. Therefore, all the conditions creating the demand for audit with respect to tax can be found to be satisfied. (IFAC)

Besides, the Committee on Basic Auditing Concepts (COBAC), suggested that the subject matter of any extension of the audit function must have the following attributes

- ❖ The subject matter has to be susceptible to the deduction of evidential assertions. Such assertions have to be both quantifiable and verifiable;
- ❖ There has to be an information system to record the actions, event or results thereof; preferably adequate internal controls have also to be in operation; and

According to Committee on Basic Auditing Concepts (COBAC), Consensus should exist on the established criteria against which the information prepared from the subject matter can be evaluated. Each of the attributes stated above is essential. Two additional conditions are also needed. They are:

- Auditor’s competence and summarization of findings in a report.
- The COBAC of AAA has recognized that extension of the attest function to the audit of income tax return appears to satisfy all the attributes stated above. The subject matter allows the deduction of evidential assertions, which are verifiable as well as quantifiable. Tax law requires the maintenance of an “information system” adequate for recording the actions and events, and the law also serves as a criterion for evaluating the subject matter information.

The International Federation of Accountants (IFAC) Ethics Committee, in the “Code of Ethics for Professional Accountants” has defined “professional service” as “any service requiring accountancy or related skills performed by a professional accountant including accounting, auditing, taxation, management consulting and financial management services”.

Hence, an auditor must be competent first in accounting, inevitably in auditing, as well as thereafter in taxation. Introduction of tax audit by qualified professional accountants is indeed the esteemed recognition of their specialized competence. The real benefit from compulsory tax audit, if legally enforced, is that the audit will ensure maintenance of proper books of accounts and other records. (IFAC)

According to the IFAC, growing accounting habit thus developed will enable creation of a transparency of the in the middle of grey area between assumed income and reported income. Thus, tax evasion will be markedly curbed through checking the fraudulent practices concerning colluded accounts. Other arguments in favor of tax audit include: tax return with added credibility and accompanied by tax audit reports as well as necessary supporting statements can reliably be presented before the authority facilitating tax administration, relieving assessing officers from carrying out routine verifications, and attending to more important investigation aspects of assessment case through utilization of the saved time.

2.1.5. The efficiency and effectiveness Tax audit

According to OECD, (2006) Audit effectiveness was measured by examining the amount of evidence selected for examination in relation to the total available evidence and an optimal level of evidence. Audit efficiency was then defined as audit effectiveness per unit of time by taking the audit effectiveness measure divided by minutes spent on the task. The key findings were that time pressure (manipulated by four levels of a time budget for the task) affected performance only at the extremes, with the highest time pressure group performing more efficiently than the auditors in the lowest time pressure group.

Efficiency was also affected by audit program structure, with high structure (more detailed audit procedures listed) being associated with increased efficiency.

Apostolou et al., (1993) defined audit efficiency as the ability to meet the budget and operationalized it as the percentage deviation between actual and budgeted hours. This research examined the effect of leader behavior on audit efficiency. Two leader behaviors:-

(1) Facilitating cooperation and teamwork and

(2) Administering discipline—resulted in increased audit efficiency.

On the other hand, showing consideration contributed to reduced audit efficiency. In addition in an economic sense, the concept of efficiency is rooted in the ideas of minimization of inputs, absence of waste, and least cost production methods.

Auditing practitioners tend to define efficiency as accomplishing the audit task in less time thereby increasing profitability (Hollingshead, 1996).

The efficient and effective conduct of audit activities requires that a revenue body's audit and investigation staff have appropriate powers of access to information held by the taxpayer and other parties so that taxpayers liabilities reported in their returns can be properly verified or, in the absence of returns, be accurately established. There should also be an appropriate regime of sanctions to punish and deter non-compliance.

For these reasons, revenue bodies require a set of powers and sanctions in the legal framework supporting the conduct of tax administration activities that includes the provision of adequate powers for obtaining information and an appropriate regime of sanctions covering the various offences that may arise.

In practice, this legal framework may be set out separately in the laws governing each tax administered or, preferably for ease of legislative maintenance, in a single comprehensive law on tax administration that provides a common set of provisions covering all taxes.

In the US, an official form titled 'Cost Benefit Analysis' (Review of Cost Effectiveness of Investigations) is used to measure the cost benefit of continuing an audit. The form is being prepared at a predetermined stopping point in the audit (such as when 60 hours have been expended by the auditor). The form calculates cost benefit by assigning dollar values for the auditor's hourly labor costs and multiplying the cost by the hours projected to complete the audit. The auditor's total labor dollar cost is matched against the projected revenue anticipated (benefit of continuance). A negative cost benefit analysis may result in the early termination of the audit (Hollingshead, 1996).

Collectibles is another factor for possible consideration. Some countries use collectability as a pre-contact consideration and other countries reported that it could become a factor during the course of the audit if bankruptcy were imminent. The collectability concept implies that a taxpayer's inability to pay a future proposed tax assessment would be sufficient basis for not conducting the audit. Those administrations that do not use this concept report that collectability is a secondary objective and should not diminish the primary objective of a correct assessment of tax liability.

In addition, the limitation of collectability considerations to the current tax period may not provide a complete financial picture for the taxpayer as it excludes consideration of future payment potential.

2.1.6. Significance of Tax audit in fighting corruption

Simply defined, corruption is the abuse of public power for personal gain or for the benefit of a group to which one owes loyalty. It occurs at the intersection of public and private sectors, when public office is abused by an official accepting, soliciting, or obtains by threat a bribe. Klitgaard, (1996) has developed a simple model to explain the dynamics of corruption:

C (Corruption) = M (Monopoly Power) +D (discretion) – A (Accountability)

In other words, the extent of corruption depends on the amount of monopoly power and discretionary power that an official exercises. Monopoly power can be large in highly regulated economies; discretionary power is often large in developing countries and transition economies where administrative rules and regulations are often poorly defined. And finally, accountability may also be weak, either as a result of poorly defined ethical standards of public service, weak administrative and financial systems and ineffective watchdog agencies. Tax is one of the most exposed issues for corruption since it is carried out by the interaction of the tax payer and the tax auditor (official).

2.1.7 Audit of government revenues

In recognition of the importance of an efficient revenue collection system for mobilizing the budgetary resources of the government, the need to establish revenue audit as a specialized and independent domain has been engaging the attention of the Supreme Audit Institutions for quite some time.

The International Congress of International Organization of Supreme Audit Institutions (INTOSAI) held at Rio de Janeiro, Brazil in May, 1959 recommended that:

- ✓ Supreme Audit Institutions (SAI) ought to exercise the broadest possible supervision of revenues.
- ✓ Supervision should not be limited to the checking of collection of revenues in line with the accounts rendered by the collectors but, wherever possible, a check should be made to see whether or not tax payments were in line with legislation.
- ✓ SAIs should ascertain whether there has been negligence in the matter of collections or exaggeration in the estimates.
- ✓ The SAIs ought to be equipped to carry out their duties, especially as regards supervision of revenues, with mechanized accounting and statistical services.

The concept of tax audit was a sub-theme in the Third International Seminar of ASOSAI held at Bali, Indonesia in June 1988. The following guidelines were recommended in the area of tax audit.

(a) Audit mandate: SAIs should seek clear and specific legal authority for undertaking comprehensive tax audits in conformity with the relevant provisions of the Lima Declarations on Auditing Precepts.

(b) Audit of individual tax assessments: It is important that individual tax files are examined to evaluate the adequacy of the system and procedures of tax assessment and collection. As the examination of all tax files is neither feasible nor necessary, best results may be obtained while concentrating on high value and risk areas. Selective auditing of business income cases rather than salary assessment, investigations of reported evasions and use of suitable statistical sampling techniques in the review of files are preferred practices. Data and information on tax payers collected by the tax authority may be verified against other independent sources available.

(c) Interpretation of tax laws: SAIs should scrutinize the rules, regulations and notifications issued by the executive agencies under the tax statutes.

(d) Scrutiny of decisions of tax authorities: Where quasi-judicial and discretionary powers are vested in the tax officials, any decisions taken in the exercise of such powers should be scrutinized in audit.

(e) Audit methodology: Audit should be mainly system based and the objective should be to discover loopholes, lacunae and deficiencies not only in tax administration but also in tax laws. Adequate procedures for identifying and dealing with tax avoidance rising from deficiencies in laws could be considered so that remedial action including amendments to the laws could be taken promptly.

(f) Socio-Economic implication of taxation. The social and economic goals proposed to be achieved through tax concession and relief should be reviewed in audit.

(g) Reporting on the results of tax audit: Having regard to personal privacy considerations, it is imperative that confidentiality be maintained in reporting individual assessments in the audit reports.

(h) Training of tax auditors: Tax audit is a specialization which requires thorough knowledge of the relevant laws and regulations. SAIs should provide intensive and frequent training for tax auditors taking advantage of the training facilities available in their local tax department's training institutions as well as those in other SAIs.

2.1.8 The Concept of Tax Compliance

Looking at different definitions of tax compliance, one can easily notice that it shows the degree to which a taxpayer complies (or fails to comply) with the tax rules of his country, for example by declaring income, filing a tax return and paying the tax due in a timely manner. As Kirchler (2007) put it, the noncompliance represents the most inclusive conceptualization referring to failures to meet the tax obligations whether or not those failures are intentional. The tax noncompliance can be referred as tax avoidance and tax evasion. According to Webley (2004), tax avoidance is not illegal as taxpayer attempts to reduce his/her tax liabilities by legal means by taking advantages of loopholes in the law with aim of reducing the amount of tax due. The author continues arguing that tax evasion is illegal, because it involves deliberately breaking the law in order to reduce the amount of taxes due.

The laws in use in different countries provide the fines to tax evaders while there is no fine provided for; for tax avoiders. Spite that noncompliance might be legal or illegal; M.C. Barnet, (2001) distinguishes between different forms of compliance:

i) Committed compliance is taxpayer’s willingness to pay their taxes without complaints,

ii) Capitulate compliance refers to reluctantly giving in and paying taxes,

iii) Creative compliance which is defined as engagement to reduce taxes by taking advantages of possibilities to define income and deduct expenditures within the brackets of the law.

The most challenging thing is the measurement of tax evasion. Several methods have been developed and all are subject to much imprecision and controversy, as James, (1999) put it. One method relies on information generated by the tax authority as part of its audit process. In the context of Taxpayer Compliance Measurement Program (TCMP), the tax authority carries out tax audit and gather information on amount yield as taxpayers‟ true income, and from this the aggregate income tax evasion can be calculated such estimates are the most accurate available. Still these data have some serious and recognized deficiencies, because the audits do not detect all underreported income, non-filers are not often captured. Another direct method involves surveys designed to elicit taxpayers‟ attitudes about the roles that such factors as perception of the probability of detection, the fairness of taxation and the responsiveness of government plays in their reporting decisions. The surveys can also be used to estimate noncompliance.

The accuracy of the survey is uncertain: individuals may not remember their reporting decisions, they may not respond truthfully or at all, and the respondents may not be representative of all taxpayers. Finally, the surveys cannot determine the direction of causality between evasion and its determinants. The indirect methods that are typically used to measure the amount of activities that take place outside formal markets, this refers to underground, shadow or black economy. One approach looks at the discrepancy between income and expenditures, either in budget surveys or in national income accounts. Another looks at discrepancy between "official" labor force participation rates and estimates of "true" participation rates.

A related approach assumes that there is a fixed and predictable relationship between some observable variable and the amount of un reported income; the most common application here looks for traces of unreported income in monetary aggregates, but other variables (for example: electricity) can also be used. These methods also are subject to criticism because they may simply compound measurement errors, they attribute all discrepancies to unreported income, and they are often able only to estimate the change in unreported income over some period, not its absolute level.

2.2 Empirical Review

Adediran, Alade and Oshode, (2013) examined the impact of tax audit and investigations on revenue generation in Nigeria and concluded that Tax audit and investigations can increase the revenue base of the government and can also stamp out the incidents of tax evasion in the country. They recommended that Tax audit and investigations should be carried out more often and as thorough as possible to accomplish its task of increasing the revenue base and stamping out tax evasion in the country.

Ibrahim, Yusuf and Bello, (2014) examined the contribution of tax audit and investigation to the sustainable development of the Nigerian economy and concluded that the practicing accountants should uphold the fundamental principles of professional ethics while rendering consultancy services since they often act for taxpayers in their dealing with the relevant tax authority.

Afuberoh and Okoye, (2014) examined impact of taxation on revenue generation in Nigeria and recommends among others that Well Equipped Data Base (WEDB) on all tax payers should be established by the Federal, State and Local Governments with the aim of identifying all possible sources of income of tax payers for tax purpose however the tax collection processes must be free from corruption.

Niu, (2010) in a study found a positive association between the audit and the voluntary compliance. The finding suggests that the audit productivity may be under estimated in many studies in the literature. It reminds us that when considering the productivity of the audit work, besides the direct audit collections, we should also take the audit impact on the voluntary compliance into consideration. For this reason, the finding may provide tax professionals and tax authorities with incentives to strengthen the audit power and to better structure their audit organization to generate more revenue for the state.

Niu, (2010) Historical population data of a New York State economic sector were used in this study instead of experimental data or randomly selected sample data often used in the literature. The results of both Ordinary Least Squares (OLS) and Time Series Cross Section (TSCS) methods suggest that after an audit, a firm would report a higher sales growth rate.

Jin Kwon, (2004) study in Korea observed that a more rigorous analysis to evaluate the determinant of tax culture for the study of tax compliance and tax audit. There are three types of tax audit.

Badara, (2012) stated these three types of audit include the random tax audit, cut-off tax audit and conditional tax audit. The random tax audit scheme simply provides each self-report of income an equal chance of being chosen for verification by an audit. Cut-off audit scheme, audit resources are employed to verify reports of the tax payers reporting the lowest income levels. The conditional audit scheme requires in addition to the reported income, sources of information representing a noisy signal of tax payers' thorough income earning potentials. Tax audits have been variously discussed in relation to tax compliance. According to Palil and Mustapha (2011), some studies claimed that audits have a positive impact on tax evasion (See Jackson and Jaouen, 1989; Shanmugam, 2003; Dubin, 2004). These findings suggest that in self-assessment systems, tax audits can play an important role and their central role is to increase voluntary compliance. Palil and Mustapha (2011), argued audits rates and the thoroughness of the audits could encourage taxpayers to be more prudent in completing their tax returns, report all income and claim the correct deductions to ascertain their tax liability. In contrast, taxpayers who have never been audited might be tempted to under report their actual income and claim false deductions.

Butler (1993) cited in Palil and Mustapha (2011), also found that tax audits can change compliance behaviour from negative to positive. These findings complement the Witte and Woodbury (1985) and the Beron, Tauchen and Witte (1988) studies. Witte and Woodbury in their study of small proprietors found that tax audits have a significant role in tax compliance. They did not empirically test individual taxpayers, thus left open room to conduct research in this area. While Butler (1993) and Witte and Woodbury (1985) found significant results, Beron et al. (1988) found a contradictory result. They reported that audits did not significantly correlate with evasion for all groups they studied. Audits were found to be more effective in inducing taxpayers to over claim deductions rather than encouraging them to correctly report actual income (Beron et al. 1988).

From another point of view, Evans, Carlon and Massey (2005), studied the tax compliance of small and medium size enterprises (SME) in Australia. Their objective was to examine the relationship between record keeping practices of SMEs and the potential exposure to tax compliance problems. The study hypothesized that low tax compliance among SMEs might better encourage the tax authority to increase audits and investigations. This study involved 129 small business owners, 130 tax practitioners and Australian Tax Office (ATO) auditors. Using mail surveys, this study found that audit history, including frequency, audit outcome and the type of audit of small business owners has a significant indirect impact on tax compliance (in terms of record keeping). The result also evidenced that the primary objective of the small business owners doing their record keeping is tax compliance related rather than part of their management of their business. Thus, as the audits investigations increase, many SMEs will make more of an effort at proper record keeping.

Alm and McKee, (2006) investigates the application of experimental methods to examine the individual compliance responses to a “certain” probability of audit, and conclude that the compliance rate rises if an individual knows he will be audited and the rate falls if he knows he will not be audited.

Slemrod et al. (2001), examines randomly selected taxpayers and inform them that their filling will be “closely examined’ and found evidence of taxpayers’ behavior changes in response to an increased probability of audit, although the responses are not uniform among different groups of taxpayers.

Mittone, (2006) investigates that early experience of audits in taxpayers’ “tax life” is a more effective way to increase compliance than later audits.

Also Kastlunger et al. (2009), study of experimental research also suggests that, although the effectiveness of audits and fines cannot be completely confirmed, early audits in taxpayers’ “tax life” have a positive impact on compliance.

Kleven et al. (2010), 40,000 individual tax filers using experimental design and randomization test and SKAT’s Business object Database with ordinary least square. Their research found that tax evasion rate is small for income subject to third party reporting, but substantial for self-reported income; marginal tax rates have a positive impact on tax evasion, but that this effect is small; prior audits substantially increase self-reported income and threat of audit letters also have a significant effects on self-reported income, and the size of this effect depends positively on audit probability expressed in the letter.

Hyun, (2005) Japan & Korea using world value survey dataset and descriptive statistics and multiple regressions for analysis. Japan has the higher level of tax culture than that of Korea; and the legal system is relatively more important factor to determine the level of tax culture which eventually affects the level of compliance. Plumley et al, (1996) Data set from 1991-2001 using Ordinary Least Square The result found a significant effects attributable to many tax policy and tax administration parameters; including: audits; third party information documents; the issuance of targeted non-filer notices; criminal tax convictions; marginal tax rates.

Bright et al., (1988) studied statistical sampling for tax audits in United States of America (USA). The study tried to review whether the use of statistical sampling for audit is a sufficient basis for determining the taxpayers’ unpaid liability rather than reviewing all transactions to determine the exact amount of tax owed. The study used case studies, and relied on the cases and data from consumption taxes, primarily sales and use taxes. The universe-documented transactions available for audit (those records available for examination) are used as a sample frame. The study is conducted on three agencies including Internal Revenue Service (IRS), the revenue departments in New York and Pennsylvania.

The finding of the study by Bright et al. (1988), indicated that audit assessment based on appropriately drawn and analyzed statistical sample do not suffer from the defects that the courts have correctly concluded mar assessments based on non-statistical samples. Without sampling, it may be literally impossible for a tax examiner with a limited staff to audit an entire period especially when dealing with a taxpayer who conducts a large volume of transactions. The study further indicated that sampling techniques allow improved economies in the use of government resources in that tax administration can be more efficient, fairer, and less intrusive if the technologies used for identifying and measuring tax deficiencies are expanded to include controlled use of statistical sampling. The common interest of minimizing the duration of tax audit for both the tax administration and taxpayers can also be achieved with sampling techniques. However, statistical sampling cannot provide an exact determination of tax owed, and the uncertainty adjustment may sacrifice too much revenue.

Collins and Plumlee (1991) studied the effect of tax audit schemes on the taxpayer's labor and reporting decision. The study also examined the impact of alternative tax rates and penalty levels on earned and underreported income. Experimental design was adopted, and laboratory labor setting was used to test the effects of audit schemes, tax rates, and penalty levels on underreported income and work effort. The three independent variables that were manipulated include; tax rate, audit scheme (the decision rule the taxing authority followed in determining reports to be audit), and penalty for underreporting. The audit scheme took on three levels that differ principally in the information used by the taxing authority to determine self-reports to be audited: random (no information), cut-off (reported income information), and conditional (both reported income and an estimate of true income).

The experimental results of the study by Collins and Plumlee (1991) indicated that audit schemes that incorporate some preliminary information signal sent by the taxpayer might be more successful in curbing underreporting than purely random audit models. Nonrandom schemes are most effective when tax rates are low and penalty levels are rather high. Further, reported income and actual income do vary at the same time in that electing to underreport also earn more actual income.

In Ethiopia, there are two studies reviewed regarding tax audit. Yesegat (2008) studied VAT administration problems at large, VAT audit in particular, and Gebeyehu (2008) studied tax audit and its role in increasing government revenue in Ethiopia.

The study by Yesegat (2008) adopted an in-depth interview conducted with tax officials and surveys of taxpayers and tax practitioners conducted using semi-structured questionnaires. The main findings of the study regarding VAT audit is that the revenue that collected from VAT is lesser that may be due to resource constraints, and the cases subject to audit are selected by audit selection committee based on a criteria including credit declaration, non-filing and unusual filing patterns, nil VAT declaration, and information from third parties. The study further revealed that the quality auditors (VAT administrators at large) are poor to achieve efficient and effective audit program. Based on the survey results, the study stated that tax administrators are not capable of handling audit cases quickly, lack confidence to make decisions and not have willingness to help taxpayers. In addition, the tax authorities have no sufficient number of VAT administrative personnel, which comprise only 10.4 per cent as to the proportion of the total employees at the Ethiopia Federal Inland Revenue Authority (EFIRA).

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 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.

2.3. Conclusions to the literature review and knowledge gap

Tax audit practice is a current issue for both developing and developed countries. There is no sufficient theory regarding tax audit activities.

In the theoretical review, to the knowledge of the researcher, there is no standard as to the percentage of audit methodologies to be conducted in a given tax authority. In addition, there is no adequate literature regarding the appropriate audit examination techniques to be used for checking the accuracy of tax returns in line with the level of economy and technological advancement, developing countries in particular.

The empirical studies that have been reviewed in the preceding section focused on the different audit strategies that affect tax compliance behavior, income tax in particular, and the use of sampling tax audit strategy for improving the tax audit coverage. In addition, most prior studies regarding tax audit issues tried to examine the possible audit strategies including the use of audit information for the purpose of compliance improvement and fraud detection, and the impact of component reporting requirements on taxpayer incentives to misstate the tax liability.

However, to the knowledge of the researcher, it is possible to conclude that although there have been a number of studies on tax audit related issue both in developed and developing countries. However, in Ethiopia there is gap research on the impact of tax audit on tax compliance.

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CHAPTER THREE

RESEARCH DESIGN AND METHODOLOGY

3.1 Research Design

A research design is a plan for collecting and utilizing data so that desired information can be obtain as defined by Paul et al (2009). This study adopted descriptive and explanatory approaches. The study described the effectiveness of tax audit on tax compliance in Jimma Zone Revenue Authority. Descriptive survey also enables to obtain the current information. It is also used in fact finding studies and helps to formulate certain principles and give solutions to the problems concerning local or national issues. Descriptive survey method focuses on investigating the current status, practice and effect of tax audit on tax compliance in Jimma Zone revenue authority. Explanatory research seeks explanations of observed phenomena, problems, or behaviors. While descriptive research examines the what, where, and when of a phenomenon, explanatory research seeks answers to why and how types of questions. It attempts to "connect the dots" in research, by identifying causal factors and outcomes of the target phenomenon.

The aim of the paper is to identify the extent, efficiency and effectiveness of tax auditing in increases tax payers that comply with law and regulation of taxation. The paper obtained quantitative data that would facilitate a conclusion about the practice of tax audit system and its effect on tax compliance of the Jimma Zone revenue authority.

3.1.1 Quantitative research approaches

Quantitative research is grounded in the post-positivism knowledge claim that primarily reflects the scientific method of the natural sciences. The researcher gathers data from the real world setting and then analyses the data statistically to support or reject the hypotheses Robert K.Yin, (1994). Researchers who adopt a more deductive approach use theory to guide the design of the study and the interpretation of the results. In line with this, the overall objective of quantitative research is to test or verify a theory, rather than to develop one. Therefore, the theory offers a conceptual framework for the entire study, and it also serves as an organizing model for the entire data collection procedure. Quantitative techniques as an attempt to test a hypothesis by incorporating it into the research design and responding to it by measuring its strength and weaknesses that give numerical measurements to the data collected.

They are also capable of being accurately described by a set of rules or formulae which then make their definition (if not always their interpretation) unambiguous and independent of individual judgments. Quantitative researchers put their emphasis on procedures, methodologies and statistics. As a result, it relies on statistical techniques aided by computational algorithms and software packages for analysis the problem under study.

Quantitative research is one in which the investigator primarily uses positivist claims for developing knowledge and its strategies of inquiries are associated with experimental and survey research methods. Robert K.Yin, (1994) mentioned that experimental research seeks to determine if a specific treatment influence an outcome. This impact is assessed by providing a specific treatment to one group and withholding it from another and then determining how both groups scored on an outcome. Therefore, pure experiment enables the researcher to manipulate an independent variable in order to see the effect on the dependent variable with the random assignment of subjects to treatment conditions. Whereas, survey research provides quantitative or numeric description of research trends attitudes or opinions of a population by studying a sample of population. It includes cross sectional (data will be collected in one point in time) and longitudinal studies (data will be collected through time with different interval) using questionnaires, structured interviews and documentary reviews for data collection, with the intent of generalizing from the sample to the population. Therefore, the study obtained quantitative data that would facilitate a conclusion about the practice of tax audit system and its effect on tax compliance.

3.2 Population and Sampling Design

Population of the study: The population of the study included tax auditors operating in Jimma Zone revenue authority. There are 75 tax auditors in Jimma Zone revenue authority (Jimma zone, 2015). So that, the total population of the study was included all tax auditors.

Sample design

A sample design is a definite plan for obtaining a sample from the sampling frame. It refers to the technique or the procedure the researcher would adopt in selecting some sampling units from which inferences about the population is drawn. Sampling is the process of choosing smaller and more manageable number of study units from a defined study population. Since the goal of quantitative research is to generalize the results of the work to the whole of the research population, the sample should be selected carefully using the correct procedure. The sampling strategy adopted can affect the quality of a piece of research Dawson, (2002) and Cohen et al., (2000). Thus, attention should be paid to rigorous sampling; otherwise, the basis of the surveys applicability to wider contexts is seriously undermined. For this study, the sampling frame was all tax auditors of 18 woredas in the Jimma zone. All 75 tax auditors employed until the conduct of the survey are included in the sample frame. Determination of economical sample size is a major challenge for a researcher in conducting a survey Bordens and Abbott, (2005). There is no a standard rule for the determination of sample size. Both large and small sample sizes have their own limitations. Too large a sample might become unwieldy and too small a sample might be unrepresentative. What matters in the determination of sample size is representativeness of the sample to a population. Therefore, the correct sample size depends on the purpose of the study and the nature of the population under scrutiny Cohen et al., (2000). There are two main types of sampling procedures: probability sampling and purposive sampling. Choosing the type of sampling technique depends upon the area of research, research methodology, and preference of the researcher Dawson, (2002). Probability sampling involves selecting elements randomly in that the selection of any one element is independent of the selection of the other elements while purposive sampling is used to make description rather than generalization Dawson, (2002). As stated above, the results of the study would be generalized. In addition to this, the researcher believed that all units of the sample frame provide similar information for the study. Therefore, purposive sampling is employed. It is the best way of ensuring that sample is unbiased (Thiétart et al., 2001). Hence, purposive sampling is appropriate, and the researcher selected 75 survey respondents. Because, the number of sample frame was too small, in order to get representative the researcher decade to use the purposive sampling.

3.3 Data Collection Methods

Sources of Data: 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 the effect of tax audit on tax compliance through questionnaire. The structured questionnaire consists of closed ended questions to collect quantitative data from the respondents to test reliability. A questionnaire has been self-developed and distributed to all the tax auditors of Jimma Zone revenue authority office. Along with some of the closed ended questions are five 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 4, agree 3, disagree 2, and strongly disagree represented by 1 and also includes others like Yes/No questions on the matter related tax audit. Subsequently, these were questionnaire was filled by tax auditors and its enforcement core process owner, to reflect their work to the issue under study.

Questionnaire Design

Questionnaire design for tax audit surveys typically helps to extract information on the background of respondents, regarding tax compliance, regards to comprehensive tax audit, regarding to field audit, regards to the desk audit and frequency of tax audit. The questions kept short and language as simple as possible to encourage legibility and maximize the response rate. The number of questions will be kept to a minimum to encourage responses. However, it is necessary to collect a large amount of relevant quantitative and qualitative data. Tax auditors asked to respond on their attitudes towards the existing tax system and the significance of tax audit for the government as well as for the tax payer.

3.4 Reliability Tests of the Instrument

The reliability of the measures was established by testing the internal consistency of the reliability of the measures of the study was based on the result of the second test. measurement items. This was done using Cronbach's alpha as recommended for social science research (Sekaran & Bougie, 2010). Two tests were conducted to prove the reliability of the measures. The first test was conducted before the factor analysis to ascertain reliability of the items extracted from the theory while the second test came after construct validity (factor analysis). The

Generally, a Cronbach's alpha coefficient of at least .70 is considered sufficient and acceptable (Hair Black, Babin & Anderson, 2010; Nunnally, 1978). Table 3.1 shows alpha coefficient range between .729 and .779 for all scales and this suggest a satisfactory degree of internal consistency for all the metric variables

Table 3.1 Reliability statistics

Variables	No. Of items	cronbach's alpha
Tax compliance	5	.714
Comprehensive tax audit	5	.732
Field tax audit	3	.863
Desk tax audit	4	.765
Frequency of tax audit	5	.711

Source: SPSS output from survey of tax auditor staff respondents, 2016

From the above table 3.1, it is seen that the reliability value was estimated to be 0.711-0.863 between the scales. If the above calculated reliability values are compared with the standard value alpha of 0.7 advocated by Cronbach's, then it can be safely assumed that the scales used by the research are reliable for data analysis.

3.5 Data Analysis Techniques

In accordance with the data types, both quantitative and qualitative data analyses techniques have been employed. The quantitative data have been analyzed using Statistical Package for Social Science (SPSS), Version 20.0, whereas the qualitative data analysis describes qualitative data by themes. The collected data have been analyzed through descriptive statistics modified from Chan et al (2000), Houston and Tran (2001), Fjeldstad and Semboja (2001), Richardson (2006a), Richardson (2006b) Ritsema, Thomas and Ferrier (2003), Hasseldine et al (2007), Blanthorne and Kaplan (2008), Chau and Leung (2009), using point scale of 5- strongly agree, 4- agree, 3- undecided, 2- disagree and 1-strongly disagree point. Excel software has been employed to transform the variables into format suitable for analysis, after which SPSS used for data analysis. The ordinary least square model was adopted for the purpose of hypothesis testing. The ordinary least square has been guided by the following linear model advanced by (Aaron Cohen & Gabriel Sayag, 2010).

Therefore, the formula used for the model is:

$$Y = \beta 0 + \beta 1X1 + \beta 2X2 + \beta 3\ X3 + \beta 4X4 + \epsilon$$

$$TC = \beta 0 + \beta 1\ (CTA) + \beta 2\ (DTA) + \beta 3\ (FTA) + \beta 4\ (FoTA) + \epsilon$$

Where:

TC = tax compliance

CTA = comprehensive tax audit

DTA = desk tax audit

FTA = field tax audit

FoTA= frequency of tax audit

Where **Y** stands for the mean values of the Tax compliance whereas **β0, X1, X2, X3,X4** and **Є** denote the intercept of the equation, mean values of comprehensive tax audit, mean values of desk tax audit , mean values of field tax audit, mean values of frequency of tax audit and error term of the equation respectively. In addition, **β1, β2, β3 and β4** are the parameters of the equation.

Descriptive analyses have been 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 process using SPSS. The study used multiple regression analysis and descriptive statistics to estimate the Causal relationships between tax compliance variable, and independent variable

CHAPTER FOUR

DATA PRESENTATION, ANALYSIS AND INTERPRETATION

4.1. Introduction

The audit system in the country plays an important role in providing reliable data useful for the effective management and administration of the national economy. The role of an audit program in a modern tax administration must extend beyond merely verifying a taxpayer's reported obligations and detection of discrepancies between a taxpayer's declaration and supporting documentation. Administering the revenue assessed and collected by Oromia Regional Government has wide sources and to assess, collect and administer those in comes adequately and creating awareness of the society is necessary. However, due to less experience Jimma Zone Revenue Authority, it faces different problems in administering taxes. The reasons are lack of awareness by taxpayers, inefficient tax audit, result in low audit coverage, tax, legal and economic environment, and availability of administrative inputs, skilled man power and tax evasion. In this study both descriptive statistic and regression analysis were used to analyze the data.

The descriptive statistics utilized in this research used to analyze the demographic data included frequency, percentages. Inferential analysis is concerned with the various test of significance for testing hypothesis, normality, autocorrelation, multicolinearity in order to determine with what validity data can be said to indicate some conclusion(s). The data collected from the returned questionnaire were entered into SPSS (Statistical package for social science software) version 20.0 for analysis. The data was sorted to group questions according to applicable constructs under test. 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. This study discusses and analyzes the impact of tax Audit on tax compliance in Jimma Revenue Authority

4.2 Descriptive statistics result for tax Auditor Staff's Respondents

This section provides a profile of respondents who were involved in the study and data collected on basic characteristics. Accordingly, the following variables about the respondents were summarized and described in the following tables. These variables include: gender, age, educational level, and field of study, current position, years of experience, and the number of voluntary tax payers, assessment to improve the capability or competence of staff resources and about taxpayers thought towards tax.

Table 4.1 Gender of respondent's

Gender					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Male	54	74.0	74.0	74.0
	Female	19	26.0	26.0	100.0
	Total	73	100.0	100.0	

Source: SPSS output from profile of tax auditor staff respondents, 2016

According to above table of the seventy three respondents, around 74% of them were men and 26% were female. This indicates that Jimma zone Revenue Authority recruit more male than female.

Table 4.2 Age of respondent's

Age					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Less than 30 years	32	43.8	43.8	43.8
	30-40 years	25	34.2	34.2	78.1
	40-50 years	13	17.8	17.8	95.9
	above 50 years	3	4.1	4.1	100.0
	Total	73	100.0	100.0	

Source: SPSS output from profile of tax auditor staff respondents, 2016

Most of the respondents were less than 30 years which 32(43.8%), 25(34.2%) between 30 up to 40 years, 13(17.8%) 40-50 years and remain 4.1% above 50 years. Most the respondents less than 30 years, it indicates that most of them are productive age.

Table 4.3 **Level of education**

Level of education					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Diploma	12	16.4	16.4	16.4
	BSc/BA	59	80.8	80.8	97.3
	MSc/MA	2	2.7	2.7	100.0
	Total	73	100.0	100.0	

Source: SPSS output from profile of tax auditor staff respondents, 2016

As shown in table 4.3, it is clearly visible that regarding the level of education, 59(80.8%) of the respondents were bachelor degree holders, whereas 3 of them (2.7%) were master's degree or above holders. This figure revealed that the tax auditors' educational qualification is adequate to perform audit tasks. As international standards almost 70% of auditors should be university and college graduates. Therefore, it concluded that educational qualification is important on individual's attitude for knowing the tax laws and regulation and other international business transactions, the consequence of this is that an organization will be achieved it audit objective. Although, most of the audit staffs are bachelor degree holders, not only this but also auditors should have more professionalism to do best audit practices, activities and responsibilities in order to enhance audit efficiency, gain audit effectiveness, receive audit performance, and audit success. Remaining of 16.4% have college diploma.

Table 4.4 **Field of study**

Field of study					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Accounting	46	63.0	63.0	63.0
	Economics	5	6.8	6.8	69.9
	Management	22	30.1	30.1	100.0
	Total	73	100.0	100.0	

Source: SPSS output from profile of tax auditor staff respondents, 2016

Based on this, 46(63%) of the respondents are having accounting field of study, 22(30.1% are having management field of study and the remaining 5(6.8%) has Economics field of study. Most of them are accounting and management graduates. To be an auditor a person should have deep knowledge of accounting and management theory and principles therefore, the findings indicated that an organization audit staff almost may have sufficient knowledge of their field of study. Hence, it is concluded that educational level attainment of respondents is good and which is related to their profession.

Table 4.5 Current Job Position

Current Job Position					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Tax auditor	47	64.4	64.4	64.4
	Tax audit coordinator	7	9.6	9.6	74.0
	Tax assessors	19	26.0	26.0	100.0
	Total	73	100.0	100.0	

Source: SPSS output from profile of tax auditor staff respondents, 2016

As clearly indicated in the above table, among respondents 47(64.4%) were tax auditors, 7(9.6%) were tax audit coordinators, 19(26%) and one tax directors. Hence, it is concluded that number of employees are not sufficient to perform their job when compare with number of taxpayers in Jimma zone.

Table 4.6 Year of Experience in the Current Position

Year of Experience in the Current Position					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Less than 2 years	29	39.7	39.7	39.7
	2-4 years	29	39.7	39.7	79.5
	4-6 years	8	11.0	11.0	90.4
	Above 6 years	7	7.6	9.6	98.6
	Total	73	100.0	100.0	

Source: SPSS output from survey of tax auditor staff respondents, 2016

Even though educational qualifications are fundamental, it should be supported with the appropriate experience in order to be more effective with in a relatively shorter period of time. Based on this fact, 40% of the respondents have less two years' experience. As International standard shows a good auditor should have two and above years of experience, therefore, most of the revenue office auditor staffs cannot fulfill the international standards. Hence, tax auditors with more experience tend to perform best audit practices, achieve superior audit outcomes, and gain outstanding audit success. Hence, it is concluded that revenue's office auditors' experiences were not sufficient and lack of audit experience has a negative effect on tax compliance and tax revenues.

Table 4.7 Audit experience

Audit experience before joining Tax Revenue office					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	37	50.7	50.7	50.7
	No	36	49.3	49.3	100.0
	Total	73	100.0	100.0	

Source: SPSS output from survey of tax auditor staff respondents, 201

As indicated in the above table the majority of respondents have audit experience before joining to revenue authority, so that it helps perform their job easily. Hence, tax auditors with more experience tend to perform best audit practices, achieve superior audit outcomes, and gain outstanding audit success. Then I concluded that revenue's office auditors' experiences may have a good positions and audit experience is a positive effect on voluntary taxpayers' compliance.

Table 4.8 Year of audit experience before joining the Revenue office

Years of audit experience before joining the Revenue office					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Less than 2 years	27	37.0	37.0	37.0
	2-4 years	30	41.1	41.1	78.1
	4-6 years	12	16.4	16.4	94.5
	6-10 years	4	5.5	5.5	100.0
	Total	73	100.0	100.0	

Source: SPSS output from profile of tax auditor staff respondents, 2016

Among the respondents 30(41.1%) have 2-4 years, 27(37%) less than two years, 12(16.4%) 4-6 years and 4(5.5%) 6-10 years of audit experience before joining the revenue authority. The survey result showed that a majority of respondents have less than 4 year any audit experience before they have been employed in revenue office.

Table 4.8 Year of Experience in the Current Position

Year of Experience in the Current Position					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Less than 2 years	29	39.7	39.7	39.7
	2-4 years	29	39.7	39.7	79.5
	4-6 years	8	11.0	11.0	90.4
	Above 6 years	7	7.6	9.6	98.6
	Total	73	100.0	100.0	

Source: SPSS output from survey of tax auditor staff respondents, 2016

Even though educational qualifications are fundamental, it should be supported with the appropriate experience in order to be more effective with in a relatively shorter period of time. Based on this fact, 40% of the respondents have less two years' experience. As International standard shows a good auditor should have two and above years of experience. Therefore, most of the revenue office auditor staffs cannot fulfill the international standards. Hence, tax auditors with more experience tend to perform best audit practices, achieve superior audit outcomes, and gain outstanding audit success. Hence, it is concluded that revenue's office auditors' experiences were not sufficient and lack of audit experience has a negative effect on tax compliance and tax revenues.

Table 4.9 Improve capability of tax auditors'

Revenue authority perform a continuous assessment to improve the capability or competence of staff resources, auditors and investigations					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Always	10	13.7	13.7	13.7
	Sometimes	26	35.6	35.6	49.3
	Neutral	14	19.2	19.2	68.5
	Not at all	23	31.5	31.5	100.0
	Total	73	100.0	100.0	

Source: SPSS output from survey of tax auditor staff respondents, 2016

The respondents were also asked to assert the tax auditor staff special training(s) attended relevant to current positions, majority (35.6%) of the respondents had been sometimes attended in the preparation of audit findings, 31.5% in investigators not at all and 13.7% in auditors well trained. As mentioned in the above statement auditors might have not good position in audit experience and educational qualification but without training, auditors' audit results would be lower than expected. Hence, continuing professional development is important to tax audit department as a means to ensure that auditor's skills are kept up to date. All bodies in and outside of the organization offer training activity to address specific business needs such as the introduction of new software, legislation or practices, and to address the general training needs of individual auditors to make them more effective in their posts. In order to encourage staff to self-develop and participate in the competency improvement and retain the turn over experienced tax auditors and organization should build the capacity of its employees through training for a short period of time.

Table 4.10 Number of voluntary taxpayers

The number of voluntary tax payers in your taxpayers' office					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Very high	11	15.1	15.1	15.1
	High	27	37.0	37.0	52.1
	moderate	35	47.9	47.9	100.0
	Total	73	100.0	100.0	

Source: SPSS output from profile of tax auditor staff respondents, 2016

According to above table the number of voluntary taxpayers 47.9% moderate and remaining 37% high as well as 11% very high. This implies that the number of taxpayers is still low. In order to encourage compliance, tax authorities have decided to put in place a Self-Assessment System. Under Self-Assessment System, tax officials provide taxpayers with information and education about their obligations. Taxpayers complete their tax returns accurately and submit them voluntarily with their payments.

Table 4.11 Taxpayers Attitudes toward taxation

Taxpayers Attitudes toward taxation					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	very good	45	61.6	61.6	61.6
	Good	25	34.2	34.2	95.9
	Fair	3	4.1	4.1	100.0
	Total	73	100.0	100.0	

Source: SPSS output from survey of tax auditor staff respondents, 2016

According to above table the taxpayers with positive attitude to the tax authorities or trusting tax authorities was very good to thought towards tax revenue by 61.6% and followed by 34.2 good and 4.1 fair. Taxpayers with positive attitude towards tax evasion will tend to be less complaint, whereas taxpayers with negative attitude towards tax evasion will be more compliant. Hence, it is concluding that a majority respondent suggests taxpayers with positive attitude towards taxes less complaint.

About the primary objectives of tax audit?

Many respondents suggest that tax audit is a sole treatment for compliance risk available to administrations that allows exercising effective sanctions (imprisonment and penalties and/or interest). Tax evasion can be brought to light only by a means of an effective audit program. The tax audit program provides visibility to the compliance and enforcement arm of the tax administration.

The auditing and spot-checking of records, coupled with a system of adequate penalties for detected cases of fraud, is the universal method for tax control and the prevention of tax evasion. Tax audit also helps tax agencies to achieve revenue objectives that ensure the fiscal health of the country and individual states. It derives voluntary compliance and generates additional tax collections, both of which help tax agencies to reduce the tax gap between the taxes due and the amount collected. Furthermore, a well-structured tax audit program can provide valuable support in gathering information on the health of the tax system (including patterns of taxpayers‟ compliance behavior), educating taxpayers (improving future compliance), and identifying areas of the tax law that require clarification or addressing deficiencies in the law.

Whether or not Tax Audit Enhances Taxpayers' Compliance Level

The majority of respondents strongly believe that tax audit increases the compliance level of taxpayers. They contend that accurate and timely self-assessment and compliance with tax by taxpayers is achieved only through highly visible and effective audit programs, including the consistent application of strong sanctions where noncompliance is encountered. Taxpayers must feel that there is a good chance that unreported liabilities and other forms of non-compliance have been detected during an audit.

How do you evaluate the tax audit program in enhancing additional revenue in the last 5 years?

As majority respondents showed, tax audit is performed to ensure compliance in accordance with tax law. The tax audit is also conducted to assess and collect additional tax revenue, check tax evasion or fraud, and educate taxpayers. Last five years the number voluntary compliance became increasing year to year so that when taxpayers are increased then the tax revenue also increased.

How and by what criteria audit cases are assigned to auditors?

As per the response obtained from the majority of sample respondents, taxpayers are selected for audit based on risk criteria, and selected audit cases are expected to be performed. Moreover, the case selection decision is based on the information from SIGTAS, past case histories of taxpayers, third parties such as banks and informants, and intelligence team. However, the use of SIGTAS does not provide reliable decision to assure appropriate risk selection due to absence of well-organized and clean data.

A good audit program employs strategies to optimize both the direct and the deterrent effects of audits. Effective tax audit program typically addresses coverage (percentage of taxpayers to be audited), selection of audit cases and methods (types of audits to be performed, duration of audit). Through adequate audit strategy, tax administrations must foster, and not simply enforce, tax compliance. Tax compliance can be facilitated through improving services to taxpayers by providing them with clear instructions, understandable forms, and assistance and information as necessary.

How can a decision to audit or investigate a certain taxpayer be made? Which criteria are considered for such decision?

For most of the sample respondents the primary goal of revenue authority is to manage and improve overall compliance with the tax laws, and in the process sustain confidence in the tax system and its administration. It acts as a public sanction making the extent of the administration's enforcement powers visible within the community and encouraging others to comply. Case selection through the use of risk management techniques is necessary to ensure that the audit program is fully in line with the administration's compliance strategy, and to set up the necessary audit trails to show why cases have, and have not, been made the subject of an audit. The technique involves identifying, assessing, understanding, and acting on risks that impinge on the organization's ability to achieve its objectives.

4.3 Questionnaire result for likert scale

A total of 75 copies of questionnaires were sent to tax auditor respondents. From the auditor respondents, 73 usable questionnaires were obtained (97 percent response rate). Descriptive measures of responses are presented in Table 4.12. As shown below

Table 4.12 Descriptive statistics

Descriptive Statistics					
	N	Min	Max	Mean	Std. deviation
Tax compliance	73	2	5	3.62	1.036
Comprehensive tax audit	73	3	5	4.42	.575
Field tax audit	73	3	5	4.51	.530
Desk tax audit	73	2	5	3.23	.825
frequency of tax audit	73	1	2	1.21	.407

Source: SPSS output from tax auditor staff respondents, 2016

Tax compliance

Auditors mean responses for all Questions 17-21 were 3.62 and the standard deviations was 1.0. The standard deviations (100%) for tax auditors suggest that there existed variability in ratings of the respondents. The auditors' mean responses were greater than 2.00 (average) in five of the questions indicating that tax auditors of respondents claimed that being audited has a positive effect on tax compliance**.** Hence, that tax audit to determine the taxpayer's correct tax liabilities for a particular accounting or tax period with examination of taxpayers' organizational procedures and financial records in order to assess compliance with tax laws and verify the true, fair, reliable, and accuracy of tax returns and financial statements.

Comprehensive Tax Audit

Questions 22 – 26 in the questionnaire distributed to tax auditors relate to the comprehensive tax audit parameter. Auditors mean responses for all questions were 4.42 and the standard deviation was 0.575. The mean responses to those questions in auditors groups were greater than 2.00 (average) and the standard deviations (57.5%) were indicated for tax auditors suggest that there existed variability in the ratings of the respondents. The questionnaire mean responses revealed that the comprehensive tax audit is high as might be desired to attain a tax audit department so which indicates that there is a good relation with tax compliance. It implies that audit is usually time consuming and costly to undertake, it should only be applied to those taxpayers if there is an indication of under reporting that may impact across taxes and all information relevant to the calculation of a taxpayer's tax liability for a given period.

Field Tax Audit

Questions 27 – 29 (3 items) in the questionnaire distributed to tax auditors relate to the field tax audit parameter. Auditors mean responses for all Questions were 4.51 and the standard deviations were 0.53.The mean responses of the auditors to the three questions under field tax audit were generally "agree" or "strong agree" , the three questions obtained mean responses of greater than 2.00(average) for auditors. The standard deviations of the responses were 0.53. The mean result implies that there is the field tax audit helps to improve voluntary compliance by detecting and bring to book those who do not pay the correct amount of tax. All information obtains from other sources such as banks, creditors and suppliers, to confirm items on returns. The audit is conducted at taxpayers' place of business, home, or at the office of their accountant, attorney, or other person who may represent them. The auditor tries to select the place that is most appropriate under the circumstances and most convenient for them.

Desk tax audit

A question 30 – 33 (4 items) in the questionnaires distributed to tax auditors relate to the desk tax audit parameter. Auditors mean responses for all Questions were 3.22 and the standard deviations were 0.821.The mean responses of the auditors to the four questions under desk tax audit were greater than 2.00(average) for auditors. The standard deviations of the responses were 0.821. The mean result implies that there is the desk tax audit involves basic checks conducted at the tax office when the auditor is confident that all necessary information can be ascertained through in-office examination to improve voluntary compliance

Frequency of tax audit

Questions 34 – 38 (5 items) in the questionnaires distributed to tax auditors relate to the field tax audit parameter. Auditors mean responses for all Questions were 1.21 and the standard deviations were 0.407.The mean responses of the auditors to the five questions under frequency of tax audit were generally "disagree" or "strongly disagree" , the five questions obtained mean responses of less than 2.00(average) for auditors. The standard deviations of the responses were 0.407. This shows that tax auditors are need at the required level of operational capability to conduct tax audit. Although the frequency of audit is a contentious issue, the judgment is always a delicate balance between the treat of audit to check the temptation to evade and the cost.

4.4. Correlation Analysis

Table 4.13 Correlations Coefficients

Correlations						
		Tax compliance	Comprehensive tax audit	Field tax audit	Desk tax audit	frequency of tax audit
Pearson Correlation	Tax compliance	1.000	.533	.546	.362	.684
	Comprehensive tax audit	.533	1.000	.130	.183	.512
	Field tax audit	.546	.130	1.000	.085	.077
	Desk tax audit	.362	.183	.085	1.000	-.012
	frequency of tax audit	.684	.512	.077	-.012	1.000
Sig. (1-tailed)	Tax compliance	.	.000	.000	.001	.000
	Comprehensive tax audit	.000	.	.136	.061	.000
	Field tax audit	.000	.136	.	.237	.259
	Desk tax audit	.001	.061	.237	.	.460
	frequency of tax audit	.000	.000	.259	.460	.
N	Tax compliance	73	73	73	73	73
	Comprehensive tax audit	73	73	73	73	73
	Field tax audit	73	73	73	73	73
	Desk tax audit	73	73	73	73	73
	frequency of tax audit	73	73	73	73	73

Correlation is significant at the 0.01 level (1-tailed).

Source: SPSS output from survey of tax auditor staff respondents, 2016

As it can be shown in the above correlation matrix, each variable is perfectly correlated with itself and so r=1 along the diagonal of the table. Tax compliance is positively and significantly related to comprehensive tax audit with a Pearson correlation coefficient of $r = .533$, $p<0.01$, field tax audit with $r=.546$, $p\leq 0.01$, desk tax audit with $r= .362$, $p<0.01$, however, tax compliance is positively and not significantly related to frequency of tax audit.

4.5 Normality Test

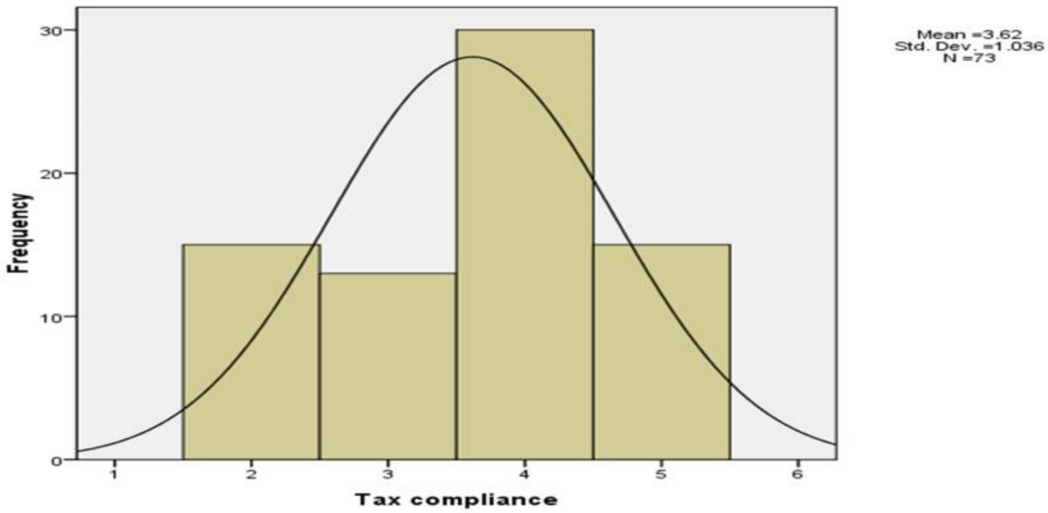
Distribution of the data is another issue in this research, whether it is normal/or not. To check the distribution of score is normal, we need to look at the values of skewness in the SPSS output. Positive value of skewness indicates too many low scores in the distribution, whereas negative values indicate a build-up of high scores (Field, 2009).Skewness measures the degree to which cases are clustered towards one end of an asymmetry distribution. In general, the further the value of skewness is from zero, the more likely it is that the data are not normally distributed (Field, 2009). In a normal distribution, the values of skewness are 0. If a distribution has values of skew above or below 0 then this indicates a deviation from normal (Field, 2009).

Table 4.14 Normality test

Statistics						
		Tax compliance	Field tax audit	Comprehensive tax audit	Desk tax audit	frequency of tax audit
N	Valid	73	73	73	73	73
	Missing	0	0	0	0	0
Skewness		-.321	-.315	-.372	-.310	1.489
Std. Error of Skewness		.281	.281	.281	.281	.281
Kurtosis		-1.033	-1.287	-.752	-1.171	.221
Std. Error of Kurtosis		.555	.555	.555	.555	.555

Source: SPSS output from survey of tax auditor staff respondents, 2016

As we can see from the above table 4.14, the skewness approaches to Zero and it is almost normal. 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).



4.6 Multicolinearity

Multicolinearity exists when there is a strong correlation between two or more predictors in a regression model. Multicolinearity poses a problem only for multiple regressions because it involves more than two predictors. Perfect Collinearity exists when at least one predictor is a Perfect linear combination of the others. According to different statistical books, one way of identifying multicolinearity is to scan the correlation matrix of all of the predictor variables and see if any correlate very highly (correlation of above 0.80 or 0.90).

Table 4.16 **Collinearity statistics**

Collinearity statistics

Model		Collinearity Statistics	
		Tolerance	VIF
1	Comprehensive tax audit	.940	1.063
	Field tax audit	.972	1.029
	Desk tax audit	.849	1.178
	frequency of tax audit	.870	1.149

a. Dependent Variable: Tax compliance

Source: SPSS output from survey of tax auditor staff respondents, 2016

Another method is to produce a Collinearity diagnostics with the use of SPSS, and 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), suggests that if the average VIF is greater than 1, then multicolinearity 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 (see table 4.16) as such no multicolinearity is observed in this model.

4.7. Autocorrelations

Autocorrelation is adjacent residuals of any two observations not being independent of each other or correlated. For any two observations the residual terms should be uncorrelated (or independent). This eventually is sometimes described as a lack of autocorrelation. This assumption can be tested with the Durbin-Watson test, which tests for social correlation between errors. Specifically, it tests whether adjacent residuals are uncorrelated. The test statistics for this can vary between 0 and 4 with a value of 2 meaning that the residuals are uncorrelated (Field, 2009). In our model the value of the test is closer to 2 (2.16).

4.8 Heteroscedastic Test

Among the OLS assumptions, the first diagnostic test which is conducted in this study is Heteroscedastic test. This theoretically expressed as by Brooks (2008, p.133) “var (ut) = σ2 < ∞; it has been assumed thus far that the variance of the errors is constant, σ2 -this is known as the assumption of homoscedasticity. If the errors do not have a constant variance, they are said to be Heteroscedastic.’’ White (1980) as cited by (Brooks, 2008 p. 134) is the most popular test of homoscedasticity. It’s concluded that there is no evidence for the presence of

Heteroskedasticity, since the p-values are considerably in excess of 0.05 at 95% confidence interval.

4.9 Multiple Regression Results

In this study, multiple regression analysis was carried out to get the predictive value of the constructs considered. Since the model is developed in such a way that each construct is being affected by other constructs, it is necessary to carry out a separate regression analysis against each variable which are considered to be affected by other variables. This was basically made to determine the linear combination of the constructs.

Table 4.17 Multiple Regression Model

Model Summary									
				Std. Error of the	Change Statistics				
Model	R	R Square	Adjusted R Square	Estimate	R Square Change	F Change	df1	df2	Sig. F Change
1	.911[a]	.829	.819	.440	.829	82.553	4	68	.000

Predictors: (Constant), frequency of tax audit, Desk tax audit, Field tax audit, Comprehensive tax audit

Source: SPSS output from survey of tax auditor staff respondents, 2016

From Table 4.17, it can be seen that the multiple R (correlation) value of 0.911(91.1%) indicates a highly positive relationship between the dependent and independent variables and R Square value for the model showed that 82.9% of the dependent variable in the model can be predicted by the independent variables. The remaining 17.1% of the dependent variable is explained by other variables which are not depicted in the model. Moreover, adjusted R square value for the model shows that 81.9% of goodness of fit of the model is high.

Table 4.18 ANOVA Analysis

ANOVA[b]						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	64.067	4	16.017	82.553	.000[a]
	Residual	13.193	68	.194		
	Total	77.260	72			

a. Predictors: (Constant), frequency of tax audit, Desk tax audit, Field tax audit, Comprehensive tax audit

b. Dependent Variable: Tax compliance

Source: SPSS output from survey of tax auditor staff respondents, 2016

Table 4.16 presents the ANOVA report on the general significance of the model. As **p** is less than 0.05, the model is significant. Thus, the combination of the independent variables (comprehensive tax audit, field tax audit, desk tax audit and frequency of tax audit) significantly predicts the dependent variable (tax compliance) (F=82.553; p <0.05).

Table 4.17 Coefficients

Coefficients[a]						
Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	-4.722	.906		-5.210	.000
	Comprehensive tax audit	.744	.147	.414	5.055	.000
	Field tax audit	.917	.157	.470	5.835	.000
	Desk tax audit	.373	.108	.297	3.450	.001
	frequency of tax audit	-.244	.216	-.096	-1.129	.263

a. Dependent Variable: Tax compliance

Source: SPSS output from survey of tax auditor staff respondents, 2016

Table 4.17 shows the Beta Coefficients that present the contributions or positive or negative relationship of each variable to the model. The **t** and **p** values showed the influence of the independent variables on the dependent variable. From this, it is clear that the comprehensive tax audit, field tax audit and desk tax audit significantly or highly affect tax compliance. However, frequency of tax audit was found insignificant in affecting tax compliance behavior of taxpayers. According to coefficient results, all predictors are positively related except frequency of tax audit to dependent variable. Thus, the model for predicting perceived tax compliance becomes:

TC = -4.772+ 0.744CTA + 0.917FTA + 0.373DTA-0.244FoTA

The *b*-values (beta coefficient) tell us about the relationship between the outcome and each predictor. If the value is positive we can tell that there is a positive relationship between the predictor and the outcome, whereas a negative coefficient represents a negative relationship. For these data all predictors have positive *b*-values indicating positive and negative relationships. So, there is a positive relationship between the predictors (comprehensive tax audit, field tax audit desk tax audit) and an outcome (tax compliance) since the value of beta coefficient is positive, whereas, frequency of tax audit has negative b-values indicating negative relationships to the outcome.

4.9 Hypothesis Test

- Based on the regression analysis of the above model, the comprehensive tax audit has a positive effect or correlation on tax compliance ($\beta = 0.744$, $p<0.05$). Hence, hypothesis 1 was supported. It implies that comprehensive tax audit has a positive effect on tax compliance. The previous study has presented there were positively related to random tax audit (comprehensive) and dependent variables (Badara, 2012).

- Based on the regression analysis of the above model, the field tax audit also has a positive effect or correlation on tax compliances ($\beta = 0.917$, $p<0.05$). Hence, hypothesis 2 was supported. It implies that field tax audit has a positive effect on tax compliance. The previous study has presented there were negatively related to cut-off tax audit (field) and dependent variables (Badara, 2012).
- There is a positive relationship between desk tax audit and tax compliance ($\beta =0.373$, $p<0.05$), providing support for hypothesis 3. It indicates that desk tax audit support has a positive effect on tax compliance. The previous study has presented there were negatively related to conditional tax audit (desk) and dependent variables (Badara, 2012).
- No significant correlation or relationships were found between the variables of frequency of tax audit and tax audit effectiveness (β = -0.0.244, $p<0.05$), thereby rejecting hypothesis4. The regression result does not support that hypothesis. It indicates that frequency of tax audit has a negative influence on tax audit effectiveness. The previous study has presented there were positively related to audit quality and dependent variables (Aaron Cohen and Gabriel Sayag, 2010 and Mihret and Yismaw, 2007).

CHAPTER FIVE

SUMMARY OF MAJOR FINDINGS, CONCLUSION AND RECOMMENDATION

The previous chapter presented the results and analysis of the study. This chapter provides the summary of major findings, conclusions and recommendations in line with the findings of the study. The chapter is structured in three sections. The first section deals with summary whereas the second section with conclusions and third section presents some recommendations suggested as a solution to problems that have been identified in the study.

5.1 Summary of the findings

The researcher has stated the following summarized finding: those are

- ✓ Most of the audit staffs are bachelor degree holders, not only this but also auditors should have more professionalism to do best audit practices, activities and responsibilities in order to enhance audit efficiency, gain audit effectiveness, receive audit performance, and audit success. Remaining of 16.4% have college diploma. Educational level attainment of respondents is good and which is related to their profession.
- ✓ Among respondents 47(64.4%) were tax auditors, 7(9.6%) were tax audit coordinators, 19(26%) and one tax directors, the number of employees are not sufficient to perform their job when compare with number of taxpayers in Jimma zone.
- ✓ Tax auditors with more experience tend to perform best audit practices, achieve superior audit outcomes, and gain outstanding audit success. Hence, it is concluded that revenue's office auditors' experiences were not sufficient and lack of audit experience has a negative effect on tax compliance and tax revenues.
- ✓ The majority of respondents have audit experience before joining to revenue authority, so that it helps perform their job easily. Hence, tax auditors with more experience tend to perform best audit practices, achieve superior audit outcomes, and gain outstanding audit success. Then I concluded that revenue's office auditors' experiences may have a good positions and audit experience is a positive effect on voluntary taxpayers' compliance.

- ✓ The tax auditor staff special training(s) attended relevant to current positions, majority (35.6%) of the respondents had been sometimes attended in the preparation of audit findings, 31.5% in investigators not at all and 13.7% in auditors well trained. As mentioned in the above statement auditors might have not good position in audit experience and educational qualification but without training, auditors' audit results would be lower than expected.
- ✓ The number of voluntary taxpayers 47.9% moderate and remaining 37% high as well as 11% very high. This implies that the number of taxpayers is still low. In order to encourage compliance, tax authorities have decided to put in place a Self-Assessment System.
- ✓ the taxpayers with positive attitude to the tax authorities or trusting tax authorities was very good to thought towards tax revenue by 61.6% and followed by 34.2 good and 4.1 fair. Taxpayers with positive attitude towards tax evasion will tend to be less complaint, whereas taxpayers with negative attitude towards tax evasion will be more compliant. Hence, it is concluding that a majority respondent suggests taxpayers with positive attitude towards taxes less complaint.
- ✓ Tax audit to determine the taxpayer's correct tax liabilities for a particular accounting or tax period with examination of taxpayers' organizational procedures and financial records in order to assess compliance with tax laws and verify the true, fair, reliable, and accuracy of tax returns and financial statements.
- ✓ The questionnaire mean responses revealed that the comprehensive tax audit is high as might be desired to attain a tax audit department so which indicates that there is a good relation with tax compliance. It implies that audit is usually time consuming and costly to undertake, it should only be applied to those taxpayers if there is an indication of under reporting that may impact across taxes and all information relevant to the calculation of a taxpayer's tax liability for a given period.
- ✓ The mean result implies that there is the field tax audit helps to improve voluntary compliance by detecting and bring to book those who do not pay the correct amount of tax. All information obtains from other sources such as banks, creditors and suppliers, to confirm items on returns. The audit is conducted at taxpayers' place of business, home, or at the office of their accountant, attorney, or other person who may represent them. The auditor

tries to select the place that is most appropriate under the circumstances and most convenient for them.

- ✓ The mean responses of the auditors to the four questions under desk tax audit were greater than 2.00(average) for auditors. The standard deviations of the responses were 0.821. The mean result implies that there is the desk tax audit involves basic checks conducted at the tax office when the auditor is confident that all necessary information can be ascertained through in-office examination to improve voluntary compliance
- ✓ The mean responses of the auditors to the five questions under frequency of tax audit were generally “disagree” or “strongly disagree” , the five questions obtained mean responses of less than 2.00(average) for auditors. The standard deviations of the responses were 0.407. This shows that tax auditors are need at the required level of operational capability to conduct tax audit. Although the frequency of audit is a contentious issue, the judgment is always a delicate balance between the treat of audit to check the temptation to evade and the cost.
- ✓ 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.
- ✓ Tax compliance is positively and significantly related to comprehensive tax audit with a Pearson correlation coefficient of $r = .533$, $p<0.01$, field tax audit with $r=.546$, $p\leq 0.01$, desk tax audit with $r= .362$, $p<0.01$, however, tax compliance is positively and not significantly related to frequency of tax audit.
- ✓ The multiple R (correlation) value of 0.911(91.1%) indicates a highly positive relationship between the dependent and independent variables and R Square value for the model showed that 82.9% of the dependent variable in the model can be predicted by the independent variables. The remaining 17.1% of the dependent variable is explained by other variables which are not depicted in the model. Moreover, adjusted R square value for the model shows that 81.9% of goodness of fit of the model is high.
- ✓ The ANOVA report on the general significance of the model. As **p** is less than 0.05, the model is significant. Thus, the combination of the independent variables (comprehensive tax audit, field tax audit, desk tax audit and frequency of tax audit) significantly predicts the dependent variable (tax compliance) ($F=82.553$; $p <0.05$).

- ✓ The Beta Coefficients that present the contributions or positive or negative relationship of each variable to the model. The **t** and **p** values showed the influence of the independent variables on the dependent variable. From this, it is clear that the comprehensive tax audit, field tax audit and desk tax audit significantly or highly affect tax compliance. However, frequency of tax audit was found insignificant in affecting tax compliance behavior of taxpayers. According to coefficient results, all predictors are positively related except frequency of tax audit to dependent variable

5.2. Conclusions

To achieve revenue objectives that well-structured tax audit program is vital to ensure the fiscal health of the country, and sustain the health of the tax system by reducing tax gap through voluntary compliance improvement and additional tax collections. Further, it might provide valuable support in identifying areas of the tax law that require clarification or addressing deficiencies in the law, and to influence compliance across the broader taxpayer community at all levels.

Thus, the study examined the effect of tax audit on tax compliance case Jimma zone revenue authority. The study was conducted to investigate the type of tax audit practice, and to frequency tax of tax audit performed that effects voluntary compliance in the Ethiopian tax system. The study adopted the quantitative approaches. Specifically, the techniques used in the study include survey with tax auditors. Finally, on the basis quantitative analysis of data, the findings of this study are concluded as follows:

The educational qualification is important on individual's attitude for knowing the tax laws and regulation and other international business transactions, the consequence of this is that an organization will be achieved it audit objective. Although, most of the audit staffs are bachelor degree holders, not only this but also auditors should have more professionalism to do best audit practices, activities and responsibilities in order to enhance audit efficiency, gain audit effectiveness, receive audit performance, and audit success.

To be an auditor a person should have deep knowledge of accounting and management theory and principles therefore, the findings indicated that an organization audit staff almost may have sufficient knowledge of their field of study. Hence, it is concluded that educational level attainment of respondents is good and which is related to their profession. But, the numbers of tax auditors were not sufficient to perform their job when compare with number of taxpayers in Jimma zone.

As International standard shows a good auditor should have two and above years of experience, therefore, most of the revenue office auditor staffs cannot fulfill the international standards. Based on this fact, 40% of the respondents have less than two years' experience. Hence, tax auditors with more experience tend to perform best audit practices, achieve superior audit outcomes, and gain outstanding audit success. Hence, it is concluded that revenue's office auditors' experiences were not sufficient and lack of audit experience has a negative effect on tax compliance and tax revenues.

The respondents were also asked to assert the tax auditor staff special training(s) attended relevant to current positions, majority (35.6%) of the respondents had been sometimes attended in the preparation of audit findings, 31.5% in investigators not at all and 13.7% in auditors well trained. As mentioned in the above statement auditors might have not good position in audit experience and educational qualification but without training, auditors' audit results would be lower than expected. Hence, continuing professional development is important to tax audit department as a means to ensure that auditor's skills are kept up to date. All bodies in and outside of the organization offer training activity to address specific business needs such as the introduction of new software, legislation or practices, and to address the general training needs of individual auditors to make them more effective in their posts.

In order to encourage staff to self-develop and participate in the competency improvement and retain the turn over experienced tax auditors and organization should build the capacity of its employees through training for a short period of time. The number of voluntary taxpayers 47.9% moderate and remaining 37% high as well as 11% very high. This implies that the number of taxpayers is still low. In order to encourage compliance, tax authorities have decided to put in place a Self-Assessment System. Under Self-Assessment System, tax officials provide taxpayers with information and education about their obligations. Taxpayers complete their tax returns accurately and submit them voluntarily with their payments. The taxpayers with positive attitude to the tax authorities or trusting tax authorities was very good to thought towards tax revenue by

61.6% and followed by 34.2 good and 4.1 fair. Taxpayers with positive attitude towards tax evasion will tend to be less complaint, whereas taxpayers with negative attitude towards tax evasion will be more compliant. Hence, it is concluding that a majority respondent suggests taxpayers with positive attitude towards taxes less complaint.

The primary objectives of tax audit tax audit derives voluntary compliance and generates additional tax collections, both of which help tax agencies to reduce the tax gap between the taxes due and the amount collected. Furthermore, a well-structured tax audit program can provide valuable support in gathering information on the health of the tax system (including patterns of taxpayers" compliance behavior), educating taxpayers (improving future compliance), and identifying areas of the tax law that require clarification or addressing deficiencies in the law.

The majority of respondents strongly believe that tax audit increases the compliance level of taxpayers. They contend that accurate and timely self-assessment and compliance with tax by taxpayers is achieved only through highly visible and effective audit programs, including the consistent application of strong sanctions where noncompliance is encountered. Taxpayers must feel that there is a good chance that unreported liabilities and other forms of non-compliance have been detected during an audit. The tax audit is also conducted to assess and collect additional tax revenue, check tax evasion or fraud, and educate taxpayers. Last five years the number voluntary compliance became increasing year to year so that when taxpayers are increased then the tax revenue also increased.

As per the response obtained from the majority of sample respondents, taxpayers are selected for audit based on risk criteria, and selected audit cases are expected to be performed. Moreover, the case selection decision is based on the information from SIGTAS, past case histories of taxpayers, third parties such as banks and informants, and intelligence team. However, the use of SIGTAS does not provide reliable decision to assure appropriate risk selection due to absence of well-organized and clean data. Case selection through the use of risk management techniques is necessary to ensure that the audit program is fully in line with the administration's compliance strategy, and to set up the necessary audit trails to show why cases have, and have not, been made the subject of an audit. The technique involves identifying, assessing, understanding, and acting on risks that impinge on the organization’s ability to achieve its objectives.

The descriptive statics shows that based on tax compliance the auditors' mean responses were greater than 2.00 (average) in five of the questions indicating that tax auditors of respondents claimed that being audited has a positive impact on tax compliance, The questionnaire mean responses revealed that the comprehensive tax audit is high as might be desired to attain a tax audit department so which indicates that there is a good relation with tax compliance, questions under field tax audit were generally “agree” or “strong agree” , the three questions obtained mean responses of greater than 2.00(average) for auditors. The standard deviations of the responses were 0.53. The mean result implies that there is the field tax audit helps to improve voluntary compliance by detecting and bring to book those who do not pay the correct amount of tax, The mean responses of the auditors to the four questions under desk tax audit were greater than 2.00(average) for auditors. The standard deviations of the responses were 0.821. The mean result implies that there is the desk tax audit involves basic checks conducted at the tax office when the auditor is confident that all necessary information can be ascertained through in-office examination to improve voluntary compliance, and the five questions obtained mean responses of less than 2.00(average) for auditors. The standard deviations of the responses were 0.407. This shows that tax auditors are need at the required level of operational capability to conduct tax audit.

The model is developed in such a way that each construct is being affected by other constructs, it is necessary to carry out a separate regression analysis against each variable which are considered to be affected by other variables. This indicated that the comprehensive tax audit, field tax audit and desk tax audit significantly or highly affect tax compliance. However, frequency of tax audit was found insignificant in affecting tax compliance behavior of taxpayers. According to coefficient results, all predictors are positively related except frequency of tax audit to dependent variable.

5.3. Recommendations

This section provides some recommendations that are suggested as a solution to mitigate the operational problems of tax audit program so that to improve voluntary compliance and to meet the revenue needs of the government of Ethiopia. Therefore, the researcher has tried to provide briefly the following recommendations:

- Revenue authority must increase the number and improve the capability of total audit staff resources to achieve required audit rate and audit quality that might improve overall compliance and future tax revenue performance. There should be appropriate need assessment and employees should be given training based on the gap identified. Auditors should be given continuous training so that their skills are kept up-to-date and relevant. Further, the authority should supply sufficient computers and other necessary audit resources for auditors. All bodies in and outside of the organization offer training activity to address specific business needs such as the introduction of new software, legislation or practices, and to address the general training needs of individual auditors to make them more effective in their posts.

- The relevant tax authorities should improve the public awareness of the importance of tax payment and the effect of non-tax payment; So that by educating the taxpayers about their right and responsibility, level of compliance can be improved and non-compliance will be minimized. In order toward number voluntary compliance create a good work environment by encouraging relationship among tax auditors and taxpayers. All levels of taxpayer community should feel that their underreporting and other noncompliance activities have a good chance of being detected due to high probability of being audited. Revenue authority must adoptive tax compliance through improving services to taxpayers to create fair and smooth tax system with high compliant taxpayers.

- The authority should make SIGTAS accessible to tax auditors, and should fully utilize it for risk assessment purpose. There must be also a specified time range within which the taxpayers are expected to present their report or information, to enforce especially non-volunteer taxpayers, and to get the necessary information as required for audit activities.

- The Revenue Authority should use full risk-based audit selection strategy that rewards taxpayer compliance with a light touch approach and openly demonstrates that valuable taxpayer resource is being deployed against the non-compliant. The tax audit program that properly identify risks and focus on customers who are not complying should be implemented. Taxpayers who are complying should benefit by not being subjected to harassment and unnecessary audit activity that in turn minimizes costs of administration and reduces taxpayer compliance costs.

5.4. Future Research Implications

The results will have important implications and is believed to be helpful for all revenue office in Jimma Zone in particular and in Ethiopia in general. 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 effects I couldn’t touch other dimensions of tax compliance. Thus, further research needs to contain more desirable dimensions, in order to gain better insight.

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APENDIX

QUESTIONNAIRE

Jimma University

College of Business and Economics

MSc in Accounting and Finance program

Questionnaire to be filled by Tax Auditors

This study is entitled, the impact of tax audit on tax revenue the case of Jimma city revenue authority. The purpose of the study is to analyze the impact of tax audit practice and its significance in tax revenue generation. Responding to this questionnaire may not take much time. Any information provided would only be used for academic purpose. As a result, it would be kept confidential and utmost secrecy would be maintained. I thank you in advance for your cooperation

For further information, please contact Tolossa Damissie by the following address:

Tel.: +251 923587341
E mail: tolizgreat@gmail.com

Please provide your responses by marking a tick (√) in the relevant boxes.

Part –I: Background information

1. Gender: 1. Male ☐ 2. Female ☐

2. Age:

1. Less than 30 years ☐ 2.30-40 years ☐ 3. 40-50 years ☐

4. above 50 years ☐

3. Highest level of education achieved:

1. Certificate ☐ 2.Diploma ☐ 3. BSc/BA ☐ 4.MSc/MA ☐

If others, please specify ____

4. Field of study:

1. Accounting ☐ 2. Economics ☐ 3.Management ☐

If others, please specify ____

5. Current job occupation:

1. Tax auditor ☐ 2. Tax audit coordinator ☐ 3.Tax audit director ☐

4. Tax assessors ☐

If others, please specify____

6. Did you have any audit experience before you joined the Jimma revenue authority?

1. Yes ☐ 2. No ☐

7. If your answer to question #6 is yes, how long did you work as an auditor?

1. Less than 2 years ☐ 2.2-4 years ☐ 3.4-6 years ☐ 4. 6-10 years ☐

5. above 10 years ☐

8. How long did you work with your current job occupation in the Jimma revenue authority?

1. Less than 2 years ☐ 2.2-4 years ☐ 3. 4-6 years ☐ 4.Above 6 years ☐

9. Does revenue authority perform a continuous assessment to improve the capability or competence of staff resources, auditors and investigations in particulars after you occupied the current position and engaged in the tax audit and related activities?

1. Always ☐ 2.Sometime ☐ 3. Neutral ☐ 4.Not at all ☐

10. How do you express the number of voluntary tax payers in your taxpayers' office?

1. Very high ☐ 2. High ☐ 3.Moderate ☐ 4.Low ☐ 5.Very Low ☐

11. What do you think about taxpayers thought towards tax?

1. Very Good ☐ 2. Good ☐ 3.Fair ☐ 4. Poor ☐ 5.Very Poor ☐

12. State the primary objectives of tax audit?

____

____

____

_____

13. Do you think that tax audit enhance taxpayer's compliance level? If yes, how explain it?

____

____

____

_____

14. How do you evaluate the tax audit program in enhancing additional revenue in the last 5 years?

____
____
____
______

15. How and by what criteria audit cases are assigned to auditors?

____
____
____
______

16. How can a decision to audit or investigate a certain taxpayer be made? Which criteria are considered for such decision?

____
____
____
______

Put a "√" mark in one of the columns provided for each possible indicator. Use the scales: Strongly agree (5), Agree (4), Neutral (3), Disagree (2), strongly disagree (1)

Part II: Questions regarding tax compliance

	In terms of honesty and loyalty of registered taxpayers, how do you guess the following? (tick all that apply)	**Strongly Agree**	**Agree**	**Neutral**	**Disagree**	**Strongly Disagree**
17.	Providing necessary information about purpose of taxation to taxpayers regarding the provision of services and utilization of tax revenues					
18.	Educating the taxpayers and Conducting consultation session can minimize tax evasion by taxpayers.					
19.	Tax payers should evade tax if a large portion of the money collected from tax is wasted.					
20.	Evading tax due to lack of ability to pay should not be considered as crime/problem					
21.	Taxpayers sell goods and services without tax invoice.					

PART III : Questions regarding Comprehensive tax audit

22.	Requests for documents from the taxpayer are made, as appropriate.					
23.	Required filing and payment checks are performed					
24.	Thorough analysis of income and application of law; a correct determination is made of income that is subject to tax					
25.	Timeframes on audit actions are efficient and in accordance with standards.					
26.	The confidentiality of the taxpayer's return and information are appropriately protected.					

PART IV : Questions regarding field audit

27.	Audits are usually conducted at the taxpayers place of business during normal work hours					
28.	Audit appointments are made with the owner or corporate officer responsible for tax compliance					
29.	I work with anyone designated by the taxpayer.					

PART V : Questions regarding The desk audit

30.	I usually Check all information on income and expenses as well as various types of claims made by a taxpayer in his/her income tax return.					
31.	Specific desk audit cases can be referred for field audit action					
32.	Examination of records will only be carried out at the taxpayer's business premises					
33.	I always Contact taxpayers to obtain additional information and clarify issues					

PART VI: Questions about frequency of tax audit.

34.	Every business is audit once a year					
35.	Every business is audited once within two years					
36.	Every business is audited once within six months					
37.	Tax auditors or investigators usually perform work frequently					
38.	Taxpayers that were audited in the previous audit period and found no tax liability during an audit is not selected for the tax audit					

Thank you for your cooperation