THE ROLE OF TAX AUDIT ON TAX COMPLIANCE BEHAVIOR OF TAX PAYERS AT MINISTRY OF REVENUE JIMMA BRANCH

A Thesis Submitted To The School Of Graduate Studies Of Jimma University In Partial Fulfillment Of The Requirements For The Award Of The Degree Of Master Of Science(Msc) Program in Accounting And Finance

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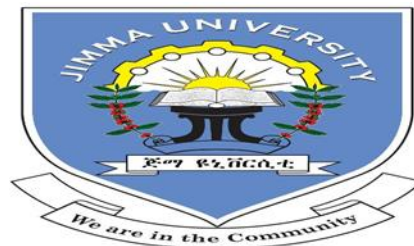
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CERTIFICATE

This is to certify that the thesis entitles *"the role of tax audit on tax compliance behavior of tax payers",* In the case of Ministry of Revenue Jimma Branch Office submitted to Jimma University in partial fulfillment of the requirements for the award of MSc. in Accounting and Finance has been undertaken independently by Mr. *Sabir Shetemam,* under our guidance and supervision.

Therefore, we hereby declare that no part of this thesis has been submitted to any other university or institutions for the award of any degree or diploma.

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DECLARATION

I hereby declare that this thesis entitled *"the role of tax audit on tax compliance behavior of tax payers"*, *At Ethiopian Ministry of Revenues Jimma Branch Office* has been carried out by me under the guidance and supervision of *Mohammed Sultan (Ass. Professor.)* And *Mrs. SerkalemTesfaye*.

The thesis is original and has not been submitted for the award of any degree or diploma to any university or institution.

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ABSTRACT

The main issue faced by all tax authorities is that it has never been easy to persuade all taxpayers to comply with the regulations of a tax system. Business sector is one of the fastest growing sectors of the economy in Ethiopia. Based on this, the study examined the role of tax audit on compliance behavior tax payers at MOR, Jimma branch office. The study objective was to assess the role of tax audit on compliance behavior of taxpayers at Ethiopian Ministry of Revenue Jimma branch, It specifically investigated the effect of tax audit, the role of tax audit on compliance behavior of tax payers and the resource allocation for tax audit effects on tax compliance in MOR, Jimma Branch office. Causal research methodology was used for the study and a close-ended questionnaire was used to gather the needed data and an analysis was carried out through correlation matrix and multiple regressions. The study discovered that the effect of tax audit, the role of tax audit on compliance behavior of tax payers and the resource allocation for tax audit had a positive significant effect on tax compliance in MOR, Jimma Branch office. The role of tax audit on compliance behavior of taxpayer was the most significant predictor out of all the predictor variables. The study was concluded that tax audit could engender tax compliance in Jimma branch office. Therefore the study recommended that Jimma Branch office should intensify tax audit through the employment of more competent staffs and intermittent training in order to increase tax compliance level in the branch office, s Jimma branch office should give priority to unaudited tax payers when selecting tax payers for audit. Additionally the branch office should allocate good and suitable office, sufficient qualified human resources, internet services and technology needed for tax audit.

Key words: *Tax, Tax Audit, Tax Compliance, Role of tax audit, MOR*

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I

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List of Acronyms and Abbreviations

ANOVA: Analysis of variance
SIGTAS: Standard Integrated Government Tax administration System
SPSS: Statistical package for social science
VAT: Value Added Tax
DTRD: Domestic Tax Revenue Division
MOR: Ministry of Revenue
ETB: Ethiopian Birr
GAAS: Generally Accepted Audit Standard
GDP: Gross Domestic Product
PLC: Private Limited Company
OECD Organization for Economic Co-operation and Development
RRA Rwanda Revenue Authority
DTRD Domestic Tax Revenue Division
GRA Ghana Revenue Authority
TOT: Turn Over Tax
WHT: Withholding Tax

CHAPTER ONE

INTRODUCTION

1.1 Back ground of the study

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

Tax is one of the most important sources of revenue to the government. It is a compulsory (levy) payable by an economic unit to government without expectation of direct and equivalent return from the government. Tax is main income for the state to finance public expenditure and other cost of public good. Tax revenue is collected from the whole society with differentiated intensity inspired by the consideration of justice efficiency and effectiveness (Gabriel, 2006).

In developing countries like Ethiopia, promoting development and creating a well-fare system for people is huge responsibility of the government. These huge responsibilities require a huge amount of money and this money mainly comes from different kinds of taxes. That is why tax is considered to be the backbone of a country. Tax is a system in which the government collects money from the public in many different ways and then distributes it to the public in different forms (MOR, Audit manual 2019)

However, usually tax is vulnerable for evasion and fraud, which has become the concern of many countries. As Baurer(2005) noted tax fraud is a deliberate misrepresenting or concealing the true state of their affairs to the authorities to reduce their tax liability. It typically includes

under reporting profits, overstating cost and expenses, failure to register or file tax declarations, hiding taxable receipts coming from the production and distribution of real products and services, and abuse of tax return through fictitious transactions and trades. Thus, tax audit is needed to increase taxpayer compliance.

Tax audit is an examination of whether a taxpayer has correctly assessed and reported their tax liability and fulfilled their obligations. This examination can only proceed if it is supported by a robust legal framework, otherwise, it would be subject to challenge (MOR, Audit manual, 2019)

Tax audit is a detailed exploration into the activities of a taxpayer to determine whether he/she has been correctly declaring the tax activities (OECD 2006a). Tax audit play a critical role in the administration of tax laws through their detection of non- compliance and by serving as a deterrent to the wider population of taxpayers who might otherwise engage in non-compliant behavior (Keen and smith ,2007).

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

Tax is central for the development a nation through the provision of resources that is helpful to finance the project intended by government. The government of Ethiopia has several options to fiancé its public expenditures and pursue its fiscal policy which are tax and non- tax sources. Among others, tax with customs collections is an importance source of revenue for every government and is a heart to a country's well-being (Damme et al., 2008).

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

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

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

MOR, Internal audit manual stipulates that the main vehicle used by tax audit section that gives effect to their audit plan is through the application of the collective experience and knowledge of the process owner. An auditor will assess the declaration of taxpayers for all taxes and will select taxpayers for audit to test compliance with the law. When the analysis of taxpayers' compliance

patterns justifies for the audit and investigation of taxpayers file, the revenue office either applies spot or comprehensive audit to test the reliability of the tax affairs dealt with. The choice and preference of the one to another is dependent on the magnitude of tax risk associated with the case and the number and qualification of the existing audit staff. Finally, the assessment made will be prepared in assessment notification and be delivered to the taxpayer. A taxpayer, who objects to an assessment, may appeal to the tax appeal committee up on fulfilling certain requirements.

In Ethiopia, the modern tax system is a product of more than half a century of experimentation in legislation and tax reform. Since its humble beginnings in the 1940s, the modern Ethiopian tax system has developed and evolved by fits and starts as the needs for revenue arise, as governments change and as the economy and international situations shift (Tadesse, 2012, cited in Worku 2016).

In Ethiopia the constitution of Federal Democratic Republic of Ethiopia (FDRE) 1994, pursuant to decentralized government structure, the power to levy and collect taxes from income is assigned to both the federal and regional states. The MOR, previously called ERCA, is responsible to levy and collect at the federal level.

.Currently MOR consists twelve active branches five in Addis Abeba, One branch in Diredawa city administration and the other branches are located in regional cities namely Adama, Bahir Dar, Makele, Jimma, Kombolcha and Hawasa. Jimma Branch Office is one of the branch of Minister of revenue and the taxpayers enroll in this branch are private limited company in south western of Ethiopia particularly, western Oromia, some part of SNNP, Gambela region and Benishangulgumuz region. These taxpayers are obliged to prepare annual financial statements both income statement and balance sheet. This study was conducted to assess the role of tax audit on tax compliance behavior of tax payers at MOR, Jimma branch office.

1.2 Over view of Tax Revenue, Tax Compliance and Tax Audit at MOR Jimma Branch

The primary goal of revenue authority in addition to revenue collection tax authority has a responsibility to maintain or keep society from illegal actors which included tax fraud control. Due to those objectives, Ethiopian Revenues Minister was established in 2008 (by proclamation number 587/2008) through the merger of former Minister of Revenues, Federal in land Revenues

Authority and Ethiopian Customs Authority. According to the proclamation formation of MOR, government of Ethiopia took the commitment to establish a modern tax administration which aims to motivate legal business activities by encouraging voluntary compliance, combating smuggling, tax evasion and fraud as well as illegal activities like money laundering which have negative impacts on economic development and equity. According to the domestic tax audit manual, head quarter of MOR, segmented its taxpayers into large tax payer's office, medium taxpayer's office, and small taxpayer's office. Reasons for the merge of the foregoing administrations into a single autonomous authority were varied and complex.

Some of those reasons include: to provide the basis for modern tax and procedures that results delay and cost-inefficient, be much more effective and efficient in keeping and utilizing information, promoting law and order, resource utilization and service delivery, and transform the efficiency of the revenue sector to a high level. The main objectives of MOR include establishing modern revenue assessment and collection system; and provide customers with equitable, efficient and quality service, causing taxpayers voluntarily discharge their tax obligations, enforcing tax and customs laws by preventing and controlling contraband as well as tax fraud and evasion, collecting timely and effectively tax revenues generated by the economy and providing the necessary support to regions with a view to harmonizing federal and regional tax administration systems. Therefore, Jimma branch is one of the MOR, branches which were established in 1995 E.C located in Oromia regional sate Jimma zone and far from Addis Ababa 346 km by having four tax centers at Nekemt, Assosa Mizan and Gambela branch which has the same responsibility to collect revenues of the branch.

To solve these depressed problems the authority deals so many business process improvements like customer service business process, tax assessment collection and enforcement process and tax audit process owners (ERCA, 2013). MOR, Jimma branch is used information technology for modernizing domestic tax administration. Since 2003, Ethiopian government implemented information technology systems to supports tax administration's functions and procedures. The modern information technology applications employed in MOR, JImma branch to administer the taxation which administers domestic taxes. Using modern technology has an impact on the efficiency of tax administration. Efficiency of tax administration can be measured by the amount of costs incurred, tax clearance time and effectiveness of revenue collection. In this context, MOR, JImma branch uses risk based tax auditing system to assess accounting and other

documentary evidences to check the tax return prepared by taxpayers. By showing the detailed computational working for different heads of income or items in tax return and other required evidential statements regarding allowances and disallowance for deductions and all these are to be followed by an audit report giving the auditor's opinion about the degree of correspondence between the information content in the tax return and the regulatory provisions of the existing tax laws as well as the level of taxpayers apply the tax laws and follows good internal controlling systems while preparing tax returns for tax authority.

1.3 Statement of the Problem

Tax audit like any other audit is a compliance check. The difference is it seeks to confirm whether the taxpayer has complied with tax legislation and the obligations provided thereof. Accordingly, audit procedures must be planned in manner that seeks to assess the level of taxpayer compliance with the tax laws. That said tax law sits on an accounting framework which is what taxpayers use to provide the financial position of their enterprises. Accordingly, tax audit envisages an in-depth understanding of the taxpayers accounting system in order to determine whether tax account fully complies with the provisions of tax law since any adjustments during audit will be made on the basis of the taxpayer's declaration (MOR, audit manual, 2019). However, in Ethiopia where tax revenue is the major source of internally generated revenue, tax compliance and revenue has been relatively low (Olaoye&Ogundipe, 2018). Thus, tax compliance mean the willingness of taxpayers to remit accurate, satisfactory and compute returns in conformity with tax laws and regulation for adequate revenue of the expected tax return accurately and truthfully as and when due peculiar to a particular tax jurisdiction without being forced or coerced to remit returns.

Most of the previous studies discussed the issue of tax audit in different perspectives and in different study areas. Mesfin (2008) discussed tax audit in relation to its significance on revenue generation and concluded that tax audit practice was not efficient due to lacks of taxpayers' awareness on proper tax audit system and unethical practice of tax officers while assessing the tax liability. According to Mutarindwa and Rutikanga J.(2014),in Rwanda, taxes are considered as a source for growth and development and the tax revenues audit was a critical issue to the government of Rwanda and also understood that without competent staff; tax audit activities is not achieved their stated objectives. The study found out that taxpayers 'attitudes towards tax

audit was still negative and results showed that the tax audit greatly influences the tax revenues collected by Rwanda Revenues Authority as it was indicated and identified in the study. The findings revealed that, tax audit discourages and helps to identify evasion and fraud in taxation procedures due to deep investigation and analysis of taxpayers' financial statements until they find out the taxpayers who underreport their income. Thus, this leads to tax revenues growth because non-compliant taxpayers pay penalties and fines plus taxes due.

According to Yonas(2016), on the assessment of taxpayers' attitude in Southern parts of Ethiopia, Gedio zone analyzed the important of tax audit on effectiveness of tax administration. According to this creating audit presence, or the extent to which taxpayers believe that they might be audited, is an important factor in improving voluntary compliance, especially in areas with high noncompliance. The purpose of establishing audit presence is not just to make short-term revenue gains, but also to create a credible threat of audit that encourages taxpayers to voluntarily comply. However, majority of them stated that there was an ethical problems and professional incompetence with the tax auditors to conduct tax audit effectively. Recently in Ethiopia Elias(2014) studied on factors affecting tax audit effectiveness a study on Bahir Dar city administration and also Adugna (2015) on tax audit practice in case of Adama city administration concluded almost the same problems which faced lack of tax audit effectiveness in their study areas.

However, most of the previous researches have been done only focus on tax audit practice and effectiveness without considering the perceptions or the role of tax audit on taxpayers compliance behavior. Then, the researcher tried to focus on the role of tax audit on taxpayers compliance behavior at Jimma branch office which was not included in the previous researches have been done by different researchers focusing on the role of tax audit on taxpayers compliance behavior. At this branch tax audit department was not effective and efficient in tax audit activities according to year to year tax audit performance (based on annual performance reports of MOR Jimma branch). Those problems were raised from tax authority, tax auditors are often required to interpret complex laws, carry out intensive examinations of taxpayers' books and records according to audit standards and tax laws. However, as country tax audit is the hot issues and not achieved the expected objectives when implemented audit program. So that Jimma branch was one of the MOR branch and not free from this problem and needs farther study to solve the problem specifically as a branch level.

Therefore, as different empirical study shows, the reason behind such poor tax audit performance was lack of competent auditors to apply tax audit work smoothly which was base for this study. Additionally the researcher have a direct experience in tax audit area for the 4 years at MOR, that is why the study focuses on basically assesses the role of tax audit on tax compliance behavior of taxpayers at the branch office .

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

1.3 Research Questions

1. What is the effect tax audit on tax compliance at Ethiopian Ministry of Revenue Jimma branch office?

2. What are the roles of tax audit on tax compliance behavior of tax payers in Ethiopian Ministry of Revenue Jimma branch office?

3. How does resource allocation forTax audit function effects tax compliance? At Ethiopian Ministry of Revenue Jimma branch office?

1.4 Objectives of the Study

1.4.1 General Objective

The main objective of this study is to assess the role of tax audit on compliance behavior of taxpayers at Ethiopian Ministry of Revenue Jimma branch

1.4.2 Specific Objectives

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

1. To investigate the role of tax audit on tax compliance behavior of tax payers at Ethiopian Ministry of Revenue Jimma branch office.

2. To assess the role of resource allocation for Tax audit function on tax compliance effect in Ethiopian Ministry of Revenue Jimma branch office

1.5 Significance of the Study

The primary use of these research is to the MOR, specially the study result is expected to be useful for Jimma branch office mainly by identifying the role of tax audit on compliance behavior of taxpayers in the branch office to decrease tax evasion that causes serious amount of tax loss for the country and increasing tax compliance so that the tax branch office strive to transfer taxes to state budget and to ensure tax control and learn some lessons and build some corrective measures for the weakness based on the recommendations to be forwarded. Hence, this will have a significance to provide relevant information to policy makers and other concerned bodies in addressing tax voluntary compliance problems. Besides on the study is believed to prompt the importance for undertaking further reach on the area as the tax payers voluntary compliance.

1.6 Scope of the Study

The study attempted to assess the role of tax audit on compliance behavior of taxpayers in the case of Jimma branch office based on the feedback received from the branch office tax auditor and tax audit managers. The study focuses on Jimma branch and the study excludes other branches of Ministry of Revenue. Moreover, the study will conceptually be limited to investigate the role of tax audit on taxpayer's compliance behavior in the branch office mainly using survey instrument.

However, since the general guidelines, application procedures and practice are the same throughout the country; it is supposed that this study can fairly reveal the tax audit on tax compliance behavior of taxpaters in the revenue of the country.

1.7 Organization of the Study

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

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

1.8 Limitations of the Research

The major limitations encountered in the course of this study were data collection took some time from few selected sampled respondents since the nature of the job requires travel. Similarly the study measurement was gathered in the field that tax audit was not the only means through which tax compliance level could be improved.

CHAPTER TWO

LITERATURE REVIEW

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

2.1 Theoretical Review

2.1.1 Introduction

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

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

have important place in prevention and decrease of tax evasion activities and to try and analyze the determinants affecting aforementioned effects.

2.1.2 Tax Revenue

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

2.1.3 Nature and Objectives of Audit

Gupta, et.el (2004) generally, audit involves examination of books accounts, and financial statements with the main objective of determining whether this information reflects the economic events that occurred during the accounting period. Similarly, Basu (2006) explained that the original objective of an audit was principally to see whether the personal involved in accounting had properly accounted for the receipts and payments of cash. In other worlds, the objective of audit was to find out whether cash had been embezzled and if so, who embezzled it and what amount was in involved.

Thus, it was only an audit of cash book. But, at present, the main aim of audit is to find out, after going through the book of accounts, whether the balance sheet and profit and loss account are drown up accordingly and whether they represent a true and fair view of the state of the affaire of the concern. This is possible when the auditor verifies the accounts and the statements while performing his duties, the auditors also must discover errors and frauds.

2.1.4 Definition of Tax Audit

As per the Domestic Tax Audit Manual of ERCA, (2014), tax audit is a systematic examination of business relevant commercial system to determine whether a taxpayer's declaration states the tax liability correctly and complying with the provisions of the tax laws and related subsidiary legislations. Auditing involves examination of financial statements books of accounts and vouchers of a taxpayer by tax auditors to ascertain whether the taxpayer has accurately considered revenues and expenses when determining the taxes shown in the declarations as per the requirements of the tax laws. It also involves other approaches such as observation of premises, direct monitoring of receipts in cash businesses, use of mark-up techniques and analysis of key ratios.

2.1.5 Objective of Tax Audit

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

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

2.1.6 Tax Auditing Mechanism

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

obligation of tax payers, provides informative brochures and states that company may ask her question to the auditor (Ganglet.al.2014).

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

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

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

2.1.7 Role of Tax Audit

As per OECD (2016), the primary goal of a revenue body's compliance activity is to improve overall compliance with their tax laws, and in the process instill confidence in the community that the tax system and its administration are fair. Instances of failure to comply with the law are inevitable whether due to taxpayer's ignorance, carelessness, recklessness and deliberate evasion, or weakness administration. Historically, most taxpayer-driven failure or compliance risk has been addressed nearly exclusively in terms of regulatory enforcement through an audit based approach. In more recent time, revenue administration have come to realize that the factors underlying taxpayers compliance behavior in any specific risk area are varied and often complex, and are unlikely to be treated successfully with a single action strategy, particularly one based

exclusively on regulatory enforcement action such as audits. Nevertheless, audits remain a major tool for tackling non-compliance. Tax audit is an examination of whether a taxpayer has correctly assessed and reported their tax liability and fulfilled other obligations. Tax audits are often more detailed and extensive than other types of examination, such as general desk checks, compliance visits/reviews or document matching programs.

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expressed that even a friendly version of deterrence may decrease tax compliance and damage internal motivation (Ganglet.al., 2014).

2.1.9 Types of Tax Audits

2.1.9 .1. Comprehensive Audit

Comprehensive audit is all encompassing in scope and entails in –depth examination of all information relevant to the calculation of a taxpayers tax liability for all tax type for a given period. Given the broad scope, comprehensive audit is typically costly to undertake in terms of time and resources, and thus reduces the rate coverage of taxpayers that could otherwise be audited. Comprehensive audit is classified into very complex, complex and simple. This classification would depend on a number of factors ranging from size, group, trade or profession, volume of records or transactions, nature of business to location. In practice, the scope and nature of any comprehensive audit activity to be undertaken would on the available evidence pointing to the likely risks of non-compliance and a taxpayer's history. An audit may also be classified and justified as complex or very complex because of the taxpayers financial and/or business activities which are unusually complex (MOR, Audit Manual, 2019).

2.1.9 .2. Issue Audit

This is a limited scope audit that may be confined to specific issues in a tax return and/or a particular tax type. The objective here is to examine key potential risk areas of non-compliance. This type of audit is recommended because it consumes relatively fewer resources than comprehensive audits and allows for an increased coverage of the taxpayer population. The audit would normally focus on a single tax type, period or item. Where a field issue audit escalates the case into a comprehensive audit, the team coordinators concurrence must be sought and procedures prescribed for comprehensive audits adhered to. Issue audit may be conducted either on the desk or in the field (MOR, Audit Manual, 2019).

a) Desk Issue Audit

Desk issue audit can be conducted in relation to specific issue(s) of a taxpayer or enterprise when the auditor is confident that all the necessary information can be ascertained by conducting an

examination in the office. All the required or relevant information or data may be accessed from internal sources or official reference without the need to contact the taxpayer (MOR, Audit Manual, 2019).

b) Field Issue Audit

Ibid, this is the escalation of a desk issue audit into a field activity or exercise. It is important to remember that the audit is limited to key issues of compliance or to a tax type or period. Field issue audit is commonly used in examining whether a taxpayer has met his/her obligations in respect of PAYE, VAT/TOT and Excise tax, withholding Tax or income Tax normally for a specified tax period. Care should always be taken to guard against being derails and thus progressing field issue audits into comprehensive audits. The objective of the field issue audit is to focus on a shorter period for a single tax item for a faster and effective outcome. This audit type should therefore be the commonest and most effective audit type to be utilized for faster results (MOR, Audit Manual, 2019).

2.1.9 .3. Desk Audit

A Desk audit is used as a preliminary examination of declarations analyzing accuracy, completeness, ratios and crosschecking information to determine if further audit or investigation is warranted. By implication, return which are stated on certain level of risk (MOR, Audit Manual, 2019).

2.1.9 .4. Back duty audits
a) Special Audit Projects

Audits can be organized as a separate project for a targeted or specific group of taxpayers in a given period to verify compliance in the sector. These audit projects may cover an industry, trade, profession or a line of businesses. They would consist of specific checks and are used to address a particular risk or to establish the degree of non-compliance in a sector, industry or trade. For this audit type to be effective, all taxpayers in the targeted sector must be considered and handled within the shortest time possible (MOR, Audit Manual, 2019).

b) Advisory Visit Audits.

All registered taxpayers or businesses need to be visited with the aim of offering advice on tax obligation and the taxpayer's rights, and any other developments pertinent to the tax system and administration. It is highly recommended that tax auditors carry out these audits to keep abreast with compliance trends of their taxpayers and offer timely advice to improve compliance. These audits are expected to be spontaneous and hence should not take more than a day (MOR, Audit Manual, 2019).

c) Refund Audits

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

d) Investigation Audit

Investigation audit involve the most serious cases of non-compliance with criminal implications. Require special skills in investigation from witnesses and preparing briefs for courts (MOR, Audit Manual, 2019).

2.1.9 .4. De-Registration Audits

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

2.1.10 Tax Compliance

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

2.1.10.1 Tax Compliance Determinants

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

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

Accordingly, this study is supported by the theory of reasoned action developed (TRA) by Fishbein and Ajzen (1975) and the theory of planned behavior developed by Ajzen in (1988). The theory of reasoned action predicts behavioral intensions where behavioral intentions are a function of an attitude toward the behavior and subjective norms surrounding the performance of the behavior. Attitude toward the behavior is defined as the individual's positive are negative feeling about performing behavior. It is determined by assessing ones belief regarding the consequences of performing the behavior. Subjective norm is defined as an individual's perception of whether people important to the individual think the behavior should be performed. These people may include supervisors, co-workers, community leaders, family members, friends, and other person. While reasoned action developed has been applied in many areas, it has limitation of assuming when people form an intention to act then they will be free to act. In practice, environmental constraints will limit the freedom to act. To overcome the limitation of TRA, the theory of planned behavior (TPB) was proposed. As an extension of TRA, TPB posits that a given behavior is directly influenced by behavioral intentions. Which are in turn can be

predicted by attitude toward the behavior, subjective norm regarding the behavior and perceived behavioral control. This theory is relevant to this study in explaining the relationship between the taxpayers and the tax authority. This theory underpins that awareness of tax audit goes a long way to predict the compliance level of taxpayers.

2.1.11 Resources for Tax Audit Function

Revenue bodies typically have at their disposal a finite level of resources to conduct the day to day business of revenue administration. Given the many tasks to be performed and the inevitable decisions that must made on priorities, a process is required to determine how those resources are to be allocated. In some member countries, revenue bodies have relatively limited discretion as to haw staff resource are to be spread across the various areas of work while in other broad discretion is given to senior management on how resources are to be allocated. (Eugene,2011) Regardless of how the overall budget of resource for audit work is arrived at a key issue for audit function is how those resources have been spread over the various segments of tax payers. Determining how resources might best be allocated is a key element of a revenue body's strategy for compliance improvement and is dealt with in the following section (1) Forum on Tax Administration's Compliance Sub-group and (2) Tax Administrations in OECD and Selected Non-member Countries: Comparative Information Series (2006).

2.1.12. The Role of Tax Audit on Taxpayer compliance behavior

Tax audit is one of the most effective policies to protect the behavior of tax evasion. The level of tax audit can be determined by two elements; one is how many taxpayers are selected for audit and the second is how much intensive the audit is. The first element is easily measured by the number of audited taxpayers divided by the total number of taxpayers. However, the second element is so difficult to measure due to no published information about the process of tax audit. Tax audits, audit rates and prior audit experience have been ambiguously discussed in relation to tax compliance. Some studies claimed that audits have a positive impact on tax evasion (see Shanmugam, 2003; Dubin, 2004). Butler (1993) also found that tax audit can change compliance behavior from negative to positive. These findings compliments 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. Beron et.al. (1988) found a contradictory result. They reported that audits did not significantly correlate with evasion for all groups they studied.

2.2 Empirical Literature Review

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

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

Samuel and De Dien (2014) studied the impact of taxpayer's financial statements audit on tax revenue growth in Rwanda in the broader perspective. Survey questionnaires as primary data collection instrument were distributed to all audit officers of RRAequaling to 100 staff and followed both analytical research design and secondary data included reports from RRA from 2006 to 2010. The researchers also examined preliminary results on the relationship between financial statements audit and tax growth. Finding indicates that the tax audit increases the compliance rate which would impact positively the tax revenues to be collected by RRA. In addition, the researchers finding revealed that. Tax audit discourages and helps to identify evasion and fraud in taxation procedures due to deep investigation and analysis of taxpayers financial statement until they find out the taxpayers who underreport their income thus, this lead to tax revenues growth because non-compliance taxpayers pay penalties and fines in addition to

the principal amount of taxes due, Finally, the researcher concluded that if there are the payments of penalties and fines in the case of noncompliance, all taxpayers in in general try to conform to tax laws even those are not audited.

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

2.2.1 Local Empirical Study

Mebratu, (2016) studied impact of tax audit on improving taxpayers compliance evidenced on empirically from ERCA at federal level. The researcher used secondary data through reviewing and detail investigation of ERCA data from 2001/02 to 2014/15. Besides, the researcher applied inferential statistics methods to analyze the collected data. The result of the study showed that there is strong association between probability of audit detection and the number of audited files on the level of tax compliance. Thus, the study revealed that there is a strong association between probability of audit detection and higher number of audited files, the higher compliance level

Mulugeta, (2019) studied the effect of tax audit on tax compliance in ERCA at East Addis Abeba tax payers branch. The researcher used primary data by interviewing the tax auditors and

secondary data through reviewing and detail investigation of ERCA data from 2013/14 to 2017/18. Besides, the researcher applied descriptive and inferential statistics methods to analyze the collected data. The result of the study showed that tax audit has significant positive effect on tax compliance and revenue in east Addis Ababa taxpayer's branch office. Thus, the study revealed that there is a strong association between types of tax audit and tax compliance and revenue in the branch.

According to Melat (2016) tested the effects of management support on tax audit effectiveness in case of ERCA large tax payers, top management support has a contribution for the raise of tax audit effectiveness which is also supported by the studies of (Mihret, 2011). This finding supports the argument that large taxpayer's offices have low staff expertise, low quality of working paper preparation supervision, the organization is not free from unethical issues, not workable policies and procedures and inadequate and insufficient management support for the audit make audit effectiveness of large tax payer's office low. Additionally, according to Elias (2014) who examined focus on factors affecting tax audit effectiveness of the Bahir Dar city revenue office. The results of the study concluded that audit quality and top management support as a linear combination significantly influence tax audit effectiveness. On other hand, research has been done by Dinkinesh (2015) on the factors affecting the effectiveness of internal audit in case of Ethiopia federal public sectors. Management and staffs support explained by perception, resources allocation and capacity building. The study shows that support of management increase the effectiveness of internal audit (positively related with each other's) but has no significant effect on audit effectiveness.

Engida and Bisa(2014) studied factor influencing tax payers compliance with the tax system based on an empirical study in Makelle city, Ethiopia. The researchers identified the nine determinants which are probably of being audited, perception of government spending, perception of equity and fairness, penalty, financial constraints, changes to current government policies, referral group, the role of tax authority and tax knowledge, The researchers applied a cross sectional survey method of research design. A structured questionnaire was distributed to 1002 category 'C' taxpayers in three sub-cities of Makkelle. Namely semen, Hawilitu and Adihaki. The finding indicated that tax compliance was influenced by the probability of being audited, financial constraints of being audited, financial constraints and changes on current government policy. Other variables were not significantly correlated with tax compliance at the

time of this study. The researchers also concluded that the low compliance and noncompliance was influenced by the frequency of the tax's authority tax audit activities and the practice of imposing penalties.

Endalew , Genfure and Beyene (2020) published Journal studied the effects of tax audit on revenue generation. The study summarizes taxation is a compulsory payment or transfer of resources from private to public sector levied on the basis of the determined criterion and without reference to specific benefits received in order to accomplish some of the nation's economic and social objectives. The study was undertaken to address the tax audit practice in Jimma and Hawassa Branches of Federal Ministry of Revenue. To conduct the study a mixed method or quantitative and qualitative approach has been executed to address issues that could not be obtained by adopting a single method. Further, the study both descriptive and explanatory research design were employed. The data collected via questionnaire has been analyzed with the aid of statistical software. the study revealed that tax audit techniques applied and provision of training to the taxpayers are positive factors affecting the tax revenue generation significantly, on the contrary, an illegal practice of taxpayer is negative factor that affecting the tax revenue generation. The study recommended that ministry of revenue should consider factors affecting revenue generation.

2.3 Gap in the Literature

As mentioned in the above literature review or empirical studies the researcher has got many theses (papers) and journals have been done on tax audit effectiveness in Ethiopia and outside Ethiopia. But they not focused on the role of tax audit on tax payer's compliance behavior. In taxation issues, checking taxpayers' compliance is mandatory to approve tax compliance level through effective and efficiency tax audit system.

According to the above empirical studies have been done in Ethiopia, majority of researchers were focused on descriptive statistics research methods when conducting their study which related to tax audit application or practice. They not used inferential statistics or statistical test to know the impact of determinant variables perceptions on role of tax audit on tax payer's compliance behavior rather than discussed some challenges in descriptive way. Also other researcher who used statistical test were not focused on the variables which are not the major

determinant factors influence the role of tax audit on tax payer's compliance behavior when evaluating audit role on tax payer's compliance.

Therefore, the researcher has selected this topic to do research by using both descriptive and inferential statistics by considering the role of tax audit on tax payer's compliance behavior. Those variables are not used and tested by other researchers and as they recommended using other variables to test tax audit effectiveness for further analysis. Generally, the researcher encouraged to do this research what have seen the problems in practice in office while applying tax audit and want to fill those gaps summarized in previous studies at different study areas by focusing on MOR Jimma branch specifically by focusing on the above raised problems.

2.4. Conceptual Framework of the study
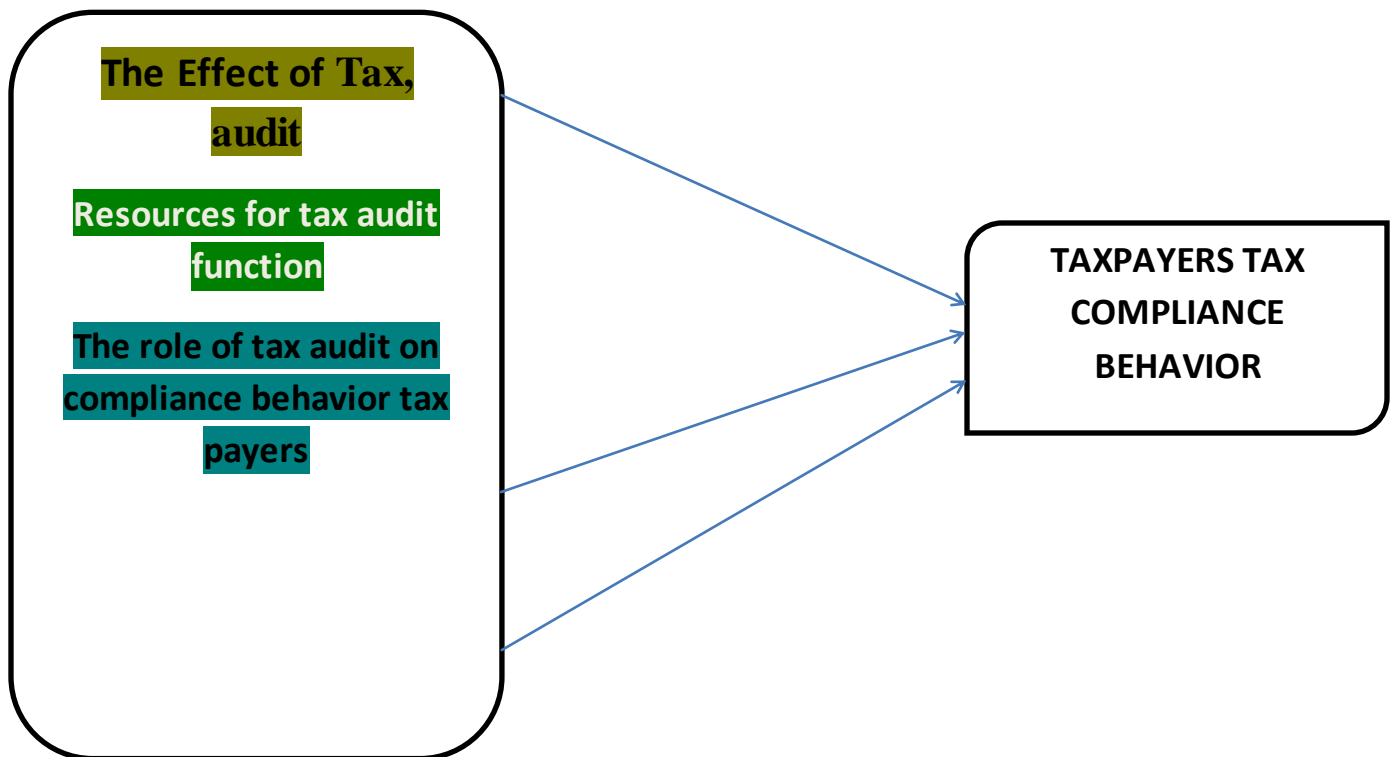
Figure 2.1Conceptual framework.

Source: Researcher's compilation

CHAPTER THREE;

RESEARCH DESIGN AND METHODOLOGY

3.1 Research Design

According to Kothari (2004), research design was the arrangement of condition for collection and analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedures. It is the blueprint for collection, measurement and analysis of data. This study was use casual research design since causal studies helps the researcher to seek to discover the effect that a variables has no another or why certain outcomes are obtained furthermore the concept of causality is grounded in the logic of hypothesis testing, which, in turn produces inductive conclusions though such conclusions are probabilistic and thus can never be demonstrated with certainty (Cooper, 2014). The inferential questions or hypotheses relate variables or compare groups in terms of variables so that inferences can be drawn from the sample to a population plus it provide a rationale for the choice of statistical test and mention the assumption associated with the statistic (Creswell, 2014).

3.2 Target population and census

3.2.1 Target population

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

Population is described as a group of elements or cases, whether individuals, objects, or events, that conform to specific criteria and to which we intend to generalize the result of the research (McMillan and Schumacher, 2001). For this study, the target population will comprise of from the twenty sixth (26) MOR tax auditors including four (4) official of tax audit department, in Jimma branch in order to assess the role of tax audit on compliance behavior of taxpayers at the branch office. Thus, in this study, information has been collected from Jimma branch office, tax

audit department in Jimma, because the department has a direct relation related to the subject matter under study.

3.2.2 Census

The study uses census method. Census method deals with the investigation of the entire population. Under this method the data are collected from each and every unit of the universe. This method provides more accurate and exact information as no unit is left out i.e. studies every unit, everyone or everything in a population and it is known as a complete enumeration, which means a complete count considering the population of twenty sixth (26) MOR tax auditors including four (4) official of tax audit department at the branch office in MOR.

3.3 Source and instruments of Data collection

Data collection is the process of gathering and measuring information on variables of interest, in an established systematic fashion that enables one to answer the stated research questions, test hypotheses, and evaluate out comes.

The study was use both primary and secondary data sources ,for primary source the survey has been conducted using self-administrated questionnaires in Jimma branch office, tax audit department to choose the respondents. Each prospective respondent was initially approached and informed the purpose of the survey. A close ended questionnaire was used and divided into two major parts, part 1 and part 2. While part 1 covered the demographic data of the respondents, part 2 covered items on predictor variables and the outcome variable and understand more the respondent attitude this study has used five likert scale, In addition secondary data source from journals, literatures as well as official reports of MOR was used during analysis.

By reviewing the works of Henry and Hassan (2017); Jackson and Milliron (1986); Clement and Ayodele (2019); Mohd et al. (2013); and Engida and Baisa (2014) variables for tax audit role on tax compliance were identified and incorporated into the structured questionnaire. Respondents were asked to indicate their level of agreement with each of the 16 attributes of a five-point Likert-scale ranging from 1 (strongly disagree) to 5 (strongly agree). In order to ensure the validity of survey instrument, the initial questionnaire was given to a sample of faculty members

to judge the content's validity, the clarity of its items meaning and to assure its linkages with the study objectives.

3.3.1 Procedure of Data Collection

Data was collected by using self-administered survey questionnaire in tax audit department of Jimma branch office in MOR. These respondents are obtained from the list of each tax audit unit of tax audit department from the branch office and the questionnaires are distributed and administrated to list of each tax audit unit respondents. The researcher personally handover and requests the respondents to fill up the questionnaire and brief the purpose of the research. The respondent fill out the questionnaire following the instruction provided in the questions then immediately collect filled questionnaire.

3.3.2 Method of Data analysis

Data analysis was carried out using the Statistical Package for Social Science (SPSS) version 20.The study focuses on the following dimensions of independent variables, the effect of tax audit on tax compliance, the resource of tax audit function and the role tax audit on tax payer compliance behavior in the branch office which is a dependent Variables which will measured in a five point Likert scale.

For data analysis, the study used both descriptive and inferential statistics. Descriptive statistics, which are measures of percentage and frequency in this study, has been used to describe the demographic details of the respondents, as well as central tendency, mean and standard deviations (SDs) measures of the perceptions of respondents about individual items independent variable and tax compliance behavior of taxpayers and multiple regression/correlation analysis has been used to analyze the variable relationship.

The Independent and dependent at variables scale items are tested using Pearson Correlation to ascertain whether variables used in this study depict the relationship between the variables with the degree of association or not and multiple regressions analysis has the objective of predicting changes in the dependent variable in response to changes in the independent variables i.e. the effect of tax audit ,resource allocation for tax audit and the role tax audit on tax payer compliance behavior on tax payers compliance are tested. Before multiple regressions analyses

are performed, reliability and validity tests are tested. For reliability and validity, Cronbach's alpha and correlational analysis was performed.

3.4 Description of Study Variables & Model Specification

> Dependent variable

Taxpayers Compliance Behavior

> Independent variables

The effect of tax audit on tax compliance, the role tax audit on tax payer compliance behavior and the resource of Tax audit function

3.4.1 Variable Measurement

In this study tax compliance was measured using three hypothetical questions. It is based on Palil (2010) and Troutman (1993) with some modification to suit our country's context. The use of hypothetical questions can increase reliability of results and minimizes respondents' dishonesty when answering the questionnaire (Troutman, 1993). The respondents will be asked to rate each hypothetical question whether as a taxpayer they would undertake the same action if they faced the same situation using 'strongly disagree' to 'strongly agree', using a Likert Scale of 1 to 5 respectively.

3.4.2 Model Specifications

Analysis has been done using Pears correlation and multiple linear regression models. According to Coakes and Steed (2007), multiple regressions is an extension of bivariate correlation. They stated that the result of regression is an equation that represents the best prediction of a dependent variable from several independent variables. Regression analysis is used when independent variables are correlated with one another and with the dependent variable. The regression model used to test is shown below:

$Y = \alpha + \beta 1 X1 + \beta 2 X2 + \beta 3 X3 + \varepsilon$

Where; Y = Taxpayers Compliance Behavior A = Constant

β1, β2, and β3 = Coefficient indicating rate of change of tax compliances as, The effects of tax audit on tax compliance, the role tax audit on tax payer compliance behavior and the resource of Tax audit function

X1 = the effects of tax audit on tax compliance

X2 = the role tax audit on tax payer compliance behavior

X3 = the resource of Tax audit function

Ɛ = Error term

All the above statistical tests were analyzed using the Statistical Package for Social Sciences (SPSS), version 20. All tests were two-tailed. Significant levels were measured at 95% confidence level with significant differences recorded at $p < 0.05$

CHAPTER FOUR

RESULTS AND DISCUSSIONS

4.1 Introduction

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

4.1. Demographic Characteristics of Respondent

As the table below depict that 18(69.2%) of the respondents were male while the remaining 8(30.8%) of the respondents were female. From the above information we deduced that the respondents were male is more than female.

Table 4.1 Sex of Respondent

	Frequency	Percent
male	18	69.2
female	8	30.8
Total	**26**	**100**

Source: Results of SPSS 20

The survey result elaborated that 17(65.4%) of respondents age were laid in the category of less than 30, and 9(34.6%)of respondents were at the age 30-40. This implies that the majority of respondents were youth age group

Table 4.2 Age (in year) of respondents

	Frequency	Percent
less than 30 year	17	65.4
30-40 year	9	34.6
Total	26	100.0

Source: Results of SPSS v 20

As discussed in table 4.3, 19(73.1%) of the participants have got their Bachelor degree, 7(26.9) of the participant have got their master's degree. From this we can conclude that the majority of the participants of the study have got their Bachelor degree.

Table 4.3 Educational back ground of Respondents

	Frequency	Percent
Bachelor's degree	19	73.1
Masters	7	26.9
Total	26	100.0

Source: Results of SPSSv20

The result indicated below in table 4.4 revealed that , 6(23.1%), of the participants have got a work experience of 0 to 2 years, 5 (19.2%), participants worked 6 to 10 years, 8(30.80%) participants Worked at 2   to 4 years of age, The reset 7(26.9%) participants have got the experience of 4 to 6 years. Thus, it is possible to conclude that the majority of respondents were having good work experience to give relevant information for this study.

Table4.4 work experience of respondents

	Frequency	Percent
less than two year	6	23.1
two year up to four year	8	30.8
four year up sixth year	7	26.9
sixth year up to ten year	5	19.2
Total	26	100.0

Source: Results of SPSS v20

4.2 Descriptive statistics for independent variables

Concerning the perceptions of the respondents on the role of tax audit on taxpayer's compliance behavior in the Jimma branch taxpayers branch office there were 21 statements categorized in factors that affect the taxpayers compliance behavior in the branch office and the results are a summary of a five-point Likert scale containing mean, standard deviation (SD),Maximum and minimum.

4.2.1 Descriptive statistics for the role tax audit on tax payer compliance behavior

The results, presented in table 4.5 indicate that the role of tax audit on tax payers being audit is the other most important dimension of independent variable. Furthermore, Tax audit improve tax payers book keeping and financial recording regarded as the highest score value (mean 3.73) and Sd , 1.614and, Tax auditors expected to perform during an audit period is detecting noncompliance behavior of individual taxpayer (mean, 3.50) and Sd.1.749 are the more important ones.   Tax audit improves the level of compliance(mean 2.42) and Sd.1.653 and Tax audit Provide sufficient information and educate taxpayers regarding the tax laws (mean 2.50) and Sd.1.476 were the lowest value score and less important.

Table 4.5 Descriptive statistics for the role tax audit on tax payer compliance behavior

	Minimum	Maximum	Mean	Std. Deviation
Tax auditors expected to perform during an audit period is detecting noncompliance behavior of individual taxpayer.	1	5	3.50	1.749
Tax audit improve tax payers book keeping and financial recording	1	5	3.73	1.614
High probability of audit solves the problems of tax evasion, avoidance and other irregularities	1	5	3.15	1.782
Tax audit Provide sufficient information and educate taxpayers regarding the tax laws	1	5	2.50	1.476
Tax audit improves the level of compliance	1	5	2.42	1.653
Tax audit can motivate tax payer the behavior of paying tax	1	5	2.50	1.606

Source: Results of SPSS v20

4.2.2 Descriptive statistics for tax audit

The results, presented in table 4.6 indicate that tax audit cost is effective is the most important regarded as the highest score value (mean 3.92) and Sd , 1.129, Followed by tax audit takes within the premises of tax officials (mean 3.85) and Sd, 1.347, tax audit sufficiently promote voluntary compliance taxpayers(mean 3.81) and Sd, 1.415, tax audit has a capacity to control underreporting and underpayment by taxpayers to minimize tax evasion(mean 3.62) and Sd, 1.472 and compressive audit requires the tax payers are well-informed before the commencement of the audit(mean 3.35) and highest, Sd.1.742 and tax audit performed in tax administrations is to educate taxpayers (mean 3.42) and Sd.1.554 regarded as the lowest score value.

Table 4.6 Descriptive statistics for independent variable Tax audit

	Minimum	Maximum	Mean	Std. Deviation
tax audit takes with in the premises of tax officials	1	5	3.85	1.347
tax audit cost is effective	2	5	3.92	1.129
It allows auditors to independently determine the accurate tax liability of the taxpayers	1	5	3.58	1.447
It requires the tax payers are well-informed before the commencement of the audit	1	5	3.35	1.742
It allows physical verification of taxpayers claims to confirm the facts and figure of the returns	1	5	3.58	1.419
tax audit has a capacity to control underreporting and underpayment by taxpayers to minimize tax evasion	1	5	3.62	1.472
tax audit increase the level of tax issues awareness for future compliance	1	5	3.62	1.416
Comprehensive tax audit sufficiently promote voluntary compliance taxpayers	1	5	3.81	1.415
The awareness of comprehensive tax audit makes the tax payers to render a satisfactory returns	1	5	3.54	1.303
tax audit performed in tax administrations is to educate taxpayers.	1	5	3.42	1.554

Source: Results of SPSS v20

4.2.3 Descriptive statistics for independent variable resource allocation for tax audit

The results, presented in table 4.7 indicate that most resource is allocated for tax audit in the branch office, Tax audit has enough human resources to perform audits on all taxpayers which are high score value (mean 3.38 and Sd. 1.329) is the most important one and followed by, Computers and appropriate digital technology required for tax audit are accessed at this office of the Authority (mean 3.27 and Sd. 1.511). Organized structure and suitable office for Tax audit functions which score (mean 2.54 and Sd. 1.421) is less important as the table shows.

Table 4.7 Descriptive statistics for independent variable resource allocation for tax audit

	Minimum	Maximum	Mean	Std. Deviation
There is well organized structure and suitable office for Tax audit functions	1	5	2.54	1.421
Tax audit has enough human resources to perform audits on all taxpayers	1	5	3.38	1.329
There are enough material and equipment required for tax audit	1	5	2.58	1.701
Required budget for tax audit was sufficiently allotted every year	1	5	2.65	1.548
Computers and appropriate digital technology required for tax audit are accessed at this office of the Authority	1	5	3.27	1.511

Source: Results of SPSS v20

4.4. Reliability of the instrument used

Cranach's alpha is most commonly used statistic, when researchers want to test the internal consistency of questionnaires or survey that is made up of multiple Likert-type scale and items. Cranach's alpha is a measure used to assess the reliability, (internal consistency) of a set of scale or test items. In other words, the reliability of any given measurement refers to the extent to which it is a consistent measure of a concept, and Cranach's alpha is one way of measuring the

strength of that consistency. The resulting alpha coefficient of reliability ranges from 0 to 1 in providing this overall assessment of measures reliability. The researcher tried to ensure the reliability of the questionnaires by checking Cranach's alpha output which indicates that the questionnaire used in this study are reliable as below table.

Table 4.8 Reliability Statistics

Cronbach's Alpha	N of Items
.766	3

Source: Results of SPSS v20

As it indicated on the above table, 4.9 the reliability value calculated Cronbach alpha was $\alpha = 0.766$. Different levels of reliability are required, depending on the nature and purpose of the scale, Nunnally (1978) recommends a minimum level of .7Cronbach's alpha outputs. Therefore, in this study, the result of Cronbach's alpha coefficient 0.766 is acceptable because it's greater than the percentage the 0.7.

4.5 Correlation Analysis

Correlation analysis is used to describe the strength and direction of the linear relationship between two variables. There are two types of correlation. Pearson and Spearman. Pearson is designed for interval (continuous) variables. It can also be used if you have one continuous variable and one dichotomous variable. Spearman rank order correlation, designed for use with ordinal level ranked data (SPSSv20 manual).

Pearson correlation coefficients ® can take only values from -1 to +1. The sign out the front indicates whether there is a positive correlation, (as one variable increases, so too does the other) or negative correlation (as one variable increases, the other decreases). The size of the absolute value (ignoring the sign) provides an indication of the strength of the relationship. A perfect correlation of 1 or -1 indicates that the value of one variable can be determined exactly by knowing the value on the other variable. A scatter plot of this relationship between the two variables. Knowing the value on one of the variables provides no assistance in predicting the value on the second variables. A scatter plot would show a circle of points, with no pattern evident (SPSSV20 manual). In these study Pearson correlation coefficients was used to analyze

relationships that are inherent among the independent and dependent variables as well as among the independent variables/factors. The results regarding this were summarized and presented in the table 4.10 below.

Table 4. 9 Correlations

		the role tax audit on tax payer compliance behavior	The effect of audit on tax compliance	Resource allocation for tax audit
		.713**	.594**	.521**
		.000	.001	.006
		26	26	26
The role tax audit on tax payer compliance behavior	Pearson Correlation	1	.481*	.339
	Sig. (2-tailed)		.013	.090
	N	26	26	26
The effect of audit on tax compliance	Pearson Correlation	.481*	1	.173
	Sig. (2-tailed)	.013		.398
	N	26	26	26
Resource allocation for tax audit	Pearson Correlation	.339	.173	1
	Sig. (2-tailed)	.090	.398	
	N	26	26	26

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

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

The results in table 4.10showed that the role of tax audit on tax payer being audited was positively and significantly correlated to with value of (r=0. 713 and ρ .000). Thus the role tax audit on tax payer compliance behavior had 71.3% positive relationship with other variable. Secondly the effect of tax audit on tax compliance was significantly & positively correlated to with value of (r=0. 594, and ρ.013) an indication that 59.4% significant positive relationship with the left variable Finally resource allocation for tax audit was the third component to be positively related with value of (r = 0. 521, and ρ.006) an indication that resource allocation for tax audit had 52.1% significant positive relationship with other variable.

4.5.1. Multicollinearity Test

Collinearity (also called multicollinearity) refers to the assumption that the independent variables are uncorrelated (Darlington, 1968; Keith, 2006). The researcher is able to interpret regression coefficients as the effects of the independent variables on the dependent variable when collinearity is low (Keith, 2006). This means that we can make inferences about the causes and effects of variables reliably. Multicollinearity occurs when several independent variables correlate at high levels with one another, or when one independent variable is a near linear combination of other independent variables (Keith, 2006). Tolerance levels for correlations range from zero (no independence) to one (completely independent) (Keith, 2006). The VIF is an index of the tolerance. When a predictor variable has a strong linear association with other predictor variables, the associated VIF is large and is evidence of multicollinearity (Shieh, 2010). The rule of thumb for a large VIF value is ten (Keith, 2006; Shieh, 2010). Small values for tolerance and large VIF values show the presence of multicollinearity (Keith, 2006). Based on the above assumptions the researcher performed multicollinearity test to check the dependency of predictor variables with one another and the fitness of the model. As indicated in the table 4.11below, there is no existence of multicollinearity problem among the explanatory variables as tolerance values are greater than 0.1 and VIF.

Table 4. 10Collinearity Statistics

Model	Collinearity Statistics	
	Tolerance	VIF
(Constant)		
The role tax audit on tax payer compliance behavior	.701	1.427
The effect of audit on tax compliance	.768	1.302
Resource allocation for tax audit	.885	1.130

a. Dependent Variable: Tax payers compliance behavior

Source: Results of SPSS v20

4.5.2. Normality

Normality refers to the normal distributions of the residuals about the predicted dependent variable scores. This assumption is based on the shape of normal distribution and gives the researcher knowledge about what values to expect (Keith, 2006). Normality tests are used to determine whether a data set is well-modeled by a normal distribution or not, or to compute how likely an underlying random variable is to be normally distributed (Gujarati, 2009). Normality can be checked through histograms of the standardized residuals (Stevens, 2009). Histograms are bar graphs of the residuals with a superimposed normal curve that show distribution. As depicted in the figure below; which is an example of a histogram with a normal distribution from the SPSS software, there is no normality problem on the data used for this study.
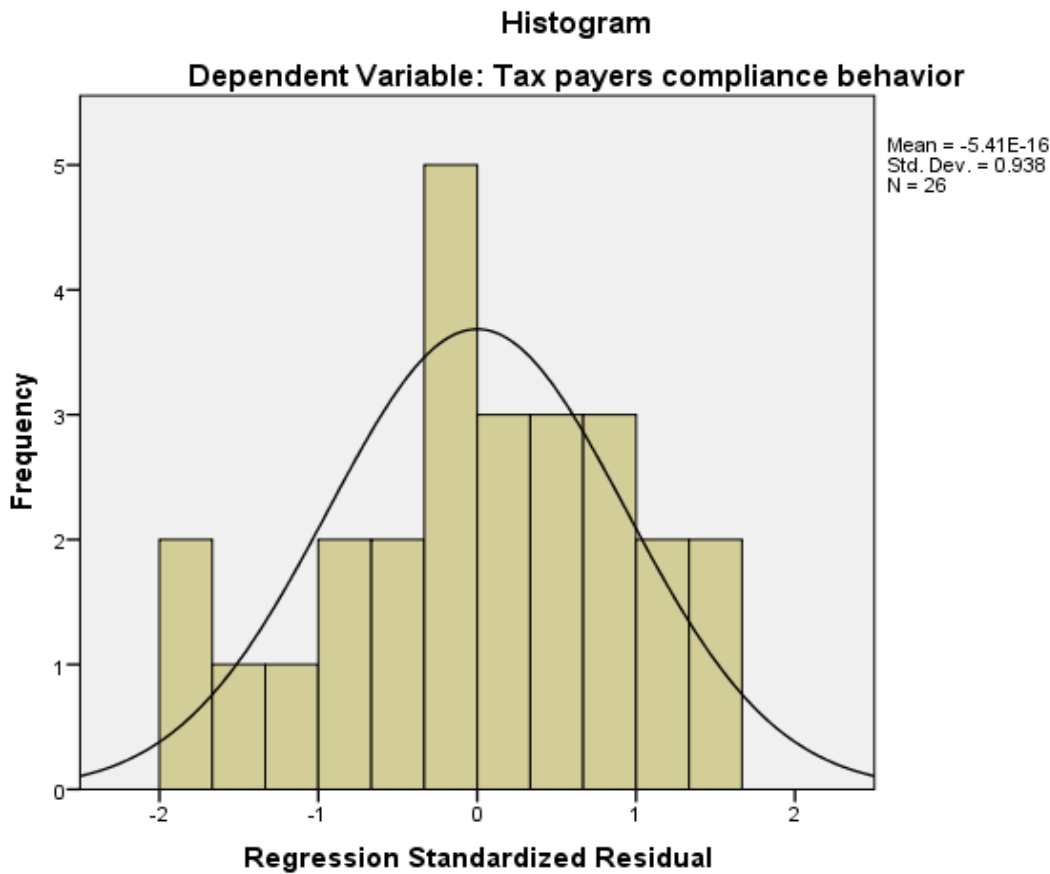
Figure 4.1 Histogram

Source: Results of SPSS v20

4.5.3. Linearity

Linearity has to with the residuals should having a straight-line relationship with predicted dependent variable scores. It describes the dependent variable as a linear function of the predictor variables. Multiple regressions can accurately estimate the relationship between dependent and independent variables when the relationship is linear in nature. If the relationship between the dependent and independent variables is not linear, the results of the regression analysis will under-or over- estimate the true relationship of the variables (Osbome& Waters, 2002). According to stevens (2009), linearity can best cheeked by normal p-plot residual. As shown in the figure below, the relationship between the dependent and independent variables is linear; hence there was no linearity problems on the data used for this study.

Figure 4.2 Normal P-P Plot

Source: Results of SPSS v20

4.6 Multiple Regression Analysis

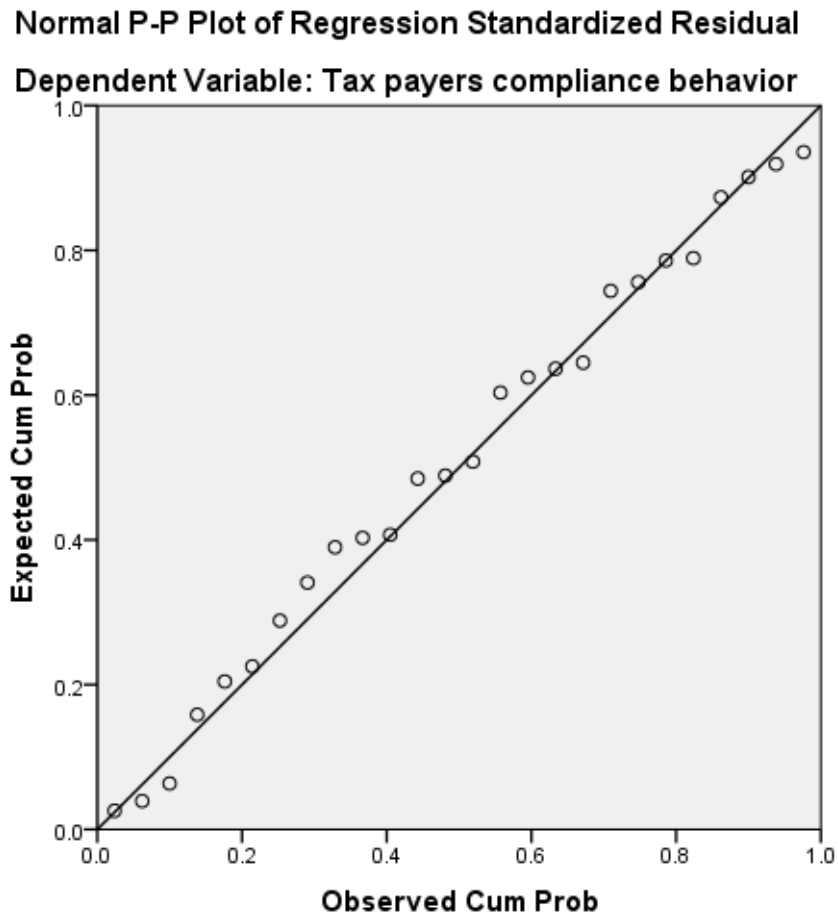Multiple regressions are a technique that can be used to explore the relationship between one continuous dependent variable and a number of independent variables or predictors (usually continuous). Multiple regressions are based on correlation but allow a more sophisticated exploration of the interrelationship among a set of variables.

The analysis determines that some independent variables have more effect than others, so their weights must be considered when they are the basis of a prediction. Regression analysis, therefore, is the process of looking for predictors and determining how well they predict. When only one independent variable is considered, it's called simple regression. But this study uses more than one independent variable, its uses multiple regressions that shows the influence of two or more variables on a designated dependent variable. The result of this sequence is to produce a regression analysis that identifies which of the tax audit predictors (the effect of tax audit, the role of tax audit on tax payers compliance and resource allocation for tax audit) have the greatest influence on the dependent variable (compliance behavior of taxpayers) of Ministry of revenue Jimma branch office. The enter method of selection will enter at one a time all specified variables regardless of the significance level. Accordingly, the following fundamental criterions were fulfilled for creating a reliable model.

The research was thoughtfully crafted and carefully designed by avoiding meaningless relationships or serious design flaws that may affect the arithmetic correctness of regression. The results of multiple regression analysis where enter entry method used a dependent variable and any number of predictor (independent) variables are designated are presented in the table.

Table 4. 11 Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.823[a]	.677	.633	3.81037

a. Predictors: (Constant), Resource allocation for tax audit, The effect of tax audit on tax compliance, The role of tax audit on tax payer compliance behavior

Source: Results of SPSS v20

From table 4.12, The result shows that the R-square with a value of 0.677 implies that about 67.7% of the changes in tax payers compliance behavior could only be explained by repressors

namely; The effect of tax audit on tax compliance, the role of tax audit on tax payer compliance behaviour and Resource allocation for tax audit while about 32.3% of the changes in tax payers compliance behavior could be explained by other factors not included in the model.

Table 4. 12ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	668.622	3	222.874	15.351	.000[b]
	Residual	319.417	22	14.519		
	Total	988.038	25			

a. Dependent Variable: Tax payers compliance behaviour

b. Predictors: (Constant), Resource allocation for tax audit, The effect of tax audit on tax compliance, The role of tax audit on tax payer compliance behaviour

Source: Results of SPSS v20

The first statistic to look for in SPSS output when performing regression analyses is if Sig.-F is significant or not by seeing ("ANOVA") table. The table 4.13shows is the goodness of fitness of the model. The lower this number, the better the fit. Typically, if "Sig." is greater than 0.05, we conclude that our model could not fit the data If Sig. < .01, then the model is significant at 99%, if Sig. < .05, then the model is significant at 95%, and if Sig. <.1, the model is significant at 90%. Significance implies that we can accept the model.

Table 4. 13 Coefficients Model

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-12.202	4.424		-2.758	.011
	The role of tax audit on tax payer compliance behavior	.479	.153	.452	3.122	.005
	The effect of tax audit on tax compliance	.250	.107	.323	2.336	.029
	Resource allocation for tax audit	.583	.241	.312	2.418	.024

a. Dependent Variable: Tax payers compliance behavior

Source: Results of SPSS v20

The regression results in table 4.14 show that each of the predicted parameters in relation to the independent factors were significant; $\beta1= .452$ (p-value = 0.005 which is less than p-value = 0.05).

This indicates the role of tax audit on tax payer compliance behavior has positive significant effect on compliance behavior of tax payers, for each unit increase in audited tax payers, there is 0.452 units increase in compliance behavior of tax payers.

The table also shows that $\beta 2 = 0.323$ (p-value $= 0.029$ which is less than p-value $= 0.05$). This implies that tax audit has positive significant effect on compliance behavior of tax payers, for each unit increase in tax audit, there is up to 0.323 unit increase in compliance behavior of tax payers. The value of $\beta 3 = 0.312$ (p-value $= .024$ which is less than p-value $= 0.05$) which indicates that resource allocated for tax audit has positive significant effect on compliance behavior of tax payers, for each unit increase in resource allocated for tax audit, there is up to 0.312-unit increase in compliance behavior of tax payers.

CHAPTER FIVE

CONCLUSIONS AND RECOMMENDATIONS

5.2 Conclusions

The purpose of this study was to identify the role of tax audits on compliance behavior of tax payers in the case of Ministry of revenue Jimma branch. A census technique was used to select respondent and data was collected from tax auditors and tax audit department manager. The questionnaire has two sections. Section one was deals with about the personal profiles and section two was about the effect of tax audit, the role of tax audit, resource allocation to audit and compliance behavior of tax payer's context. Based on the discoveries made in this study it can be established that tax audit will estimate tax compliance in Ministry of revenue Jimma branch office. Through tax audit, increasing auditing tax payers and by allocating resource and technology needed for tax audit the compliance behavior of tax payers will increase, thereby increasing the revenue pool of the branch office.

With regard to the role of tax audit on tax payer compliance behavior, the study has revealed that educating tax payers and conducting consultation session; Educating taxpayers; audit can assist to clarify the application of the law by every taxpayer and to identify improvements required in book keeping and thus may contribute to improved compliance by taxpayers in the future. Identify areas of the law that requires clarification; audits may bring to light areas of the tax law that are causing confusion and problem to large number of tax payers and thus require further efforts by the revenue body's audit program typically entails the largest allocation of a revenue body's total staff resources. From this perspective alone, the audit program represents a sizable strategic investment that dictates the need for sound management policies and practices.

With regard to tax audit it is the most important dimension of tax audit affecting taxpayer's compliance behavior of tax payers the study found that tax audit has significant positive effect on compliance behavior of tax payers. These discoveries attribute rapid increase in compliance behavior of tax payers to the effect of tax audit. These studies concluded that tax audit has significant effects on revenue generation and improve collection of tax revenues.

With regard to the availability of resources for tax audit function, resource allocation for tax audit has significant positive effect on compliance behavior of tax payers, if there were well organized resource to tax audit the audit carried out effectively, the responses obtained from the questionnaire indicated that, with some limitation the Ministry was arranged and organized tax audit function using appropriate digital technology required for tax audit at the branch level. Overall, the results of this study clearly indicated that, there is some shortage of material and equipment's required for tax audit programs in resources for the tax audit function.

5.3 Recommendations

The study centered on the role of tax audit on compliance behavior of tax payers at Ministry of revenue Jimma branch office. Therefore the study recommended that Ministry of revenue Jimma branch office should intensify tax audit through the employment of more competent staffs and intermittent training in order to cause in tax compliance level in the branch office.

Ministry of revenue Jimma branch office should give priority to unaudited tax payers when selecting tax payers for audit and carried out audit at the end of budget year to minimize the scope of audit and also, audited files that reveals criminal act should not be taken slightly. Tax evaders and avoiders should be seriously dealt with to deter others from plodding the same criminal path.

The study also recommend the Ministry of revenue Jimma branch office should allocate good and suitable office, sufficient qualified human resources, internet services and technology needed for tax audit.

Since some tax payers are not educated and they don't understand the purpose of paying tax, they are not committed to pay tax rather they tried to avoid. So, tax audit will teach such tax payers about the purpose of paying tax and helps to develop their bad taxpaying experience and helps them to be a good tax payer in the future. The branch office should be applying modern tax collection system through educational process.

The finding show that the role of tax audit on taxpayers compliance has a positive significant influence on tax compliance behavior of taxpayers, Therefore to increase yearly audited taxpayers the study recommends the branch the branch office to take in to consideration the tax

auditors training, education, experience, communication and independence, as well as improving the relationship between taxpayers and tax auditors.

The current study indicates that a tax audit with educated, experienced and trained auditors is able to enhance tax audit effectiveness. Likewise, when a tax audit unit is adequate, it will have clear division of labor, sufficient manuals to carry out the audit professionally, a strong audit management team and full autonomy to carry out its duties. These study recommends the branch office should be consider an environmental factor influencing the tax authority's work, including ensuring that the tax audit units are adequate.

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Appendices-1

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Jimma University

Faculty of Business and Economics

Graduate Program(MSc)in Accounting and Finance

</div>

Questionnairefor Tax Auditors

Dear Sir/Madam;

My name is Sabir Shetemam Abamecha. I am a second year student of master's in accounting and Finance at Jimma University, Accounting and Finance Department. I am conducting research on the topic**" A Study on Role of Tax Audit on Compliance Behavior of Taxpayers the Case of Ministry of Revenue Jimma Branch"**. The purpose of the study is to analyze the prevailing tax audit practice in taxpayer compliance. I would be grateful if you could take time of your busy schedule to provide answers to the questions raised to enable me to complete the study. Any information provided would only be used of academic purpose. As a result, it would be kept confidential and utmost secrecy would be maintained.

<div align="center">

Thank you

Yours faithfully

</div>

Sabir Shetemam Abamecha

Part One: Background Information of the Respondents

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

1. Gender Male_____   Female_____

2. Age: Less than 30 years_____   30-40 years_____   40-50 years_____

50-60 years_____   Above 60 years_____

3. Highest level of education achieved

Certificate _____   BSc/BA _____

Diploma __   MSc/MA and above_____

4. Field ofStudy

Accounting & Finance_____   Management_____

Economics _____   Other, Please specify_____

5. Position

Manager_____Auditor_____Other_____-

6. Did you have any audit experience before you joined the MOR?

Yes _____   No_____

7. If your answer in questions #6 isyes, how long did you work as an auditor?

Less than 2 yeas_____   6-10 years _____

2-4 years_____   Above10 years_____

4-6 years_____

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

Less than 2 yeas_____   6-10 years _____

2-4 years_____   Above10 years_____

4-6 years_____

9. Did you attend any special training?

Preparation of audit findings_____

Audit selection techniques_____

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Computer-assisted tax audit techniques_____

Other_____

Section B: There are five options: Strongly Agreed (SA), Agreed(A), Neutral (N)

Strongly Disagreed (SD) and Disagreed (D). Please, kindly tick as appropriate to you.

1.The effect of tax audit on tax compliance						
	Measurement items	**Agree Strongly**	**Agree**	**Neutral**	**Disagree**	**Strongly Disagree**
Ser. No.	**Tax Audit**					
1	Tax audit takes with in the premises of tax officials					
2	Comprehensive taxaudit cost is effective					
3	It allows auditors to independently determine the accurate tax liabilityof thetaxpayers					
4	It requires the taxpayers are well-informed before the commencement of the audit					
5	It allows physical verification of taxpayers claims to confirm the facts and figure of thereturns					
6	tax audit has a capacity to control underreporting and underpayment by taxpayers to minimize tax evasion					

7	tax audit increase the level of tax issues awareness for future compliance				
8	tax audit sufficiently promote voluntary compliance taxpayers				
9	The awareness of comprehensive tax audit makes the tax payers to render a satisfactory returns				
10	tax audit performed in tax administrations is to educate taxpayers.				
2. Resources for the tax audit function					
1	There is well organized structure and suitable office for Tax audit functions				
2.	Tax audit has enough human resources to perform audits on all taxpayers				
3	There are enough material and equipment required for tax audit				
4	Required budget for tax audit was sufficiently allotted every year				
5	Computers and appropriate digital technology required for tax audit are accessed at this office of the Authority				
3 The role of tax audit on tax payer compliance behavior					
1	Tax auditors expected to perform during an audit period is detecting noncompliance behavior of individual taxpayer.				
2	Tax audit improve tax payers book				

	keeping and financial recording					
3	High probability of audit solves the problems of tax evasion, avoidance and other irregularities					
4	Tax audit Provide sufficient information and educate taxpayers regarding the tax laws					
5	Tax audit improves the level of compliance					
6	Tax audit can motivate tax payer the behavior of paying tax					

Appendices-2:2011 & 2012 E.C MOR,Jimma Branch Tax Audit Department Yearly Audit Report.

Year	Total number of auditedtaxpayers	Tax payers Self-Assessment(Tax)	Audited Results(Tax)	Difference (Additional tax not paid for government)
2011	73	35,172,049.74	93,532,764.92	58,360,715.18
2012	51	505,884,598.28	527,284,995.46	21,400,397.18

Source:MOR Jimma Branch Tax Audit Department Annual Report